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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ___

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

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

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

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

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

*Excludes 74,583 shares held as treasury stock.

PART I

ITEM 1. BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Dollars In Thousands)

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

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

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

Analysis of Net Interest Earnings: The following table sets forth interest earned and the average yield on the major categories of the Corporation's interest-earning assets and interest-bearing liabilities(Dollars in Thousands).

2002	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Loans, net(1)	$ 152,869	11,597	7.59%
Taxable securities available for sale	29,024	1,417	4.88
Tax exempt sec. available for sale(2)	19,110	1,535	8.03
Federal funds sold and repurchase	2,772	47	1.70
Interest-bearing deposits with other Financial institutions	1,486	35	2.36
Total interest-earning assets	$ 205,261	14,631	7.13%

Savings deposits and demand deposits - interest-bearing	$ 44,785	562	1.25%
Time deposits	101,444	3,445	3.40
Repurchase agreements	10,734	83	.77
Other borrowed funds	10,269	4854.722	
Total interest-bearing liabilities	$ 167,232	4,575	2.74
Net interest income/net yield on interest-earning assets		$ 10,169	4.95%

2001	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Loans, net(1)	$ 146,868	13,030	8.87%
Taxable securities available for sale	30,072	2,003	6.66
Tax exempt sec. available for sale(2)	19,233	1450	7.53
Federal Funds Sold and repurchase agreements	2,122	99	4.67
Interest bearing deposits with other Financial Institutions	3,867	138	3.56
Total interest-earning assets	$ 202,162	16,720	8.27%
Savings deposits and demand deposits - interest-bearing	$ 43,986	1,063	2.42%
Time deposits	102,003	5,575	5.46
Repurchase agreements	11,628	362	3.11
Other borrowed funds	8,403	450	5.36
Total interest-bearing liabilities	$ 166,020	7,450	4.49%
Net interest income/net yield on interest-earning assets		$ 9,270	4.59%

2000	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Loans, net(1)	$131,596	13,004	9.88%
Taxable securities available for sale	36,368	2,387	6.56
Tax exempt sec. available for Sale(2)	13,248	986	7.44
Taxable securities held to maturity	4,900	319	6.51
Tax exempt held to maturity(2)	10,006	745	7.45
Federal funds sold and repurchase agreements	6,505	457	7.02
Total interest-earning assets	$202,623	17,898	8.83%
Savings deposits and demand deposits - interest-bearing	$ 58,593	2,173	3.71%
Time deposits	91,937	5,253	5.71
Repurchase agreements	10,666	587	5.50
Other borrowed funds	8,949	542	6.05
Total interest-bearing liabilities	$170,145	8,555	5.03%
Net interest income/net yield on interest-earning assets		$ 9,343	4.61%

(1) Loans on nonaccrual status have been included in the computation of average balances.

(2) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2002, 2001 and 2000.

Analysis of Changes in Interest Income and Interest Expense: The following is an Analysis of the dollar amounts of changes in interest income and interest expense due to changes in rates and volume for the periods indicated.

(Dollars in Thousands)
Average Balances

2002	2001		Interest Income Expense 2002	2001	Vari
$152,869	146,868	Loans (Net)	11,597	13,030	(1,
29,024	30,072	Taxable Securities AFS(1)	1,417	2,003	(
19,110	19,233	Tax Exempt Securities AFS(2)	1,535	1,450	

	0	Taxable Securities HTM(3)			
	0	Tax Exempt HTM(2)			
2,772	2,122	Fed Funds Sold	47	99	
1,486	3,867	Interest Bearing Deposits	35	138	(
205,261	202,162	Total Interest Earning Assets	14,631	16,720	(2,
		Savings and Interest Bearing			
44,785	43,986	Demand Deposits	562	1,063	(
101,444	102,003	Other Time Deposits	3,445	5,575	(2,
10,269	8,403	Other Borrowed Funds	372	450	
10,734	11,628	Repurchase Agreements	83	362	(
167,232	166,020	Total Int Bearing Liabilities	4,462	7,450	(2,

The variance of interest due to both rate and volume has been allocated proportionately to the rate and the volume components based on the relationship of the absolute dollar amounts of the change in each.

(1) Available for Sale (AFS)

(2) Yields on tax-exempt obligations have been computed on a full federal tax equivalent basis using an income tax rate of 34% for 2001 and 2000.

(3) Held to Maturity (HTM)

Analysis of Changes in Interest Income and Interest Expense: The following is an Analysis of the dollar amounts of changes in interest income and interest expense due to changes in rates and volume for the periods indicated.

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(Dollars in Thousands)
Average Balances

2002	2001		Interest Income Expense 2002	2001	Vari
$ 146,868	131,596	Loans (Net)	13,030	13,004	
30,072	36,368	Taxable Securities AFS(1)	2,003	2,387	(3
19,233	13,248	Tax Exempt Securities AFS(2)	1,450	986	4
0	4,900	Taxable Securities HTM(3)	0	319	(3
0	10,006	Tax Exempt HTM(2)	0	745	(7
2,122	6,505	Fed Funds Sold	99	398	(2
3,867	818	Interest Bearing Deposits	138	59	
202,162	202,623	Total Interest Earning Assets	16,720	17,898	(1,1
		Savings and Interest Bearing			
43,986	58,593	Demand Deposits	1,063	2,173	(1,1
102,003	91,937	Other Time Deposits	5,575	5,253	3
8,403	8,949	Other Borrowed Funds	450	543	(
11,628	10,666	Repurchase Agreements	362	587	(2
166,020	170,145	Total Int Bearing Liabilities	7,450	8,555	(1,1

The variance of interest due to both rate and volume has been allocated proportionately to the rate and the volume components based on the relationship of the absolute dollar amounts of the change in each.

(1) Available for Sale (AFS)

(2) Yields on tax-exempt obligations have been computed on a full federal tax equivalent basis using an income tax rate of 34% for 2000 and 1999.

(3) Held to Maturity (HTM)

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Investments - The investment policy of United Bank provides that funds that are not otherwise needed to meet the loan demand of United Bank's market area can best be invested to earn maximum return for the Bank, yet still maintain sufficient liquidity to meet fluctuations in the Bank's loan demand and deposit structure. With the adoption of FAS 133, Accounting for Derivative Instruments and Hedging Activities, effective January 1, 2001, the Bank elected to move all investments held to maturity to available for sale. The Bank's current loan policy establishes the gross optimal ratio of loans to deposits and repurchase agreements ratio as being 85%. This ratio as of December 31, 2002 was 85.17%. Growth in the loan portfolio is driven by general economic conditions and the availability of loans meeting the Bank's credit quality standards. Management expects that funding for any growth in the loan portfolio would come from deposit growth, reallocation of maturing investments and advances from the Federal Home Loan Bank (FHLB).

Securities Portfolio - The Bank's investment policy as approved by the Board of Directors dictates approved types of securities and the conditions under which they may be held. Attention is paid to the maturity and risks associated with each investment. The distribution reflected in the tables below could vary with economic conditions which could shorten or lengthen maturities. Management believes the level of credit and interest rate risks inherent in the securities portfolio is low.

Investment Securities Held to Maturity
December 31, 2002, 2001 and 2000

(Dollars in Thousands)

	2002		2001		2000	
	Amortized Cost	%	Amortized Cost	%	Amortized Cost	%
U.S. Government Agencies	$0	0	$0	0	$2,995	21.4
Mortgage Backed Securities	$0	0	$0	0	$1,683	12.1
State and Municipal	$0	0	$0	0	$9,297	66.5
Total Amortized Cost	$0	0%	$0	0%	$13,975	100.0%

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Maturity Distribution of Investment Securities Held to Maturity

The following table sets forth the distribution of maturities of investment securities.

December 31, 2002, 2001 and 2000
(Dollars in Thousands)

	2002		2001		2000	
	Amort Cost	Weighted Avg Yld	Amort Cost	Weighted Avg Yld	Amort Cost	Weigh A
U.S. Government Agencies						
5 - 10 years	$ 0	0	$ 0	0	$ 2,995	
	$ 0	0	$ 0	0	$ 2,995	
State & Municipal(1)						
Within one year	$ 0	0	$ 0	0	$ 450	
1 - 5 years	$ 0	0	0	0	2,166	
5 - 10 years	$ 0	0	0	0	3,603	
After 10 years	$ 0	0	0	0	3,078	
Total	$ 0	0%	$ 0	0%	$ 9,297	
Mortgage Backed Securities						
1 - 5 years	$ 0	0	$ 0	0%	$ 124	
5 - 10 years	$ 0	0	0	0	1,003	
After 10 years	$ 0	0	0	0	556	
Total	$ 0	0%	$ 0	0%	$ 1,683	
Total Yield		0%		0%		
Total Amortized Cost	$ 0		$ 0		$13,975	

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(1) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34%.

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The following table sets forth the amortized cost of the Available for Sale investment portfolio.

Investment Securities Available for Sale
December 31, 2002, 2001 and 2000

(Dollars in Thousands)

	2002 Amortized Cost	%	2001 Amortized Cost	%	2000 Amortized Cost
U.S. Treasury	$ 1,518	3.1	$ 1,506	3.7%	$ 6,551
U.S. Gov't Agencies	1,500	3.0	2,088	5.1	4,192
Mortgage Backed Sec	24,879	50.3	18,050	43.8	22,905
State and Municipal	21,026	42.6	18,532	45.0	12,010
Other	491	1.0	992	2.4	503
Total	49,414	100.0%	$ 41,168	100.0%	$ 46,161

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Maturity Distribution of Investment Securities Available for Sale

The following table sets forth the distribution of maturities of investment securities available for sale.

December 31, 2002, 2001 and 2000
(Dollars in Thousands)

	2002 Amortized Cost	Weighted Avg Yld	2001 Amortized Cost	Weighted Avg Yld

U.S. Treasury Sec				
Within one year	$ 499	5.55%	$ 1,007	6.21%
1 - 5 years	1,019	1.65	499	5.51
	$ 1,519	2.92	$ 1,506	5.97
U.S. Government Agencies excluding Mortgage Backed Securities				
1 - 5 years	$ 1,000	1.91	$ 1,000	2.46
5 - 10 years	500	8.00	500	8.00
After 10 years	0	0	588	8.00
Total	1,500	5.34%	$ 1,500	5.34%
Mortgage Backed Securities				
Within one year	$ 0	0%	$ 0	0%
1 - 5 years	593	6.38	250	6.50
5 - 10 years	6,875	4.59	3,503	6.28
After 10 years	17,411	5.07	14,297	6.45
Total	$ 24,879	4.97%	$ 18,050	6.42%
State & Municipal(1)				
Less than 1 year	$ 310	10.96	175	8.55%
1 - 5 years	2,566	7.83	3,153	7.45
5 - 10 years	6,417	7.95	5,441	7.53
After 10 years	11,733	7.82	9,763	7.64
Total	$ 21,026	7.90	$ 18,532	7.58%

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	2002		2001		
	Amortized Cost	Weighted Avg Yld	Amortized Cost	Weighted Avg Yld	A
Other Sec					
1 - 5 years	$ 0	0	$ 503	6.22	$
5 - 10 years	491	5.74	489	5.49	
Total	$ 491	5.74%	$ 992	5.86%	$

Total Yield	6.25%	6.86%	
Total amort	$ 49,414	$ 41,168	$

(1) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2002,2001 and 2000.

Relative Lending Risk - United Bank is located in a primarily rural market composed of lower to middle income families. The primary economic influence in the area is timber and agricultural production, and the Bank's loan portfolio is reflective of this market. The Bank's ratio of loans to assets or deposits is comparable to its peer banks serving similar markets.

