UNITED BANCORPORATION OF ALABAMA INC
Form 10-K/A
August 04, 2005

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2004 | 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 organization)	(I.R.S.Employer Identification of incorporation or 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 þ 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. þ

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

Aggregate market value of voting and nonvoting common equity held by non affiliates as of March 15, 2005 was $31,768,785 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 12, 2005	
Class A	$ .01	2,217,330	Shares*
Class B	$ .01	0	Shares

* Excludes 147,706 shares held as treasury stock.

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EXPLANATORY NOTE

This Form 10-K/A is being filed to amend the certifications attached as Exhibits 31.1 and 31.2 to Annual Report on Form 10-K for the fiscal year ended December 31, 2004 which was filed on March 30, 2005 by United Bancorporation of Alabama, Inc.

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PART I

ITEM 1. BUSINESS

United Bancorporation of Alabama, Inc. (the Corporation or the Company) is a one-bank 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 twelve full service banking offices located in Atmore, Frisco City, Monroeville, Flomaton, Foley, Lillian, Bay Minette(2), Silverhill, and Magnolia Springs Alabama, a drive up facility in Atmore, and 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 multi-purpose, nationally recognized credit card service, 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 131 full-time equivalent employees at December 31, 2004. 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

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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.

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 defined by regulations adopted by the Federal Reserve, the FDIC and other federal depository institution regulatory agencies. At December 31, 2004, 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 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 America 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: (i) to establish an anti-money laundering program, (ii) to establish due diligence policies, procedures and controls with respect to its private 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 USA Patriot Act has not had 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 established 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.

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, 2004, 2003 and 2002. Averages referred to in the following statistical information are generally average daily balances.

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AVERAGE CONSOLIDATED BALANCE SHEETS
December 31,
2004, 2003 and 2002

(Dollars In Thousands)

	2004	2003	2002
Assets			
Cash and due from banks	7,231	8,054	5,520
Interest - bearing deposits with other financial institutions	8,147	8,055	1,486
Federal funds sold and repurchase agreements	3,176	3,612	2,772
Taxable securities available for sale	32,878	27,766	29,024
Tax-exempt securities available for sale	23,966	20,695	19,110
Loans, net	184,634	163,897	152,869
Premises and equipment, net	7,962	7,330	5,913
Interest receivable and other assets	11,118	6,960	7,826
Total Assets	279,112	246,369	224,520
Liabilities and Stockholders Equity			
Demand deposits-noninterest-bearing	48,950	40,662	33,449
Demand deposits-interest bearing	41,479	31,239	28,147
Savings deposits	21,034	17,672	16,638
Time deposits	109,333	101,986	101,444
Other borrowed funds	13,790	15,094	10,269
Repurchase agreements	17,148	13,815	10,734
Accrued expenses and other liabilities	1,697	1,510	1,137
Total liabilities	253,431	221,978	201,818
Stockholders Equity			
Common stock	24	24	24
Additional Paid in Capital	5,506	5,243	5,047
Retained earnings	20,474	19,241	17,759
Accumulated other comprehensive income net of deferred taxes	533	725	521
Less: shares held in treasury, at cost	(856)	(842)	(649)
Total stockholders equity	25,681	24,391	22,702
Total liabilities and stockholders equity	279,112	246,369	224,520

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.

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	(Dollars in Thousands)		
		Interest Income	Average Rates
2004	Average Balance	Expense	Earned Paid
Loans, net (1)	184,634	11,980	6.49%
Taxable securities available for sale	32,878	1,223	3.72%
Tax exempt sec available for sale (2)	23,966	1,500	6.26%
Federal funds sold and repurchase agreements	3,176	53	1.67%
Interest-bearing deposits with other financial institutions	8,147	107	1.31%
Total interest-earning assets	252,801	14,863	5.88%
Saving deposits and demand deposits interest-bearing	62,513	578	0.92%
Time deposits	109,333	2,306	2.11%
Repurchase agreements	17,148	79	0.46%
Other borrowed funds	13,790	576	4.18%
Total interest-bearing liabilities	202,784	3,539	1.75%
Net interest income/net yield on interest earning assets		11,324	4.48%