The risks associated with the Bank's lending are primarily interest rate risk and credit risks from concentrations or quality of loans.

Interest rate risk is a function of the maturity of the loan and method of pricing. The Bank's loan maturity distribution reflects 41.83% of the portfolio maturing in one year or less. In addition, 44.21% of all loans float with an interest rate index. The maturity distribution and floating rate loans help protect the Bank from unexpected interest rate changes.

Loan concentrations present different risk profiles depending on the type of loan. The majority of all types of loans offered by the Bank are collateralized. Regardless of the type of loan, collateralized lending is based upon an evaluation of the collateral and repayment ability of the borrower. Loan policy, as approved by the Board of Directors of the Bank, establishes collateral guidelines for each type of loan.

Small banks located in one community experience a much higher risk due to the dependence on the economic viability of that single community. United Bank is more geographically diverse than some of its local community banking competitors. With offices in ten communities, risks associated with the effects of major economic disruptions in one community is somewhat mitigated. This geographic diversity affects all types of loans and plays a part in the Bank's risk management.

Each type of loan exhibits unique profiles of risk that could threaten repayment.

Commercial lending requires an understanding of the customers' business and financial performance. The Bank's commercial customers are primarily small to middle market enterprises. The larger commercial accounts are managed by the Senior Commercial Officer. Risks in this category are primarily

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economic. Shifts in local and regional conditions could have an effect on individual borrowers; but as previously mentioned, the Bank attempts to spread this risk by serving multiple communities. As with the other categories, these loans are typically collateralized by assets of the borrower. In most situations, the personal assets of the business owners also collateralize the credit.

Agricultural lending is a specialized type of lending for the Bank. Due to the unique characteristics in this type of loan, the Bank has loan officers dedicated to this market. Collateral valuation and the experience of the borrower play heavily into the approval process. This loan category includes financing equipment, crop production, timber, dairy operations and others. Given the broad range of loans offered, it is difficult to generalize risks in agricultural lending. The area of greatest attention and risk is crop production loans. Risks associated with catastrophic crop losses are mitigated by crop insurance, government support programs, experience of the borrower, collateral other than the crop and the borrower's other financial resources. Routine visitations and contact with the borrower help inform the Bank about crop conditions.

Real estate loans, whether they are construction or mortgage, generally have lower delinquency rates than other types of loans in the portfolio. The Bank makes very few long term, fixed rate mortgage loans; however, it does offer loans with repayment terms based on amortization of up to 15 years with balloon features of shorter durations. The Bank also offers several different long-term mortgage programs provided by third party processors.

Installment loans are generally collateralized. Given the small dollar exposure on each loan, the risk of a significant loss on any one credit is limited. Pricing and close monitoring of past due loans enhance the Bank's returns from this type of loan and minimize risks.

An average loan in the loan portfolio at December 31, 2002 was approximately $38,998, an increase of $4,514 from 2001. This continued increase in the average loan size is due to the shift of loans to commercial real estate, financial, agricultural, and 1-4 family residential loans from the installment loan portion of the portfolio.

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Maturities and sensitivity to change in interest rates in the Corporation's loan portfolio are as follows:

LOAN PORTFOLIO MATURITIES

December 31, 2002

(Dollars in Thousands)

	REMAINING MATURITY			
	One Year or Less	One-Five Years	After Five Years	Total
Commercial, Financial and agricultural	$ 49,426	44,943	17,061	111,430
Real estate - construction	7,007	1,288	0	8,295
Real estate - mortgage 1-4 Family	4,476	15,849	7,460	27,785
Installment loans to individuals	7,043	7,106	777	14,926

Total	$ 67,952	69,186	25,298	162,436

SENSITIVITY TO CHANGES IN INTEREST RATES
LOANS DUE AFTER ONE YEAR

(Dollars in Thousands)

	Predetermined Rate	Floating Rate	Total
Commercial, financial and agricultural	$ 59,906	$ 2,098	$ 62,004
Real estate - construction	1,317	0	1,317
Real estate - mortgage 1-4	20,346	2,963	23,309
Installment loans to individuals	7,853	1	7,854

For additional information regarding interest rate sensitivity see Interest Rate Sensitivity in Item 7 below and Item 7A below.

Non-performing Assets: The Corporation adopted the provisions of SFAS 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures on January 1, 1995. Under the provisions of SFAS 114 and 118, 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 net present value of expected future cash flows discounted at the note's effective

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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. Subsequent recoveries are added to the allowance. Impaired loans are charged to the allowance when such loans are deemed to be uncollectible. At December 31, 2002, pursuant to the definition within SFAS 114, the Bank had no impaired loans.

The following table sets forth the Corporation's non-performing assets at December 31, 2002, 2001 and 2000. Under the Corporation's nonaccrual policy, a loan is placed on nonaccrual status when collectibility of principal and interest is in doubt or when principal and interest is 90 days or more past due.

Description	2002	2001	2000

		(Dollars in Thousands)		
(A)	Loans accounted for on a nonaccrual basis	$ 1,169	$ 2,185	$ 3
(B)	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above)	10	18	
(C)	Loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower	968	861	
(D)	Other non-performing assets	350	556	1
	Total	$ 2,497	$ 2,759	$ 6

If nonaccrual loans in (A) above had been current throughout their term, interest income would have been increased by $29,967, $123,443 and $48,630 for 2002, 2001 and 2000, respectively. Of the assets in (D) above, at the end of 2002 and at the end of 2001 $350,000 was other real estate owned (OREO) and $361,493 was repossessed collateral respectively, and in 2000 $195,033 was OREO and $35,322 was repossessed collateral.

At December 31, 2002, loans with a total outstanding balance of $6,491,658 were considered potential problem loans compared to $4,127,658 and $3,014,795 as of 12/31/01 and 12/31/00 respectively. Potential problem loans consist of those loans for which management is monitoring performance or has concerns as to the borrower's ability to comply with present loan repayment terms.

There may be additional loans in the Bank's portfolio that may become classified as conditions dictate. However, management is not aware of any such loans that are material in amount at December 31, 2002. Regulatory examiners may require the Bank to recognize additions to the allowance based upon their judgments about information available to them at the time of their examination.

Loan Concentrations: On December 31, 2002, the Corporation had $30,983,000 of agriculture-related loans as compared to $19,089,172 and $14,871,440 at the end of 2001 and 2000, respectively. Agriculture loans accounted for $0, $0 and $75,106 of nonaccrual loans in 2002, 2001 and 2000, respectively.

Summary of Loan Loss Experience

	2002	2001	2000
Average amount of loans outstanding, net	$ 152,869	$ 146,868	$ 131,596
Allowance for loan losses, beginning January 1	$ 1,993	$ 1,939	$ 1,676
Loans charged off:			
Commercial, financial and agricultural	(563)	(176)	(39)
Real estate - mortgage	(7)	(49)	(27)
Installment loans to individuals	(195)	(255)	(186)
Total charged off	(765)	(480)	(252)
Recoveries during the period:			
Commercial, financial and agricultural	5	20	6
Real estate - mortgage	0	0	2
Installment loans to individuals	47	34	32
Total recoveries	52	54	40
Loans charged off,net	(714)	(426)	(212)
Additions to the allowance charged to operations	837	480	475
Total allowance, ending December 31	$ 2,117	$ 1,993	$ 1,939
Ratio of net charge offs during the period to average loans outstanding	.46%	.29%	.16%

Allowance for Loan Losses: The allowance for loan losses is maintained at a level which, in management's opinion, is appropriate to provide for estimated losses in the portfolio at the balance sheet date. Factors considered in determining the adequacy of the allowance include historical loan loss experience, the amount of past due loans, loans classified from the most recent regulatory examinations and internal reviews, general economic conditions and the current portfolio mix. The amount charged to the provision is that amount necessary to maintain the allowance for loan losses at a level indicative of the associated risk, as determined by management, of the current portfolio.

The allowance for loan losses consists of two portions: the classified portion and the nonclassified portion. The classified portion is based on identified problem loans and is determined based on an assessment of credit risk related to those loans. Specific loss estimate amounts are included in the allowance based on assigned classifications as follows: substandard (15%), doubtful (50%), and loss (100%). Any loan categorized loss is charged off in the period which the loan is so categorized.

The nonclassified portion of the allowance is for inherent losses which probably exist as of the evaluation date even though they may not have been identified by the more objective processes for the classified portion of the allowance. This is due to the risk of error and inherent imprecision in the process. This portion of the allowance is particularly subjective and requires judgments based upon qualitative factors, which do not lend themselves to exact mathematical calculations. Some of the factors considered are changes in credit concentrations, loan mix, historical loss experience, and general economic environment in the Company's markets.

While the total allowance is described as consisting of a classified and a nonclassified portion, these terms are primarily used to describe a process. Both portions are available to support inherent losses in the loan portfolio. Management realizes that general economic trends greatly effect loan losses, and no assurances can be made that future charges to the allowance for loan losses will not be significant in relation to the amount provided during a particular period, or that future evaluations of the loan portfolio based on conditions then prevailing will not require sizable charges to income. Management does, however, consider the allowance for loan losses to be appropriate for the reported periods. The Company has allocated proportionately the nonclassified portion of the allowance to the individual loan categories for purposes of the loan loss allowance table below.

The allocated portion of the loan loss provision is summarized in the following table for the relative periods.

The table below reflects an allocation of the allowance for the years ended December 31, 2002, 2001 and 2000. The allocation represents an estimate for each category of loans based upon historical experience and management's judgement.

		Allowance		p
	2002	2001	2000	2002
Commercial, Financial & Agricultural	$ 1,560	$ 1,312	$ 1,198	68.60%
Real Estate - Construction	$ 0	0	0	5.11
Real Estate - Mortgage	362	363	384	17.11
Installment Loans	195	221	249	9.21
Lease Financing	$ 0	0	0	0
Foreign	$ 0	0	0	0
Unallocated	0	0	0	0
Total Allowance	$ 2,117	$ 1,993	$ 1,939	100.0%

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Delinquent Loan Policy: Installment loans are placed on nonaccrual when the loan is three payments past due. Single-date maturity notes are placed on nonaccrual status when such notes are delinquent for 90 days. Delinquent commercial loans are placed on nonaccrual status when the loan is 90 days past due. Exceptions may be made where there are extenuating circumstances, but any exception is subject to review by the Board of Directors of the Bank.

Loans are considered delinquent if payments of principal or interest have not been made by the end of periods ranging from one to ten days after the due date, depending upon the type of loan involved. Installment loans are considered delinquent if payments of principal and interest are past due for a period of ten days and commercial loans are considered delinquent if payments of principal and interest are past due for a period of one day. Single-date maturity loans are considered delinquent if payments are not made by the day following the due date of such loans.

Loans are reviewed for charge offs, as necessary, on a monthly basis. If necessary, loans can be charged off at any time with the approval of the Chief Executive Officer (CEO). The loan officer responsible for the particular loan initiates the charge off request, which then must be approved by the Bank's officer loan committee and the CEO.

DEPOSITS
(Dollars in Thousands)

The following table sets forth the average amount of deposits for the years 2002, 2001 and 2000 by category.

		Deposits		Aver rate
	2002	2001	2000	2002
Noninterest-bearing demand deposits	$ 35,616	$ 30,425	$ 29,622	0%
Interest-bearing deposits:				
Demand	$ 28,147	$ 29,069	$ 43,580	1.49%
Savings	$ 16,638	14,917	15,013	.87
Time	$101,444	102,003	91,937	3.40
	$146,229	$145,989	$150,530	2.74%

The following shows the amount of time deposits outstanding at December 31, 2002, classified by time remaining until maturity.

Maturity	$100,000 or Greater Certificates of deposit	Other time deposits
Three months or less	$ 14,253	$14,730
Three to six months	3,932	17,549
Six to twelve months	12,691	20,051
Twelve months or more	5,658	13,955
	$ 36,534	$66,285

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The following table shows various amounts of repurchase agreements and other short term borrowings and their respective rates.

	Maximum Outstanding At Any Month End	Average Balance	Average Interest Rate	Ending Balance
			(Dollars In Thousands)	
2002				
Securities sold under agreements to repurchase	$ 15,503	$ 10,753	.77%	$ 8,141
Other short term borrowings	$ 3,774	$ 209	1.80	$ 1,259
2001				
Securities sold under agreements to repurchase	$ 15,816	$ 11,628	3.15%	$ 9,069
Other short term borrowings	$ 9,080	$ 668	4.97	$ 415

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Securities sold under agreements to repurchase	$ 13,228	$ 10,666	5.52%	$ 10,667
Other short term borrowings	$ 1,010	$ 506	6.52	$ 596

Return on Equity and Assets: The following table shows the percentage return on equity and assets of the Corporation for the years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Return on average assets	.91%	0.95%	0.93%
Return on average equity	8.96%	10.16%	10.82%
Dividend pay-out ratio	29.37%	31.80%	29.38%
Ratio of average equity to average assets	10.11%	9.31%	8.58%

ITEM 2. PROPERTIES

The Corporation's bank subsidiary occupies ten offices, which the subsidiary owns or leases. The offices are located in Escambia County (cities of Atmore and Flomaton), Monroe County (cities of Monroeville and Frisco City), and Baldwin County (cities of Foley, Lillian, and Bay Minette, Magnolia Springs and Silverhill) Alabama, with the principal office located in Atmore, Alabama. The Bank operates a loan production office in Jay, Florida. The office in Atmore is a modern, three story, brick building while the Flomaton, Monroeville, Frisco City and Foley offices are similar, modern, one story, brick buildings. The subsidiary Bank also leases land near the Atmore office on which a drive through teller facility is located. The land lease is for twenty years, expiring in 2004. The Foley office was purchased by the Corporation in October of 2002. The office in Lillian is a modern two-story brick building, which is located on property owned by the Corporation and leased to the subsidiary. The lease is for a five-year period ending in June of 2007. The Corporation also owns a two story brick building in Bay Minette which is leased to the subsidiary. The lease is for a five-year period ending in December of 2003. The office in Silverhill is the original post office built in 1902, and is a two story wooden structure owned by the Bank. The Magnolia Springs office is a two story wooden structure located on Magnolia River. It is leased from a third party until 2005.

ITEM 3. LEGAL PROCEEDINGS

There are presently no pending legal proceedings to which the Corporation or its subsidiary, United Bank, is a party or to which any of their property is subject, which management of the Corporation based upon consultation with legal counsel believes are likely to have a material adverse effect upon the financial position of the Corporation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the shareholders of the Corporation during the fourth quarter of the fiscal year.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Corporation's authorized common shares consist of the following:

(1) 5,000,000 shares of Class A common stock, $.01 par value per share, of which 1,161,481 shares are issued and 1,086,898 are outstanding and held by approximately 676 shareholders of record, as of March 20, 2003.

(2) 250,000 shares of Class B common stock, $.01 par value per share, none of which were issued, as of March 20, 2002.

There is no established public trading market for the shares of common stock of the Corporation and there can be no assurance that any market will develop.

The Corporation paid total cash dividends per common share, of $0.55 per common share in 2002, $0.60 per common share in 2001 and $0.55 per common share in 2000. The Corporation expects to continue to pay cash dividends, subject to the earnings and financial condition of the Corporation and other relevant factors; however, dividends on the Corporation's common stock are declared and paid based on a variety of considerations by the Corporation's Board of Directors and there can be no assurance that the Corporation will continue to pay regular dividends or as to the amount of dividends if any. Payment of future dividends will depend upon business conditions, operating results, capital and reserve requirements and the Board's consideration of other relevant factors. In addition, the ability of the Corporation to pay dividends is totally dependent on dividends received from its banking subsidiary (see Note 14 to the consolidated financial statements) and is subject to statutory restrictions on dividends applicable to Delaware corporations, including the restrictions that dividends generally may be paid only from a corporation's surplus or from its net profits for the fiscal year in which the dividend is declared and the preceding year. The Corporation is subject to state law restrictions on its ability to pay dividends.

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ITEM 6. SELECTED FINANCIAL DATA

(Amounts in Thousands except per share data)

	2002	2001	2000	1999

Interest income	$ 14,017	16,221	17,310	15,338
Interest expense	4,575	7,451	8,555	6,935
Net interest income	9,442	8,769	8,755	8,404
Provision for loan losses	837	480	475	496
Net interest income after Provision for loan losses	$ 8,605	8,289	8,280	7,908
Noninterest income	$ 2,726	2,304	1,662	1,476
Noninterest Expense	$ 8,693	7,881	7,226	6,810
Net Earnings	$ 2,035	2,070	2,047	1,947
Balance sheet data:				
Total assets	$ 232,822	219,955	231,487	221,967
Total loans, net	$ 160,319	147,052	139,595	122,000
Total deposits	$ 182,565	180,509	191,590	183,208
Total stockholders' equity	$ 23,453	21,846	20,104	17,647
Per share data:				
Basic earnings per share	$ 1.86	1.89	1.87	1.88
Diluted earnings per share	$ 1.81	1.87	1.86	1.86
Cash dividends per Share(1)	$ 0.55	0.60	0.55	0.55

(1) Per Share data prior to 1999 reflects two for one split in May of 1999.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following financial review is presented to provide an analysis of the consolidated results of operations of the Corporation and its subsidiary. This review should be read in conjunction with the consolidated financial statements included under Item 8.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles, which require management to make estimates and assumptions (see Note 1 to Consolidated Financial Statements). Management believes that its determination of the allowance for loan losses involves a higher degree of judgment and complexity than the Bank's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Bank's borrowers, subjecting the Bank to significant volatility of earnings. The allowance for credit losses is established through a provision for loan losses, which is a charge against earnings. Provision for loan losses are made to reserve for estimated probable losses on loans.

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

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB)Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense is recorded if the current market price on the date of grant of the underlying stock exceeds the exercise price.

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows companies to apply APB 25 as long as certain pro forma disclosures are made assuming hypothetical fair value method application.

SUMMARY OF OPERATIONS

The Corporation's 2002 net income was $2,034,892, as compared to net income in 2001 of $2,069,570. Average net interest spread increased by 61 basis points from 3.78% in 2001 to 4.39% in 2002. This increase was caused by the rapid decline in interest rates in the year 2001, which caused assets to reprice faster than liabilities. In 2002 the liabilities repriced faster than the assets, causing the spread to widen, with interest-earning assets decreasing by 114 basis points while interest bearing liabilities decreased by 182 basis points. Average interest earning assets, which increased from $202,162,000 in 2001 to $205,261,000 in 2002, produced a $672,171 increase in net interest income in 2002. Non-interest income increased by $421,610

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from $2,303,957 in 2001 to $2,725,567 in 2002. The provision for loan losses in 2002 was $837,000 as compared to $480,000 in 2001. The 2002 provision was the amount established by management to increase the allowance to the appropriate level. Non-interest expenses for 2002 increased $812,082 from $7,880,754 in 2001 to $8,692,836 in 2002.

The Corporation's 2001 net income was $2,069,570, as compared to a net income in

2000 of $2,046,571. Average net interest spread decreased by 2 basis points from 3.80% in 2000 to 3.78% in 2001. This decrease was caused by the rapid decline in interest rates in the year 2001. Average interest earning assets, which decreased from $202,623,000 in 2000 to $202,162,000 in 2001, produced a $14,821 increase in net interest income in 2001. Non-interest income increased by $641,528 from $1,662,429 in 2000 to $2,303,957 in 2001. The provision for loan losses in 2001 was $480,000 as compared to $475,000 in 2000. The 2001 provision was the amount established by management to maintain the allowance at the appropriate level. Non-interest expenses for 2001 increased $654,576 from $7,226,178 in 2000 to $7,880,754 in 2001.

NET INTEREST INCOME
(Dollars in Thousands)

	2002	2001	2000
Interest income(1)	$ 14,630	16,715	17,899
Interest expense	$ 4,575	7,451	8,555
Net interest income	10,055	9,264	9,344
Provision for loan losses	837	480	475
Net interest income after provision for loan losses on a tax equivalent basis	9,218	8,784	8,869
Less: tax equivalent adjustment	613	494	589
Net interest income after provision for loan losses	$ 8,605	8,290	8,280

(1) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent (FTE) basis using an income tax rate of 34% for 2002, 2001, and 2000.

Total interest income (on an FTE basis) decreased to $14,630,000 in 2002, from $16,715,000 in 2001, a decrease of $2,085,000, or 12.47%. This decrease is a function of the change in average earning assets and the average interest bearing liabilities along with falling interest rates. Average loans increased $6,001,000 while the average rate earned decreased 128 basis points. The average interest rate (FTE) earned on all earning assets in

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2002 decreased to 7.13% from 8.27% in 2001. The interest rate spread increased from 3.78% in 2001 to 4.39% in 2002, as rates decreased more on interest bearing liabilities than on interest earning assets. The more stable rate environment in 2002 allowed the slower repricing certificates of deposit to reprice at rates much lower than they previously were earning. Average taxable investment securities for 2002 were $29,024,000, as compared to $30,072,000 for 2001, a decrease of $1,048,000, or 3.48%. The lower rate environment allowed home owners to refinance and pay off existing mortgages which in turn caused mortgage-backed securities to prepay faster than in previous years. Also, many bonds were called as government agencies took advantage of lower rates and refinanced callable bonds. To partially offset these prepayments the Bank purchased securities with funds borrowed at a lower rate from the Federal Home Loan Bank. Average tax-exempt investment securities decreased $123,000, or .63%, to $19,110,000 in 2002 from $19,233,000 in 2001. The average volume of federal funds sold increased to $2,772,000 in 2002 from $2,122,000 in 2002, a decrease of $650,000 or 30.63%.

Total interest income (on an FTE basis) decreased to $16,715,000 in 2001, from $17,899,000 in 2000, a decrease of $1,184,000, or 6.61%. This decrease was a function of the average earning assets decreasing $461,000 and falling interest rates. Average loans increased $15,272,000 while the average rate earned decreased 101 basis points. The average interest rate (FTE) earned on all earning assets in 2001 decreased to 8.27% from 8.83% in 2000. The interest rate spread decreased from 3.80% in 2000 to 3.78% in 2001, as rates decreased more on interest earning assets than on interest bearing liabilities. Average taxable investment securities for 2001 were $30,072,000, as compared to $41,268,000 for 2000, a decrease of $11,196,000,or 27.13%. Average tax-exempt investment securities decreased $4,021,000,or 17.29%, to $19,233,000 in 2001 from $23,254,000 in 2000. These changes in investment securities were the result primarily of the loss of $20,000,000 in public fund deposits in 2000. The average volume of federal funds sold decreased to $2,122,000 in 2001 from $6,505,000 in 2000, a decrease of $4,383,000 or 67.38%.