		Interest Income	Average Rates
2003	Average Balance	Expense	Earned Paid
Loans, net (1)	163,897	11,277	6.88%
Taxable securities available for sale	27,766	1,003	3.61%
Tax exempt sec available for sale (2)	20,695	1,423	6.88%
Federal funds sold and repurchase agreements	3,612	36	1.00%
Interest-bearing deposits with other financial institutions	8,055	87	1.08%
Total interest-earning assets	224,025	13,826	6.17%
Saving deposits and demand deposits interest-bearing	48,911	516	1.05%
Time deposits	101,986	2,538	2.49%
Repurchase agreements	13,815	25	0.18%
Other borrowed funds	15,094	571	3.78%
Total interest-bearing liabilities	179,806	3,650	2.03%
Net interest income/net yield on interest earning assets		10,176	4.54%

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 agreements	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%
Saving deposits and demand deposits interest-bearing	44,785	562	1.25%
Time deposits	101,444	3,445	3.40%
Repurchase agreements	10,734	83	0.77%
Other borrowed funds	10,269	484	4.71%
Total interest-bearing liabilities	167,232	4,574	2.74%
Net interest income/net yield on interest earning assets		10,057	4.90%

(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 2004, 2003 and 2002.

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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.

Average Balances			(Dollars in Thousands) Interest Income Expense			Variance As to	
2004	2003		2004	2003	Variance	Rate	Volume
$ 184,634	163,897	Loans (Net)	11,980	11,277	703	(571)	1,274
32,878	27,766	Taxable Securities AFS(1)	1,223	1,003	220	31	189
23,966	20,695	Tax Exempt Securities AFS (2)	1,500	1,423	77	(102)	179
3,176	3,612	Fed Funds Sold	53	36	17	21	(4)
8,147	8,055	Interest Bearing Deposits	107	87	20	19	1
252,801	224,025	Total Interest Earning Assets	14,863	13,826	1,037	(602)	1,639
62,513	48,911	Savings and Interest Bearing Demand Deposits	578	516	62	(15)	77
109,333	101,986	Other Time Deposits	2,306	2,538	(232)	(439)	207
17,148	13,815	Repurchase Agreements	79	25	54	54	0
13,790	15,094	Other Borrowed Funds	576	571	5	6	(1)
202,784	179,806	Total Int Bearing Liabilities	3,539	3,650	(111)	(395)	284

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.

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(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 2004 and 2003.

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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.

Average Balances			(Dollars in Thousands) Interest Income Expense			Variance As to	
2003	2002		2003	2002	Variance	Rate	Volume
$ 163,897	152,869	Loans (Net)	11,277	11,597	(320)	(1,399)	1,079
27,766	29,024	Taxable Securities AFS(1)	1,003	1,417	(414)	(355)	(59)
20,695	19,110	Tax Exempt Securities AFS (2)	1,423	1,535	(112)	(266)	154
3,612	2,772	Fed Funds Sold	36	47	(11)	(42)	31
8,055	1,486	Interest Bearing Deposits	87	35	52	(7)	59
224,025	205,261	Total Interest Earning Assets	13,826	14,631	(805)	(2,068)	1263
48,911	44,785	Savings and Interest Bearing Demand Deposits	516	562	(46)	(59)	13
101,986	101,444	Other Time Deposits	2,538	3,445	(907)	(925)	18
15,094	10,269	Other Borrowed Funds	571	485	86	14	72
13,815	10,734	Repurchase Agreements	25	83	(58)	(93)	35
179,806	167,232	Total Int Bearing Liabilities	3,650	4,575	(925)	(1,063)	138

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.

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 2003 and 2002.

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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, 2004 was 73.21%. 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, repurchase agreement 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.

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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, 2004, 2003 and 2002

	(Dollars in Thousands)					
	2004		2003		2002	
	Amortized Cost	Percentage of Portfolio	Amortized Cost	Percentage of Portfolio	Amortized Cost	Percentage of Portfolio
U. S. Treasury	$	0.0%	$ 1,006	1.9%	1,518	3.1%
U. S. Gov t Agencies	8,082	14.8%	1,874	3.5%	1,500	3.0%
Mortgage Backed Sec	22,604	41.5%	24,805	46.9%	24,879	50.3%
State and Municipal	23,816	43.7%	23,729	44.9%	21,026	42.6%
Other		0.0%	1,495	2.8%	491	1.0%
Total	$ 54,502	100.0%	$ 52,909	100.0%	49,414	100.0%

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

Maturity Distribution of Investment Securities Available for Sale
December 31, 2004, 2003 and 2002
(Dollars in Thousands)

	2004		2003		2002	
	Amortized Cost	Weighted Avg Yld	Amortized Cost	Weighted Avg Yld	Amortized Cost	Weighted Avg Yld

(1) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2004, 2003 and 2002.

Relative Lending Risk - United Bank serves both rural and suburban markets. The rural market is composed primarily of lower to middle income families. The rural market economy is influenced by timber and agricultural production. The suburban market is faster growing, more commercial and is composed of a higher income mix than the rural market. The Bank s loan portfolio mix is reflective of these markets. 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 economic conditions and concentrations and/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 34.29% of the portfolio maturing in one year or less. In addition, 51.08% 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, repayment ability of the borrower and collateralized lending is based upon an evaluation of the collateral. 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 are 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 Senior Commercial lenders. Risks in this category are primarily 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 30 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, 2004 was approximately $37,841, an increase of $6,917 from 2003.

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LOAN PORTFOLIO MATURITIES

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

Remaining Maturity

December 31, 2004

(Dollars in Thousands)

	One year or less	One - five years	After five years	Total
Commercial, financial and agricultural	$ 59,435	72,374	19,485	$ 151,294
Real estate - construction	5,325	1,093	88	$ 6,506
Real estate - mortgage 1-4 family	4,089	17,469	7,236	$ 28,794
Installment loans to individuals	6,144	6,248	174	$ 12,566
Totals	$ 74,993	97,184	26,983	199,160

Sensitivity To Changes In Interest Rates
Loans Due After One Year
(Dollars in Thousands)

	Predetermined Rate	Floating Rate	Total
Commercial, financial and agricultural	$ 36,467	55,392	91,859
Real estate - construction	613	568	1,181
Real estate - mortgage 1-4 family	16,383	8,322	24,705
Installment loans to individuals	6,056	366	6,422
Totals	$ 59,519	64,648	124,167

For additional information regarding interest rate sensitivity see INTEREST RATE SENSITIVITY in Item 7 below and Item 7A below.

Non-performing Assets: 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 interest rate. If the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impaired loans are covered by 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, 2004, the Bank had $697,017 in impaired loans.

The following table sets forth the Corporation s non-performing assets at December 31, 2004, 2003, 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, except for credit cards, which continue to accrue interest.

	Descriptions	2004	2003	2002	2001	2000
					(Dollars in Thousands)	
A	Loans accounted for on a nonaccrual basis	$ 1,202	$ 2,171	$ 1,169	$ 2,185	$ 386
B	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above)	14	15	10	18	14
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	351	229	968	861	69
D	Other non-performing assets	1,384	1,108	350	556	158
	Total	$ 2,951	$ 3,523	$ 2,497	$ 3,620	$ 627

If nonaccrual loans in (A) above had been current throughout their term, interest income would have been increased by $102,372, $95,877, $29,968, $123,443 and $48,630 for 2004, 2003, 2002, 2001 and 2000 respectively. All of the assets in (D) above at the end of 2004, 2003 and 2002 were other real estate owned (OREO). At the end of 2001, $195,033 of such assets were OREO, and at the end of 2000, $123,033 were OREO.