Total interest expense decreased $2,876,326, or 38.60%, to $4,574,716 in 2002, from $7,451,042 in 2001. This decrease is a function of the decrease in interest rates offset by a slight increase in the volume of interest bearing liabilities. The average rate paid on interest-bearing liabilities in 2002 was 2.67% as compared to 4.49% in 2001. Average interest-bearing liabilities increased to $167,232,000 in 2002, from $166,020,000 in 2001, an increase of $1,212,000, or 0.73%. Average savings and interest-bearing demand deposits increased $799,000 or 1.82% to $44,785,000 in 2002. Average time deposits decreased to $101,444,000 in 2002, from $102,003,000 in 2001, a decrease of $559,000, or 0.55%. The average rate paid on time deposits decreased to 3.62% in 2002 from 5.46% in 2001. This decrease was caused by the stable rate environment of 2002, which allowed time deposits to reprice for the whole year at interest rates much lower than the previous year. The Corporation issued $4,124,000 of Trust Preferred Stock in June of 2002 at an interest rate of three month Libor plus 3.65%. The interest expense associated with this issue was $116,518 or an average rate of 5.65%.

Total interest expense decreased $1,104,423, or 12.91%, to $7,451,042 in 2001, from $8,555,465 in 2000. This decrease was a function of the decrease in the volume of interest bearing liabilities and the decrease in interest rates. The average rate paid on interest-bearing liabilities in 2001 was

2.67% as compared to 5.03% in 2000. Average interest-bearing liabilities decreased to $166,020,000 in 2001, from $170,145,000 in 2000, a decrease of $4,125,000, or 2.42%. Average savings and interest-bearing demand deposits decreased $14,607,000 or 24.93% to $43,986,000 in 2001 because of the loss of public fund deposits, from $58,593,000 in 2000. Average time deposits increased to $102,003,000 in 2001, from $91,937,000 in 2000, an increase of $10,066,000, or 10.95%. The growth in time deposits was fueled by new growth from Baldwin County branches, and the purchasing of internet time deposits to help fund the loss of the public funds. The average rate paid on time deposits decreased to 5.46% in 2001 from 5.71% in 2000. This decrease was caused by the rate decreases of the Federal Reserve Bank in the year 2001.

PROVISION FOR LOAN LOSSES

The provision for loan losses is that amount necessary to maintain the allowance for loan losses at a level appropriate for the associated credit risk, as determined by management in accordance with generally accepted accounting principles (GAAP), in the current portfolio. The provision for loan losses for the year ended December 31, 2002 was $837,000 as compared to $480,000 in 2001, an increase of $375,000, or 78.13%. The change in the provision maintains the allowance at a level that is determined to be appropriate by management and the board of directors of the Bank.

The allowance for loan losses at December 31, 2002 represents 1.30% of gross loans, as compared to 1.34% at December 31, 2001 and 1.37% at December 31, 2002.

While it is the Bank's policy to charge off loans when a loss is considered probable, there exists the risk of losses which cannot be quantified precisely or attributed to particular loans or classes of loans. Because this risk is continually changing in response to factors beyond the control of the Bank, management's judgment as to the appropriateness of the allowance for loan losses is approximate and imprecise. Adjustments to the allowance for loan losses may also be required by the FDIC or the Alabama Superintendent of Banks in the course of their examinations of the Bank. Accordingly, no assurances can be given that continued evaluations of the loan portfolio in light of economic conditions then prevailing, results of upcoming examinations, or other factors will not require significant changes to the allowance.

LOAN LOSS

The loan loss provision increased allocation of $248,000 in the commercial, financial and the agricultural sector of the portfolio is mostly due the growth experience of approximately $10,000,000 in agricultural loans. Because of adverse weather some crops were not harvested, therefore some agricultural production loans were carried over to 2003. The Bank has received payments in 2003 on some of the carried over loans from insurance proceeds. The Bank also experienced a significant amount of commercial loan charge-offs, which caused the increase to help maintain the allowance for

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this sector. The Bank has also identified problem loans in the commercial sector that were not made in compliance with lending policies. These loans have been reserved for in the allowance. There was some reallocation from the installment loan portfolio, due to the decrease in volume of these loans. Real estate mortgage allocation was maintained because there was little change in the quality or volume of this portfolio.

NONINTEREST INCOME

	2002	2001	2000
Service charges on deposits	$ 1,941,267	$ 1,607,296	$ 1,243,544
Commission - credit life insurance	52,368	61,197	39,940
Investment securities Gains,(net)	76,995	173,214	34,725
Other	654,937	462,250	344,220
Total	$ 2,725,567	$ 2,303,957	$ 1,662,429

Total noninterest income increased $421,610 or 18.30%, to $2,725,567 in 2002, as compared to $2,303,957 in 2001.

Service charge income increased to $1,941,267 in 2002, from $1,607,296 in 2001, an increase of $333,971, or 20.78%. This increase was attributable to increases in the pricing of the services that the Bank offers, and the growth of demand accounts. The Bank also implemented a new program that allows depositors to overdraw their checking accounts. When they overdraw the account the Bank pays the check and charges the customer a nonsufficient fund charge. This fee increased these charges by $330,010 over the previous year. Commissions on credit life insurance decreased $8,829, or 14.43%, to $52,368 in 2002, from $61,197 in 2001. Other income increased to $654,937 in 2002, from $462,250 in 2001, an increase of $192,687 or 41.68%. This increase is attributable to an increase of $108,253 on mortgage origination fees for third parties and an increase of $8,561 on safe deposit box fees, increases in commissions on insurance and brokerage sales of $22,303. The Bank also received $27,680 in dividends from other sources.

Service charge income increased to $1,607,296 in 2001, from $1,243,544 in 2000, an increase of $363,752, or 29.25%. This increase was attributable to increases in the pricing of the services that the Bank offers, and the growth of demand accounts, when adjusted for the loss of public fund deposits. Commissions on credit life insurance increased $21,257, or 53.22%, to $61,197 in 2001, from $39,940 in 2000. Other income increased to $462,250 in 2001, from $344,220 in 2000, an increase of $118,030 or 34.29%. This increase is attributable to an increase of $66,033 on mortgage origination fees for third parties and an increase of $113,640 in earnings on bank-owned life insurance offset by a decrease in brokerage commissions of $67,492.

NONINTEREST EXPENSE

	2002	2001	2000

Salaries and benefits	$ 4,581,132	4,221,498	3,841,509
Net occupancy	1,605,593	1,414,763	1,258,739
Other	2,506,111	2,244,493	2,125,930
Total	$ 8,692,836	7,880,754	7,226,178

Total noninterest expense increased $812,082, or 10.30%, to $8,692,836 in 2002, from $7,880,754 in 2001. Salaries and other compensation expense increased $359,634 or 8.51% to $4,581,132 in 2002 from $4,221,498 for 2001. This increase is due to increases in insurance cost of $49,733, profit sharing of $3,400, payroll taxes of $ 41,789 and a general increase in salaries including staffing of new offices. Income tax expense for 2002 was $602,847 as compared to $643,470 in 2001. The effective tax rate in 2002 was 22.85% as compared to 23.72% in 2001. Other expense increased to $2,506,111 in 2002, from $2,244,493 in 2001, an increase of $261,618, or 11.66%. The increase in other expenses is due partly to an increase in other real estate owned expenses of $109,907. The Bank also experienced charge offs of approximately $40,000, due to fraudulent checks, and increased professional fees of $96,157, largely for recruiters engaged to locate officer level employees.

Management anticipates that compliance with the Sarbanes-Oxley Act of 2002 will result in increased expenses in 2003, including increased professional expenses, but the extent of such increase, if any, has not yet been determined.

Basic earnings per share in 2002 were $1.86, as compared to basic earnings per share of $1.89 in 2001. Diluted earnings per share in 2002 were $1.81 and $1.87 in 2001. Return on average assets for 2002 was 0.91%, as compared to 0.95% in 2001. Return on average equity was 10.11% in 2002, as compared to 10.16% in 2002.

Total noninterest expense increased $654,576, or 9.06%, to $7,880,754 in 2001, from $7,226,178 in 2000. Other expense increased to $2,244,493 in 2001, from $2,125,930 in 2000, an increase of $118,563, or 5.58%. The increase in other expenses was due partly to an increase in ATM fees of $35,231 as transaction volume increased. Telephone expenses increased $46,756. Training expense increased $38,262 due to training related to a completed computer conversion. Salaries and other compensation expense increased $379,989 or 9.89% to $4,221,498 in 2001 from $3,841,509 for 2000. This increase was due to the increase in insurance cost of $45,503, profit sharing of $31,461, payroll taxes of $ 12,877 and a general increase in salaries along with staffing of new offices. Income tax expense for 2001 was $643,470 as compared to $669,696 in 2000. The effective tax rate in 2001 was 23.72% as compared to 24.65% in 2000.

Basic earnings per share in 2001 were $1.89, as compared to a basic earnings per share of $1.87 in 2000. Diluted earnings per share in 2001 were $1.87 and $1.86 in 2000. Return on average assets for 2001 was 0.95%, as compared to 0.93% in 2000. Return on average equity was 10.16% in 2001, as compared to 10.82% in 2000.

LOANS AT DECEMBER 31

	2002	2001	2000
Commercial, financial and agricultural	$ 111,429,905	97,881,448	87,479,8
Real estate -construction	8,295,383	7,377,897	7,404,3
Real estate - mortgage	27,784,873	27,233,771	28,580,5
Installment loans to individuals	14,926,017	16,552,493	18,072,5
Lease Financing	0	0	
Foreign			
Government and Official Institutions	0	0	
Banks and Other financial Institutions	0	0	
Commercial and industrial	0	0	
Other Loans	0	0	
	$ 162,436,178	149,045,609	141,537,1

Total loans increased to $162,436,178 at December 31, 2002, from $149,045,609 at year end 2001, an increase of $13,390,569, or 8.98%. Commercial, financial and agricultural loans increased to $111,429,905 at year end 2002, from $97,881,448 at December 31, 2001. Most of the increase can be attributed to agricultural loans. Real estate construction loans increased by $917,486 or 12.44% in 2002 to $8,295,383 from $7,377,897 in 2001. The majority of these loans are for 1-4 family homes. Real estate mortgage loans increased in 2002 by $551,102 or 2.02% to $27,784,873 from $27,233,771 in 2001. Installment loans to individuals decreased to $14,926,017 at December 31, 2002, when compared to $16,552,493 at year end 2001. The ratio of loans to deposits and repurchase agreements on December 31, 2002 was 85.17%, as compared to 82.76% in 2001.

Total loans increased to $149,045,609 at December 31, 2001, from $141,537,156 at year end 2000, an increase of $7,508,453, or 5.30%. Commercial, financial and agricultural loans increased to $97,881,448 at year end 2001, from $87,479,810 at December 31, 2000. Most of the increase can be attributed to the new Baldwin County offices, more competitive pricing in present markets, and a growth in agricultural loans. Real estate construction loans decreased by $26,403 or 0.36% in 2001 to $7,377,897 from $7,404,300 in 2000. The majority of these loans are for 1-4 family and owner-occupied commercial building. Real estate mortgage loans decreased in 2001 by $1,346,729 or 5.94% to $27,233,771 from $28,850,500 in 2000, primarily due to refinancing. Installment loans to individuals decreased to $16,552,493 at December 31, 2001, when compared to $18,072,546 at year end 2000. The ratio of loans to deposits on December 31, 2001, was 82.76%, as compared to 73.87% in 2000.

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LIQUIDITY

One of the Bank's goals is to provide adequate funds to meet changes in loan demand or any potential increase in the normal level of deposit withdrawals. This goal is accomplished primarily by generating cash from operating activities and maintaining sufficient short-term assets. These sources, coupled with a stable deposit base, allow the Bank to fund earning assets and maintain the availability of funds. Management believes that the Bank's traditional sources of maturing loans and investment securities, cash from operating activities and a strong base of core deposits are adequate to meet the Bank's liquidity needs for normal operations. To provide additional liquidity, the Bank utilizes short-term financing through the purchase of federal funds, and maintains a borrowing relationship with the Federal Home Loan Bank to provide liquidity. Should the Bank's traditional sources of liquidity be constrained, forcing the Bank to purse avenues of funding not typically used, the Bank's net interest margin could be impacted negatively.