At December 31, 2004, loans with a total outstanding balance of $6,602,558 were considered potential problem

loans compared to $6,491,658, $4,127,658, and $3,014,745 as of 12/31/03, 12/31/02 and 12/31/01 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, 2004. 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, 2004, the Corporation had $27,459,000 of agriculture-related loans as compared to $26,218,000, $30,983,000, and $19,089,000 and $14,871,440 in 2003, 2002, 2001 and 2000 respectively. Agriculture loans accounted for $4,980, $2,915, $0, $75,106 and $39,543 of nonaccrual loans in 2004, 2003, 2002, 2001 and 2000, respectively.

Summary of Loan Loss Experience
(Dollars in Thousands)

	2004	2003	2002	2001	2000
Average amount of loans outstanding, net	184,634	163,897	152,869	146,868	131,596
Allowance for loan losses beginning January 1	2,117	2,117	1,993	1,939	1,676
Loans Charged off:					
Commercial, financial and agriculture	(155)	(451)	(563)	(176)	(39)
Real estate - mortgage	(45)	(117)	(7)	(49)	(27)
Installment loans to individuals	(158)	(238)	(195)	(255)	(186)
Total Charged off	(358)	(806)	(765)	(480)	(252)
Recoveries during the period Commercial, financial and agriculture	2	27	5	20	6
Real estate - mortgage		7			2
Installment loans to individuals	81	31	47	34	32
Total Recoveries	83	65	52	54	40
Loans Charged off, net	(275)	(741)	(713)	(426)	(212)
Additions to the allowance charged to operations	720	741	837	480	475
	2,562	2,117	2,117	1,993	1,939
Ratio of net charge offs during the period to average loans outstanding	0.15%	0.45%	0.46%	0.29%	0.16%

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

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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: monitor (5%) substandard (15%), doubtful (50%), and loss (100%). The allowance of 5% for monitor was added in 2003. Any loan categorized loss is charged off in the period which the loan is so categorized.

The nonclassified portion of the allowance is for probable inherent losses which 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 affect 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.

Management believes that the allowance for loan losses at December 31, 2004 is adequate and appropriate given past experience and the underlying strength of the loan portfolio.

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The table below reflects an allocation of the allowance for the years ended December 31, 2004, 2003, 2002, 2001 and 2000. The allocation represents an estimate for each category of loans based upon historical experience and management s judgment.

(Dollars In Thousands)

	Allowance					Percentage of Loans to Total Loans				
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000
Commercial, financial and agricultural	1,942	1,592	1,560	1,409	1,198	75.8%	71.1%	68.6%	65.8%	61.8%
Real estate - construction					108	3.3%	4.1%	5.1%	4.9%	5.6%
Real estate - mortgage 1-4 family	374	379	362	363	384	14.6%	17.9%	17.1%	18.2%	19.8%
Installment loans to individuals	246	146	195	221	249	6.3%	6.9%	9.2%	11.1%	12.8%
Lease financing						0.0%	0.0%	0.0%	0.0%	0.0%
Foreign						0.0%	0.0%	0.0%	0.0%	0.0%
Unallocated						0.0%	0.0%	0.0%	0.0%	0.0%
Total	2,562	2,117	2,117	1,993	1,939	100.0%	100.0%	100.0%	100.0%	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 CEO. All charged off loans are reviewed by the Board of Directors of the Bank at the monthly board meeting.

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DEPOSITS
(Dollars in Thousands)

The following table sets forth the average amount of deposits for the years 2004, 2003 and 2002 by category.

	Average Deposits			Average Rate Paid		
	2004	2003	2002	2004	2003	2002
Noninterest-bearing demand deposits	$ 48,950	$ 40,662	33,449	0%	0%	0%
Interest - bearing						
Demand	41,479	31,239	28,147	1.26%	1.32%	1.49%
Savings	21,034	17,672	16,638	0.25%	0.39%	0.87%
Time	109,333	101,986	101,444	2.11%	2.49%	3.40%
	$ 171,846	$ 150,897	146,229	1.68%	2.00%	2.74%

The following shows the amount of time deposits outstanding at December 31, 2004, classified by time remaining until maturity.