As of December 31, 2002, management believes liquidity was adequate. The corporation relies primarily on the Bank for its liquidity needs. At December 31, 2001 the gross loan to deposit ratio was 85.17%. The Corporation's bank subsidiary has an Asset Liability Committee, which has as its primary objective the maintenance of specific funding and investment strategies to achieve short-term and long-term financial goals.

As revealed in the Consolidated Statement of Cash Flows, the Corporation generates the majority of its cash flows from financing activities. Financing activities provided $10,608,375 in cash in 2002, with the majority of this coming from advances from the Federal Home Loan Bank of Atlanta. These advances were used to purchase investments to increase net interest income. The investing activities of the Corporation used $23,063,267 of the cash flows primarily from the investment and the increase in the loan portfolio of the Bank. Operations provided $2,193,395 in cash flows with these funds coming from net income and depreciation for the year ended December 31, 2002.

CONTRACTUAL OBLIGATIONS

	Less than 1 Years	2-3 Years	4-5 Years	More than 5 Years
Time Deposits	$ 83,014	14,500	5,150	1
FHLB Advances	1,800	2,500	5,060	3,4
Long-term debt	0	0	4,124	
Operating Leases	95	169	76	
Letters of Credit	2,432			
Commitments to extend credit	8,692	2,118	240	2
Credit Card Lines	2,861			
	$ 98,894	$ 19,287	$ 14,650	$ 3,9

INTEREST RATE SENSITIVITY
Interest Rate Sensitivity Analysis
Year Ended December 31
2002
(In Thousands)

	Three Months Or Less	Three To Six Months	Six Months to One Year	1 to 5 Years	5 Or
Earning Assets:					
Loans, net of unearned income	$ 28,454	20,959	18,539	69,186	
Taxable securities AFS	0	1,501	0	1,610	
Tax exempt securities AFS	150	0	160	2,566	
Federal Funds Sold & Securities Purchased					
Under agreements to resale	0	0	0	0	
Other Earning Assets	0	0	0	0	
Total Interest Earning Assets	$ 28,604	22,460	18,699	73,362	
Interest Bearing Liabilities					
Demand Deposits	$ 0	0	0	0	
Savings Deposits	0	0	0	0	
Certificates of Deposit less than $100,000	14,730	17,549	20,051	13,755	
Certificates of Deposit greater than $100,000	14,253	3,932	12,691	5,658	
Federal Funds Purchased and securities sold under agreement to repurchase	8,141	0	0	0	
Other Short Term Borrowings	289	0	0	0	
Federal Home Loan Bank Borrowing	500	0	1,300	7,560	
TOTAL Interest Bearing Source	$ 37,913	21,481	34,042	26,973	
Liabilities					
Non Interest Bearing Source of Funds	0	0	0	0	
Interest Sensitivity Gap	(9,309)	979	(15,343)	46,389	
Cumulative Gap	(9,309)	(8,330)	(23,673)	22,716	

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The Corporation's sensitivity to changes in interest rates in conjunction with the structure of interest rate spreads determines the impact of change in interest rates on the Bank's performance. See Item 7A.

CAPITAL RESOURCES

The Corporation has historically relied primarily on internally generated capital growth to maintain capital adequacy. The average assets to average equity ratio during 2002 was 10.11% as compared to 9.31% in 2001. Total stockholders' equity on December 31, 2002 was $23,453,304, an increase of $1,606,811, or 7.35%, from $21,846,493 at year end 2001. This increase is the result of the Corporation's net earnings during 2002, less dividends declared to stockholders of $597,700, plus other comprehensive income of $528,392. Stockholders equity was also affected by the sale of stock under the Employee Stock Purchase Plan,the exercise of stock options, and the purchase 12,817 shares at $31.00 per share pursuit to an issuer tender offer. The Corporation's risk based capital of $28,897,000, or 16.16%, at December 31, 2002, was well above the Corporation's minimum risk based capital requirement of $12,012,000 or 8.0% of risk weighted assets. The Corporation's risk based capital increased $4,124,000 due to Trust Preferred issued in June of 2002. Based on management's projections, internally generated capital should be sufficient to satisfy capital requirements for existing operations into the foreseeable future; however, continued growth into new markets may require the Bank to access external funding sources.

FORWARD LOOKING STATEMENTS

When used or incorporated by reference herein, the words "anticipate", "estimate", "expect", "project", "target", "goal", and similar expressions, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including those set forth elsewhere herein, as well as the possibilities of (i) increases in competitive pressures in the banking industry, particularly with respect to community banks; (ii) costs or difficulties, relating to the planned increase in the number of Bank offices, which are greater than expected based on prior experience; (iii) general economic conditions, either nationally or regionally, that are less favorable than expected, resulting in deterioration in loan demand, credit quality and/or borrower liquidity, among other things; (iv) changes which may occur in the regulatory environment; and (v) large and/or rapid changes in interest rates. These forward-looking statements speak only as of the date they are made. The Corporation expressly disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Bank's profitability is affected by fluctuations in interest rates. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings potential. A sudden and substantial increase in interest rates may adversely impact the Bank's earnings to the extent that the interest rates on interest-earning assets and interest-bearing liabilities do not change at the same speed, to the same extent or on the same basis.

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

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

Interest rate sensitivity analysis is used to measure the Bank's interest rate risk by computing estimated changes in NPV of its cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 - 300 basis points increase or decrease in prime rate. The Bank uses the Asset

liability model developed by HNC, an independent third party vendor, which takes the current rate structure of the portfolio and shocks for each rate level and calculates the new market value of equity at each rate. The Bank's Board of Directors has adopted an interest rate risk policy, which establishes maximum allowable decreases in net interest margin in the event of a sudden and sustained increase or decrease in market interest rates. The following table presents the Bank's projected change in NPV (fair value assets less fair value liabilities) for the various rate shock levels as of December 31, 2002. All market risk sensitive instruments presented in this table are held to maturity or available for sale. The Bank has no trading securities. (In thousands)

INCREASE (DECREASE) IN INTEREST RATES (BASIS POINTS)	MARKET VALUE EQUITY	CHANGE IN MARKET VALUE EQUITY	CHANGE IN MARKET VALUE EQUITY(%)

300	$ 45,379	10,394	30
200	43,179	8,194	23
100	40,456	5,471	16
0	34,985	0	0
(100)	33,647	(1,338)	(4)
(200)	29,585	(5,400)	(15)
(300)	26,512	(8,473)	(24)

The preceding table indicates that at December 31, 2002, in the event of a sudden and sustained increase in prevailing market interest rates, the Bank's NPV would be expected to increase, and that in the event of a sudden decrease in prevailing market interest rates, the Bank's NPV would be expected to decrease.

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Corporation's consolidated financial statements as of December 31, 2002 and 2001 and for each of the years in the three-year period ended December 31, 2002 are included in the following pages shown in the index below.

Index to Financial Statements P

Notes to Consolidated Financial Statements - December 31, 2002, 2001, and 2000

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders United Bancorporation of Alabama, Inc.:

We have audited the accompanying consolidated balance sheets of United Bancorporation of Alabama, Inc. and subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 subsidiary as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Birmingham, Alabama February 21, 2003

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2002 and 2001

ASSETS	2002
Cash and due from banks	$ 9,087,315
Federal funds sold and securities purchased under agreements to resell	--
Cash and cash equivalents	9,087,315

Investment securities available for sale, at fair value (cost of $49,414,161 and $41,167,492 at December 31, 2002 and 2001, respectively)	50,742,915	
Loans	162,436,178	1
Less:		
Allowance for loan losses	2,116,811	
Net loans	160,319,367	1
Premises and equipment, net	6,311,051	
Interest receivable	2,416,841	
Other assets	3,944,940	
Total assets	$232,822,429	2

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2002 and 2001

LIABILITIES AND STOCKHOLDERS' EQUITY	2002
Deposits:	
Noninterest bearing	$ 35,939,396
Interest bearing	146,625,919
Total deposits	182,565,315
Securities sold under agreements to repurchase	8,140,506
Advances from Federal Home Loan Bank	12,827,338
Treasury, tax, and loan account	288,768
Accrued expenses and other liabilities	1,574,761
Guaranteed preferred beneficial interest in junior subordinate debt securities, net of debt issuance costs of $151,563	3,972,437
Total liabilities	209,369,125
Stockholders' equity:	
Class A common stock, $0.01 par value Authorized 5,000,000 shares; issued and outstanding, 1,161,481 and 1,159,481 shares in 2002 and 2001, respectively	11,615
Class B common stock, $0.01 par value Authorized 250,000 shares; no shares issued or outstanding	--
Preferred stock, $0.01 par value Authorized 250,000 shares; no shares issued or outstanding	--
Additional paid in capital	5,092,727
Retained earnings	18,398,823
Accumulated other comprehensive income, net of deferred taxes of $531,501 and $179,237 in 2002 and 2001, respectively	797,255
	24,300,420
Less: 74,759 and 62,181 treasury shares at cost in 2002 and 2001, respectively	847,116
Total stockholders' equity	23,453,304

Total liabilities and stockholders' equity	$232,822,429

See accompanying notes to consolidated financial statements.

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Consolidated Statements of Operations
Years ended December 31, 2002, 2001, and 2000

	2002	2001
Interest income:		
Interest and fees on loans	$11,596,575	13,029,747
Interest on investment securities:		
Taxable	1,417,090	1,939,741
Nontaxable	921,270	957,204
Total interest on investment securities	2,338,360	2,896,945
Other interest income	81,789	294,187
Total interest income	14,016,724	16,220,879
Interest expense:		
Interest on deposits	4,007,598	6,638,940
Interest on other borrowed funds	567,118	812,102
Total interest expense	4,574,716	7,451,042
Net interest income	9,442,008	8,769,837
Provision for loan losses	837,000	480,000
Net interest income after provision for loan losses	8,605,008	8,289,837
Noninterest income:		
Service charges on deposits	1,941,267	1,607,296
Commissions on credit life insurance	52,368	61,197
Investment securities gains, net	76,995	173,214
Mortgage fee income	190,534	82,281
Other	464,403	379,969
Total noninterest income	2,725,567	2,303,957
Noninterest expense:		
Salaries and benefits	4,581,132	4,221,498
Net occupancy expense	1,605,593	1,414,763
Other	2,506,111	2,244,493
Total noninterest expense	8,692,836	7,880,754
Earnings before income taxes	2,637,739	2,713,040
Income tax expense	602,847	643,470

Net earnings	$ 2,034,892	2,069,570
	===========	=========
Basic earnings per share	$ 1.86	1.89
Basic weighted average shares outstanding	1,092,586	1,095,706
Diluted earnings per share	$ 1.81	1.87
Diluted weighted average shares outstanding	1,123,230	1,108,630

See accompanying notes to consolidated financial statements.

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity and Comprehensive Income
Years ended December 31, 2002, 2001, and 2000

	SHARES	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TRE ST
Balance December 31, 1999	1,149,281	$ 11,494	4,804,489	14,104,870	(808,600)	(465,
Net earnings	--	--	--	2,046,571	--	
Unrealized change in fair value investment securities available for sale, net	--	--	--	--	813,466	
Comprehensive income						
Cash dividends declared ($0.55 per share)	--	--	--	(601,300)	--	
Amortization of difference between fair value and exercise price of stock options	--	--	45,760	--	--	
Exercise of stock options	5,600	55	89,545	--	--	
Sale of common stock	2,000	20	43,980	--	--	
Sale of 901 shares of treasury stock	--	--	10,703	--	--	9,
Balance December 31, 2000	1,156,881	11,569	4,994,477	15,550,141	4,866	(456,
Net earnings				2,069,570	--	
Unrealized change in fair value investment securities available for sale, net	--	--	--	--	263,997	
Comprehensive income						
Cash dividends declared ($0.60 per share)	--	--	--	(658,080)	--	
Amortization of difference between fair value						

and exercise price of stock options	--	--	12,480	--	--	
Exercise of stock options	2,600	26	41,574	--	--	
Sale of 468 shares of treasury stock	--	--	7,773	--	--	4,
Balance December 31, 2001	1,159,481	11,595	5,056,304	16,961,631	268,863	(451,
Net earnings	--	--	--	2,034,892	--	
Unrealized change in fair value investment securities available for sale, net	--	--	--	--	528,392	
Comprehensive income						
Cash dividends declared ($0.55 per share)	--	--	--	(597,700)	--	
Exercise of stock options	2,000	20	31,980	--	--	
Purchase of treasury stock	--	--	--	--	--	(397,
Sale of 252 shares of treasury stock	--	--	4,443	--	--	2,
Balance December 31, 2002	1,161,481	$ 11,615	5,092,727	18,398,823	797,255	(847,

See accompanying notes to consolidated financial statements.

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years ended December 31, 2002, 2001, and 2000

	2002	200
Cash flows from operating activities:		
Net earnings	$ 2,034,892	2,0
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	837,000	4
Compensation expense arising from stock option awards	--	
Depreciation of premises and equipment	728,699	6
Net amortization of premium on investment securities	27,361	
Gains on sales of investment securities available for sale, net	(76,995)	(1
Deferred income taxes (benefit)	(24,386)	
Decrease (increase) in interest receivable	(437,531)	5
Increase in other assets	(263,008)	(1
Increase (decrease) in accrued expenses and other liabilities	(632,637)	(9
Net cash provided by operating activities	2,193,395	2,5

Cash flows from investing activities:		
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	--	
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	11,749,795	17,4
Proceeds from sales of investment securities available for sale	1,178,070	9,4
Purchases of investment securities available for sale	(21,124,901)	(7,8
Net increase in loans	(14,104,003)	(8,0
Purchases of premises and equipment, net	(1,138,718)	(1,5
Proceeds from sales of other real estate	376,490	
Net cash provided by (used in) investing activities	(23,063,267)	9,5

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years ended December 31, 2002, 2001, and 2000

	2002	2001
Cash flows from financing activities:		
Net (decrease) increase in deposits	$ 2,056,146	(11,08
Net (decrease) increase in securities sold under agreements to repurchase	(928,786)	(1,59
Cash dividends	(597,700)	(65
Exercise of stock options	32,000	4
Proceeds from sale of common stock	--	
Proceeds from sale of treasury stock	6,963	1
Purchase of treasury stock	(397,736)	
Proceeds from issuance of guaranteed preferred beneficial interest in junior subordinate debt securities, net debt issuance cost of $151,563	3,972,437	
Advances from FHLB	8,592,011	2,00
Repayments of advances from FHLB	(2,000,000)	(1,65
(Decrease) increase in other borrowed funds	(126,960)	(18
Net cash (used in) provided by financing activities	10,608,375	(13,11
Net decrease in cash and cash equivalents	(10,261,497)	(1,01
Cash and cash equivalents, beginning of year	19,348,812	20,36
Cash and cash equivalents, end of year	$ 9,087,315	19,34
Supplemental disclosures:		
Cash paid during the year for:		

Interest	$ 5,082,436	7,84
Income taxes	362,000	86
Noncash transactions:		
Transfer of loans to other real estate through foreclosure	638,238	7
Transfer of securities from held to maturity to available for sale	--	13,97

See accompanying notes to consolidated financial statements.

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the financial statements of United Bancorporation of Alabama, Inc. (the Corporation) and its wholly owned subsidiary, United Bank (the Bank) collectively referred to as the Company. Significant intercompany balances and transactions have been eliminated in consolidation.

(b) CONCENTRATIONS

The Company operates primarily in one business segment, commercial banking, in the Southwest Alabama market. As of December 31, 2002 and December 31, 2001, approximately 50% and 53%, respectively, of the company's loans were commercial loans. The bank's commercial customers are primarily small to middle market enterprises. The bank specializes in agricultural loans, of which approximately 19% and 13% of the company's total loans consisted of as of December 31, 2002 and December 31, 2001, respectively.

(c) BASIS OF PRESENTATION

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Management believes the allowance for losses on loans is appropriate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly in Alabama, as substantially all loans are to borrowers within the state. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for losses on loans. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

(d) CASH EQUIVALENTS

The Company considers due from banks and federal funds sold to be cash equivalents. Federal funds are generally sold for one-day periods.

(Continued)

(e) INVESTMENT SECURITIES

Investment securities are classified in one of three portfolios: (i) trading account securities, (ii) held to maturity securities, and (iii) securities available for sale. Trading account securities are stated at fair value. Investment securities held to maturity are stated at cost adjusted for amortization of premiums and accretion of discounts. With regard to investment securities held to maturity, management has the intent and ability to hold such securities until maturity. Investment securities available for sale are stated at fair value with any unrealized gains and losses reported in a separate component of stockholders' equity, net of tax effect, until realized. Once realized, gains and losses on investment securities available for sale are reflected in current period earnings.

Interest earned on investment securities is included in interest income. Net gains and losses on the sale of investment securities available for sale, computed on the specific identification method, are shown separately in noninterest income in the consolidated statements of operations. Accretion of discounts and amortization of premiums are calculated on the effective interest method over the anticipated life of the security.

A decline in the fair value of any security below amortized cost that is deemed other than temporary is charged to income resulting in the establishment of a new cost basis for the security.

(f) LOANS

Interest income on loans is credited to earnings based on the principal amount outstanding at the respective rate of interest. Accrual of interest on loans is discontinued when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on nonaccrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are recorded on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Management considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. If the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Impaired loans are charged to the allowance when such loans are deemed to be uncollectible. Subsequent recoveries are added to the allowance.

When a loan is considered impaired, cash receipts are applied under the contractual terms of the loan agreement, first to principal and then to interest income. Once the recorded principal balance has been reduced to zero, future cash receipts are recognized as interest income, to the extent that any interest has not been recognized. Any further cash receipts are recorded as recoveries of any amount previously charged off.

(Continued)

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For those accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

(g) ALLOWANCE FOR LOAN LOSSES

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

Additions to the allowance for loan losses are based on management's evaluation of the loan portfolio under current economic conditions, past loan loss experience and such other factors, which, in management's judgment, deserve recognition in estimating loan losses. Loans are charged-off when, in the opinion of management, such loans are deemed to be uncollectible. Subsequent recoveries are added to the allowance.

(h) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using both the double declining-balance method and the straight-line method over the estimated useful lives of the assets.

(i) OTHER REAL ESTATE

Other real estate represents property acquired through foreclosure or deeded to the Company in lieu of foreclosure on real estate mortgage loans on which borrowers have defaulted. Other real estate is carried in other assets at the lower of cost or fair value, adjusted for estimated selling costs. Reductions in the balance of other real estate at the date of foreclosure are charged to the allowance for loan losses. Subsequent changes in fair value, up to the value established at foreclosure, are recognized as charges or credits to noninterest expense with an offset to the allowance for losses on other real estate.

(j) INCOME TAX EXPENSE

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Continued)

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(k) STOCK OPTION PLAN

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense is recorded if the current market price on the date of grant of the underlying stock exceeds the exercise price.

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows companies to apply APB No. 25 as long as certain pro forma disclosures are made assuming hypothetical fair value method application.

Had compensation expense for the Company's stock options been recognized based on the fair value on the grant date under the methodology prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended December 31, 2002, 2001, and 2000 would have been impacted as shown in the following table:

	2002	2001
Reported net earnings	$ 2,034,892	2,069,570
Compensation expense, net of taxes	24,243	11,270
Pro forma net earnings	2,010,649	2,058,300
Reported basic earnings per share	1.86	1.89
Proforma basic earnings per share	1.84	1.88
Reported diluted earnings per share	1.81	1.87
Pro forma diluted earnings per share	1.79	1.86

The fair value of options granted, which is amortized to expense over the option vesting period in determining the pro forma impact, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001
Expected life of option	5 yrs	10 yrs

Risk-free interest rate	2.89%	3.50%
Expected volatility of Company stock	12.09%	12.00%
Expected dividend yield of Company stock	2.24%	2.84%

The weighted average fair value of options granted during 2002, 2001, and 2000 is as follows:

	2002	2001
Fair value of each option granted	$ 5.99	5.29

(Continued)

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(l) EARNINGS PER SHARE

Basic and diluted earnings per share are computed on the weighted average number of shares outstanding in accordance with SFAS No. 128, Earnings Per Share.

(m) BUSINESS SEGMENTS

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the disclosures made by public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company operates in only one segment - commercial banking.

(n) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The Company is required to adopt the provision of SFAS No. 141 effective immediately and SFAS No. 142 effective January 1, 2002. The Company does not currently have any goodwill capitalized on its balance sheet. Accordingly, the adoption of these statements did not have an impact on the consolidated financial statements of the Company.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which supersedes both SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30, Reporting and Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequent Occurring Events and Transactions (Opinion No. 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used, as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will not result in a write-down of goodwill. Rather, goodwill is

(Continued)

evaluated for impairment under SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of this statement by the Company did not have a material effect on the consolidated financial statements.

In October 2002, the FASB issued SFAS 147, which removes certain acquisitions of financial institutions (other than transactions between two or more mutual enterprises) from the scope of SFAS 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions and FASB Interpretation 9, Applying APB Opinions 16 and 17 When a Savings and Loan or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method. These types of transactions are now accounted for under SFAS 141 and 142. In addition, this Statement amends SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer relationship intangible assets of financial institutions. The provisions of this Statement were effective October 1, 2002, with earlier adoption permitted. The adoption of this statement did not have a material impact on its consolidated financial statements.

In December 2002, the FASB issued SFAS 148, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Finally, this Statement amends APB Opinion 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. This Statement is effective for fiscal and interim periods ending after December 15, 2002. The adoption of this statement did not have a material impact to the Consolidated Financial Statements.

In November 2002, the FASB issued FIN 45, which elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applied prospectively to guarantees issued or modified after December 31, 2002. The adoption of these recognition provisions will result in recording liabilities associated with certain guarantees provided by the Company. These currently include standby letters of credit and first-loss guarantees on securitizations. The disclosure requirements of this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the disclosure requirements of this Interpretation did not have a material impact on the consolidated financial statements. Management does not expect this Interpretation to have a material impact to the Consolidated Financial Statements.

In January 2003, the FASB issued FIN 46, which clarifies the application of Accounting Research Bulletin (ARB) 51, Consolidated Financial Statements, to certain entities (called variable interest entities) in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The disclosure requirements of this Interpretation are effective for all financial statements issued after January 31, 2003. The consolidation

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requirements apply to all variable interest entities created after January 31, 2003. In addition, public companies must apply the consolidation requirements to variable interest entities that existed prior to February 1, 2003 and remain in existence as of the beginning of annual or interim periods beginning after June 15, 2003. The adoption of the disclosure requirements of this Interpretation did not have a material impact on the consolidated financial statements. Management does not expect this Interpretation to have a material impact to the Consolidated Financial Statements.

(2) CASH AND DUE FROM BANKS

The Corporation's subsidiary bank is required by the Federal Reserve Bank to maintain daily cash balances. These balances were $2,110,000 and $1,052,000 at December 31, 2002 and 2001, respectively.

(3) INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2002 and 2001 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GR UNRE LO
2002:			
U.S. Treasury	$ 1,517,846	10,301	
U.S. government agencies, excluding mortgage-backed securities	1,500,000	5,188	
State and political subdivisions	21,026,192	754,921	
Mortgage-backed securities	24,878,984	652,746	
Corporate notes and other	491,139	37,424	
	$ 49,414,161	1,460,580	
2001:			
U.S. Treasury	$ 1,506,392	37,828	
U.S. government agencies, excluding mortgage-backed			

securities	2,087,767	85,068	
State and political subdivisions	18,532,023	248,324	
Mortgage-backed securities	18,049,489	272,639	
Corporate notes and other	991,821	16,166	
	$ 41,167,492	660,025	

(Continued)

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The amortized cost and fair value of investment securities available for sale at December 31, 2002, categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	AMORTIZED COST	F V
Investment securities available for sale:		
Due in one year or less	$ 1,810,112	1
Due after one year through five years	3,584,240	3
Due after five years through ten years	7,407,834	7
Due after ten years	11,732,991	12
Subtotal	24,535,177	25
Mortgage-backed securities	24,878,984	25
Total	$ 49,414,161	50

Gross gains of $78,967 and gross losses of $1,972 were realized on those sales of investment securities available for sale in 2002. Gross gains of $225,376 and gross losses of $52,162 were realized on those sales of investment securities available for sale in 2001. Gross gains of $40,041 and gross losses of $5,316 were realized on those sales of investment securities available for sale in 2000. Securities with carrying values of $31,162,178 and $30,112,910 at December 31, 2002 and 2001, respectively, were pledged to secure public and trust deposits as required by law and for other purposes.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At December 31, 2002 and 2001, the composition of the loan portfolio was as follows:

	2002
Commercial and financial	$ 80,446,596
Agricultural	30,983,309
Real estate - construction	8,295,383
Real estate - 1-4 family residential mortgage	27,784,873
Installment loans to individuals	14,926,017
Total	$ 162,436,178

At December 31, 2002, the Corporation had $30,983,000 of agriculture related loans as compared to $19,089,172 and 414,871,440 in 2001 and 2000, respectively. Agriculture loans accounted for $0, $0, and $75106 of nonaccural loans in 2002, 2001, and 2000, respectively.

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A summary of the transactions in the allowance for loan losses for the years ended December 31, 2002, 2001, and 2000 follows:

	2002	2001	2000
Balance at beginning of year	$ 1,993,245	1,939,307	1,676,274
Provision charged to earnings	837,000	480,000	475,000
Less loans charged-off	(765,505)	(479,901)	(252,430)
Plus loan recoveries	52,071	53,839	40,463
Net charge-offs	(713,434)	(426,062)	(211,967)
Balance at end of year	$ 2,116,811	1,993,245	1,939,307

Loans on which the accrual of interest had been discontinued or reduced amounted to $1,166,919 and $2,184,316 as of December 31, 2002 and 2001, respectively. If these loans had been current throughout their terms, interest income would have been increased by $29,967, $123,443, and $48,630, for 2002, 2001, and 2000, respectively. At December 31, 2000, the Company had impaired loans of $72,811. At December 31, 2002 and 2001, the Company had no significant impaired loans.

During 2002 and 2001, certain executive officers and directors of the Corporation and its subsidiary, including their immediate families and companies with which they are associated, were loan customers of the Bank. Total loans outstanding to these related parties at December 31, 2002 and 2001, amounted to $7,185,629 and $5,874,226, respectively. The change from December 31, 2001 to December 31, 2002 reflects advances amounting to $2,660,708 and payments of $1,349,305 made during the year. Such loans are made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements, and do not represent more than a normal credit risk.

(5) Premises and Equipment

At December 31, 2002 and 2001, premises and equipment were as follows:

	2002	2001
Land	$ 1,698,651	1,072
Buildings and leasehold improvements (depreciated over 5 to 50 years)	4,756,867	4,433
Furniture, fixtures, and equipment (depreciated over 3 to 10 years)	4,071,617	3,885
Automobiles (depreciated over 3 years)	133,475	133
	10,660,610	9,525
Less accumulated depreciation	4,349,559	3,624
	$ 6,311,051	5,901

(Continued)

Depreciation expense for the year ended December 31, 2002, 2001, and 2000 was $728,699, $610,438, and $511,545, respectively.

(6) DEPOSITS

At December 31, 2002 and 2001, deposits were as follows:

	2002	2001
Noninterest bearing accounts	$ 35,939,396	33,406,633
NOW accounts	18,336,858	19,274,192
Money market investment accounts	8,508,315	7,218,784

Savings account	16,961,888	15,016,012
Time deposits:		
Certificates of deposit less than $100,000	73,507,943	70,864,115
Certificates of deposit greater than $100,000	29,310,915	34,729,433
Total deposits	$ 182,565,315	180,509,169

At December 31, 2002, 2001, and 2000 interest expense on deposits was as follows:

	2002	2001	2000
NOW accounts	$ 308,699	667,566	1,67
Money market investment accounts	109,583	108,637	13
Savings account	143,988	288,203	37
Time deposits:			
Certificates of deposit less than $100,000	2,403,927	3,771,353	3,62
Certificates of deposit greater than $100,000	1,041,401	1,803,181	1,62
Total interest expense on deposits	$ 4,007,598	6,638,940	7,42

At December 31, 2002, the contractual maturities of time deposits are as follows:

Due in one year	$ 83,013,829
Due in two years	9,414,139
Due in three years	5,086,194
Due in four years	1,061,163
Due in five years	4,089,095
Thereafter	154,438
	$ 102,818,858

(Continued)

(7) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The maximum amount of outstanding securities sold under agreements to repurchase during 2002 and 2001 was $15,503,292 and $15,815,554, respectively. The weighted average borrowing rate at December 31, 2002 and 2001 was 0.77% and 1.00%, respectively. The average amount of outstanding securities sold under agreements to repurchase during 2002 and 2001 was $10,753,068 and $11,612,232, respectively. The weighted average borrowing rate during the years ended December 31, 2002 and 2001 was 4.70% and 3.15%, respectively. Securities underlying these agreements are under the Company's control.

(8) BORROWED FUNDS

The Company was liable to the Federal Home Loan Bank of Atlanta on the following advances at December 31, 2002:

MATURITY DATE	INTEREST RATE	
March 2003	1.97%	$ 500,000
September 2003	1.30%	1,300,000
March 2004	2.35%	1,500,000
September 2004	2.53%	1,000,000
June 2006	7.19%	60,305
September 2007	2.82%	5,000,000
March 2011	4.22%	2,000,000
May 2012	7.41%	111,467
July 2017	6.93%	975,000
August 2017	6.84%	160,775
July 2020	7.54%	219,791
Total (weighted average rate of 3.305%)		$ 12,827,338

At December 31, 2002 and 2001, the advances were collateralized by a blanket pledge of first-mortgage residential loans in the amount of $27,784,873 and $27,233,771, respectively.

(9) INCOME TAXES

Total income tax expense (benefit) for the years ended December 31, 2002, 2001, and 2000 was allocated as follows:

	2002	2001	2000
Income from continuing operations	$ 602,846	643,470	669,696
Stockholders' equity, for other comprehensive income	$ 352,262	175,994	542,360

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The components of income tax expense attributable to income from continuing operations for the years ended December 31, 2002, 2001, and 2000 were as follows:

	2002	2001	2000
Current:			
Federal	$ 529,675	580,936	599,5
State	97,557	56,526	115,3
Total	627,232	637,462	714,9
Deferred:			
Federal	(21,395)	7,866	(40,2
State	(2,991)	(1,858)	(4,9
Total	(24,386)	6,008	(45,2
Total income tax expense	$ 602,846	643,470	669,6

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

	2002	2001
Income tax at statutory rate	$ 896,832	922,434
Increase (decrease) resulting from:		
Tax exempt interest	(318,970)	(342,371)
Interest disallowance	27,090	46,908
Deferred compensation	2,380	10,077
State income tax net of federal benefit	62,414	36,081
Premium amortization on tax exempt investment securities	4,352	8,722
Cash surrendered value of life insurance	(39,677)	(34,962)
Other, net	(31,575)	(3,419)
	$ 602,846	643,470

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are as follows:

	2002
Deferred tax assets:	
Loans, principally due to the allowance for loan losses	$ 492,274
Other real estate, principally due to differences in carrying value	81,961
Accrued expenses	19,579
Security writedown	4,427
Other	179
Total deferred tax assets	598,420
Deferred tax liabilities:	
Premises and equipment, principally due to difference in depreciation	231,062
Investment securities available for sale	531,498
Discount accretion	51,277
Other	550
Total deferred tax liabilities	814,387
Net deferred tax asset (liability)	$ (215,967)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

(Continued)

(10) STOCK OPTION PLAN

The United Bancorporation of Alabama, Inc. 1998 Stock Option Plan (the Plan) provides for the grant of options to officers, directors, and employees of the Corporation to purchase up to an aggregate of 77,000 shares of Class A Stock. The changes in outstanding options are as follows:

	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Balance at December 31, 1999	41,560	$ 18.01
Granted	4,080	31.30
Surrendered	--	--
Exercised	(5,600)	16.00
Balance at December 31, 2000	40,040	19.65
Granted	4,080	32.50
Surrendered	--	--
Exercised	(2,600)	16.00
Balance at December 31, 2001	41,520	21.14
Granted	22,080	31.50
Surrendered	(5,000)	31.50
Exercised	(2,000)	16.00
Balance at December 31, 2002	56,600	24.57

(Continued)

Stock options outstanding and exercisable on December 31, 2002 and 2001 were as follows:

2002

WEIGHTED

EXERCISE PRICE PER SHARE	SHARES UNDER OPTION	AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS
Outstanding:		
$ 16.00	23,200	6.0
22.50	4,080	6.0
25.74	4,080	7.0
31.30	4,080	8.0
31.50	17,080	10.0
32.50	4,080	9.0
	56,600	
Exercisable:		
$ 16.00	23,200	6.0
22.50	4,080	6.0
25.74	3,264	7.0
31.30	2,448	8.0
31.50	1,016	10.0
32.50	1,632	9.0
	35,640	

(Continued)

2001

EXERCISE PRICE PER SHARE	SHARES UNDER OPTION
Outstanding:	
$ 16.00	25,200
22.50	4,080
25.74	4,080
31.30	4,080
32.50	4,080
16.00 - 32.50	41,520

Exercisable:	
$ 16.00	25,200
22.50	3,264
25.74	2,448
31.30	1,632
32.50	816
16.00 - 32.50	33,360

(11) NET INCOME PER SHARE

Presented below is a summary of the components used to calculate diluted earnings per share for the years ended December 31, 2002, 2001, and 2000:

	2002	2001
Diluted earnings per share:		
Weighted average common shares outstanding	1,092,586	1,095,706
Effect of the assumed exercise of stock options-based on the treasury stock method using average market price	30,644	12,924
Total weighted average common shares and potential common stock outstanding	1,123,230	1,108,630

(Continued)

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(12) EMPLOYEE BENEFIT PLANS

The Company adopted a 401(k) employee incentive savings plan effective January 1, 1988. Employees become eligible after completing six months of service and attaining age 20.5. They can contribute a minimum of 1% up to 10% of salary to the plan. The Company contributes twenty-five cents for each dollar the employee contributes, up to 4% of the employee's salary. Total Company contributions to the plan during 2002, 2001, and 2000 were $31,189, $28,829, and $24,249, respectively.

The Company also maintains a profit-sharing plan for eligible employees. Eligibility requirements for this plan are the same as the 401(k) Employee Incentive Savings Plan. Annual profit sharing contributions of $114,000, $110,600, and $82,000 were made in 2002, 2001, and 2000, respectively.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

The assumptions used in estimating the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

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

(A) CASH, CASH EQUIVALENTS, AND INTEREST EARNING DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS

Fair value approximates the carrying value of such assets.

(B) INVESTMENT SECURITIES

The fair value of investment securities is based on quoted market prices.

(C) LOANS

The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Company's historical experience with repayments adjusted to estimate the effect of current market conditions. The carrying amount of accrued interest approximates its fair value.

(D) DEPOSITS

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities.

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
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The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

(e) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Due to their short-term nature, the fair value of securities sold under agreements to repurchase approximates their carrying value.

(f) FHLB AND OTHER BORROWED FUNDS

The fair value of the Company's other borrowed funds approximates the carrying value of such liabilities. The fair value of FHLB advances is based on current borrowing rates.

(g) COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT

There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value. The carrying value and estimated fair value of the Company's financial instruments at December 31, 2002 and 2001 are as follows (in thousands):

	2002		2001	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTI FAIR
Financial assets:				
Cash and short-term investments	$ 9,087	9,087	19,348	
Investment securities	50,743	50,743	41,615	
Loans, net of unearned income and allowance for loan losses	160,319	163,681	147,052	
Financial liabilities:				
Deposits	182,565	183,805	180,509	
Securities sold under agreements to repurchase	8,141	8,141	9,069	
Other borrowed funds	289	289	416	
FHLB advances	12,827	13,486	6,235	

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
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(14) DIVIDENDS FROM SUBSIDIARY

Dividends paid by the subsidiary bank are the primary source of funds available to the Corporation for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the subsidiary bank. In addition, the subsidiary bank is also required to maintain minimum amounts of capital to total "risk-weighted" assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary bank. At December 31, 2002, the Bank could have declared dividends of approximately $4,293,593 without prior approval of regulatory authorities.

(15) COMPREHENSIVE INCOME

The following is a summary of the components of other comprehensive income:

	YEAR ENDED DECEMBER 31	
	2002	2001
Other comprehensive income before tax:		
Unrealized holding gains arising during the period, net	$ 957,649	613,205
Less reclassification adjustment for gains included in net earnings	76,995	173,214
Other comprehensive income, before income taxes	880,654	439,991
Income tax expense related to other comprehensive income:		
Unrealized holding gains arising during the period, net	383,060	245,280
Less reclassification adjustment for gains included in net income	30,798	69,286
Total income tax expense related to other comprehensive income comprehensive income	352,262	175,994
Other comprehensive income, after taxes	$ 528,392	263,997

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(16) LITIGATION

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

(17) COMMITMENTS

The Company leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. Future minimum rental payments required under operating leases, which have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2002, are as follows:

Years ending December 31:	
2003	$ 95,125
2004	89,746
2005	78,540
2006	44,790
2007	30,790
Thereafter	68,132
	$ 407,123

Rental expense for all operating leases charged to earnings aggregated $108,463, $105,625, and $92,175 for the years ended December 31, 2002, 2001, and 2000, respectively.

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Such instruments involve elements of credit risk in excess of the amounts recognized in the consolidated financial statements.

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

The financial instruments whose contract amounts represent credit risk as of December 31, 2002, are as follows:

Commitments to extend credit	$ 14,205,000
Standby letters of credit	2,431,500

(Continued)

Standby letters of credit are commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

(18) OTHER NONINTEREST INCOME AND EXPENSE

Components of other noninterest expense exceeding 1% of the total of interest income and other income for any of the years ended December 31, 2002, 2001, and 2000, respectively, include the following:

	2002	2001	2000
Data processing fees	$ 34,956	247,584	297,320
Supplies expenses	272,756	214,006	279,544

(19) REGULATORY MATTERS

The Corporation and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework of prompt corrective action, the

Corporation and its subsidiary bank must meet specific capital guidelines that involve quantitative measures of each bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Corporation and its subsidiary bank are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and its subsidiary bank to maintain minimum core capital (Tier I Capital) of at least 4% of risk-weighted assets, minimum total capital (Total Qualifying Capital) of at least 8% of risk-weighted assets and a minimum leverage ratio of at least 4% of average assets. Management believes, as of December 31, 2002, that the Corporation and its subsidiary bank meet all capital adequacy requirements to which they are subject.

(Continued)

As of December 31, 2002, the most recent notification from the appropriate regulatory agencies categorized the subsidiary bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the subsidiary banks must maintain minimum Total Qualifying Capital, Tier I Capital, and leverage ratios of at least 10%, 6%, and 5%, respectively. There are no conditions or events since that notification that management believes have changed the subsidiary bank's category.

The following table presents the actual capital amounts and ratios of the Corporation and its significant subsidiary banks at December 31, 2002 and 2001:

	TOTAL QUALIFYING CAPITAL		TIER I CAPITAL	
	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2002:				
Consolidated	$ 28,897	16.16%	$ 26,781	14.98%
United Bank	24,640	13.92%	22,523	12.73%
As of December 31, 2001:				
Consolidated	$ 23,570	14.52%	$ 21,577	13.31%
United Bank	22,564	13.84%	20,571	12.62%

(Continued)

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(20) PARENT COMPANY FINANCIAL INFORMATION

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

(Parent Company Only)
Condensed Balance Sheet Information
December 31, 2002 and 2001

ASSETS	2002
Cash	$ 2,630,235
Dividend receivable from subsidiary bank	--
Premises and equipment	1,689,351
Investment in subsidiaries	23,447,861
Total assets	$ 27,767,447
LIABILITIES AND STOCKHOLDERS' EQUITY	
Other liabilities	$ 341,706
Guarantee preferred beneficial interest in junior subordinate debt securities, net of debt issuance costs of $151,563	3,972,437
Total liabilities	4,314,143
Stockholders' equity:	
Class A common stock of $0.01 par value. Authorized 5,000,000 shares; issued 1,161,481 and 1,159,481 shares in 2002 and 2001, respectively	11,615
Class B common stock of $0.01 par value. Authorized 250,000 shares; no shares issued	--
Preferred stock of $.01 par value. Authorized 250,000 shares; no shares issued	--
Additional paid in capital	5,092,727
Retained earnings	18,398,823
Accumulated other comprehensive income, net of tax	797,255
	24,300,420
Less: 74,759 and 62,181 treasury shares at cost in 2002 and 2001, respectively	847,116
Total stockholders' equity	23,453,304
Total liabilities and stockholders' equity	$ 27,767,447

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
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(Parent Company Only)
Condensed Statements of Operations Information
Years ended December 31, 2002, 2001, and 2000

	2002	2001
Income:		
Cash dividends from subsidiary	$ 271,684	659,055
Other	40,200	43,550
Expense:		
Salaries and benefits	--	12,480
Interest on other borrowed funds	116,518	--
Other	115,099	90,794
Earnings before equity in undistributed earnings of subsidiary	80,267	599,331
Equity in undistributed earnings of subsidiary	1,954,625	1,470,239
Net earnings	$ 2,034,892	2,069,570

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
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Condensed Statements of Cash Flows Information
Years ended December 31, 2002, 2001, and 2000

2002	2001

Cash flows from operating activities:		
Net earnings	$ 2,034,892	2,069,570
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(1,954,625)	(1,470,239
Compensation expense arising from stock option awards	--	12,480
Increase (decrease) in other liabilities	(52,444)	48,636
Decrease (increase) in receivables	384,055	32,195
Net cash provided by operating activities	411,878	692,642
Cash flows from investing activities:		
Purchases of premises and equipment, net	(848,763)	(5,416
Capital investment in subsidiary	(124,000)	--
Net cash used in investing activities	(972,763)	(5,416
Cash flows from financing activities:		
Cash dividends	(597,700)	(658,080
Proceeds from private placement	3,972,437	--
Purchase of treasury stock	(397,736)	--
Proceeds from sale of treasury stock	6,963	12,453
Exercise of stock options	32,000	41,600
Net cash provided by (used in) financial activities	3,015,964	(604,027
Net increase (decrease) in cash	2,455,079	83,199
Cash, beginning of year	175,156	91,957
Cash, end of year	$ 2,630,235	175,156

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2003 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended

December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2003 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2002 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2002 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2002 Annual Meeting of Stockholders to be filed not later than 120 days after the year ended December 31, 2001 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

ITEM 14. Controls and Procedures

(a). Based on evaluation of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-4(C) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of a date within 90 days of the filing of this annual report, the principal executive officer and the principal financial officer of the Corporation have concluded that as of such date the Corporation's disclosure controls and procedures were effective to ensure that information the Corporation is required to disclose in its filings under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by the Corporation in the reports that it files under the Exchange Act is accumulated and communicated to the Corporation's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b). There were no significant changes in the Corporation's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to in (a)above.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The financial statements listed in the Index to Financial Statements contained in Item 8 hereof are filed as part of this Annual Report on Form 10-K.

(2) Financial statement schedules have been omitted as inapplicable.

(3) The Exhibits listed below are filed as part of this Report. Management contracts and compensatory plans and arrangements required to be filed pursuant to Item 14(c) are identified by an asterisk (*).

3.1	Restated Certificate of Incorporation of the Registrant (Incorporated by reference herein from Exhibit 3a to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988).
3.1.1	Certificate of Amendment to Restated Certificate of Incorporation Of the Registrant(Incorporated by reference herein from Exhibit 3.1.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999).
3.2	Amended and Restated Bylaws of the Registrant (Incorporated by reference herein from Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).
10.1	Form of Employment Agreement between United Bank and Robert R. Jones, III(Incorporated by reference herein from Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.*
10.2	Supplemental Agreement between United Bank, the Registrant and Robert R. Jones III (Incorporated by reference herein from Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998)*.
10.3	1998 Stock Option Plan of United Bancorporation of Alabama, Inc. (Incorporated by reference herein from Exhibit 3.1.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999).
10.4	1999 Employee Stock Purchase Plan of United Bancorporation of Alabama, Inc. (incorporated herein by reference from appendix A to the Registrants definitive proxy statement dated April 10, 2000)*.
21	Subsidiaries of the Registrant.
99(1)	Certification pursuant to 18 U.S.C. Section 1350.
99(2)	Certification pursuant to 18 U.S.C. Section 1350.

(b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended December 31, 2002.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED BANCORPORATION OF ALABAMA, INC.
(Registrant)

BY: /s/ Robert R. Jones, III

Robert R. Jones, III
President and Chief Executive Officer
March 28, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES	CAPACITY IN WHICH SIGNED	DATE
/s/ Robert R. Jones, III Robert R. Jones, III	President, Chief Executive Officer, and Director	March 28, 2003
/s/ Mitchell D. Staples Mitchell D. Staples	Treasurer (principal financial and principal accounting officer)	March 28, 2003
/s/ H. Leon Esneul H. Leon Esneul	Director	March 28, 2003
/s/ David D. Swift David D. Swift	Director	March 28, 2003
/s/ William J. Justice William J. Justice	Director	March 28, 2003
/s/ Dale M. Ash Dale M. Ash	Director	March 28, 2003
/s/ William C. Grissett William C. Grissett	Director	March 28, 2003
/s/ L. Walter Crim L. Walter Crim	Director	March 28, 2003

I, Robert R Jones, III, President and CEO, certify that:

1. I have reviewed this annual report on Form 10-K of United Bancorporation of Alabama Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ Robert R. Jones, III

Robert R. Jones, III

President and CEO

I, Mitchell D. Staples, principal financial officer, certify that:

1. I have reviewed this annual report on Form 10-K of United Bancoporation of Alabama, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/Mitchell D. Staples

Mitchell D. Staples
Principal financial officer

INDEX TO EXHIBITS