Maturity	$100,000 or Greater Certificates of Deposits	Other Time Deposits
Three months or less	$ 11,308	20,915
Three to six months	6,475	17,736
Six to twelve months	11,129	16,661
Twelve months or more	13,465	16,885
Totals	$ 42,377	72,197

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

(Dollars in Thousands)

	Maximum Outstanding at any month end	Average balance	Average interest rate	Ending balance	Average interest rate at year end
2004					
Securities sold under agreements to repurchase	23,838	17,148	0.46%	18,381	2.55%
Other short term borrowings	3,250	263	1.82%	713	1.53%
2003					
Securities sold under agreements to repurchase	23,938	13,815	0.18%	13,495	0.13%
Other short term borrowings	2,174	258	1.16%	563	0.96%
2002					
Securities sold under agreements to repurchase	15,503	10,753	0.77%	8,141	0.32%
Other short term borrowings	3,774	209	1.80%	1,259	3.63%

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, 2004, 2003 and 2002.

	2004	2003	2002
Return on average assets	0.77%	0.86%	0.91%
Return on average equity	8.38%	8.73%	8.96%
Dividend pay-out ratio	30.87%	28.34%	29.37%
Ratio of average equity to average assets	9.20%	9.90%	10.11%

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ITEM 2. PROPERTIES

The Corporation s bank subsidiary occupies eleven 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), Baldwin County (cities of Foley, Lillian, Bay Minette (two offices), Magnolia Springs, Silverhill and Summerdale) Alabama, and Santa Rosa County (city of Jay) Florida, with the principal office located in Atmore, Alabama. 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, and expired in 2004. The Bank is currently negotiating a new shorter term lease with plans to build a new facility approximately 1/2 mile from the current location. The Bank currently expects the new building will have approximately four drive through lanes and an ATM, at an approximate cost of $450,000. 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 2008. 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. The Bank plans on extending the lease for approximately one year, while it builds a new building at an approximate cost of $625,000.00. The Bank is currently renovating the branches in Atmore and Monroeville that were damaged by Hurricane Ivan in September of 2004. The Bank also plans on opening two new branches in Santa Rosa County in 2005. Management does not expect these additions to have a material impact on earnings.

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 2,365,036 shares are issued and 2,217,330 are outstanding and held by approximately 664 shareholders of record, as of March 12, 2005.

(2) 250,000 shares of Class B common stock, $.01 par value per share, none of which were issued, as of March 20, 2005.

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 $0.30 per common share in 2004 (adjusted for the two for one stock split in June 2004), $0.275 per common share in 2003 and $0.275 per common share in 2002. 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 16 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.

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ITEM 6. Selected Financial Data

	2004	2003	2002	2001	2000
			Dollars in Thousands Except Per Share Data		
Income statement data:					
Interest Income	$ 14,353	$ 13,343	$ 14,017	$ 16,221	$ 17,310
Interest Expense	3,539	3,650	4,575	7,451	8,555
Net interest income	10,814	9,693	9,442	8,769	8,755
Provision for loan losses	720	741	837	480	475
Net interest income after provision for loan losses	10,094	8,952	8,605	8,289	8,280
Investment securities gains (losses), net	171	489	77	173	35
Noninterest income	3,045	3,467	2,726	2,304	1,662
Noninterest expense	10,374	9,614	8,693	7,881	7,226
Net earnings	2,153	2,131	2,035	2,070	2,047
Balance sheet data:					
Total assets	311,963	254,979	232,822	219,955	231,487
Total loans, net	194,617	162,031	160,319	147,052	139,595
Total deposits	250,957	199,406	182,565	180,509	191,590
Total Stockholders equity	26,345	24,969	23,453	21,846	20,104
Per share data:					
Basic earnings per share	0.97	0.98	0.93	0.95	0.94
Fully diluted earnings per share	0.97	0.98	0.91	0.94	0.93

Cash dividend per share*	$	0.30	$	0.28	$	0.28	$	0.30	$	0.28

*Adjusted for 2 for 1 stock split effective June 2004

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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 ESTIMATES

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and with general practices within the banking industry, 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. Provisions 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 borrowers ability to pay. The use of different estimates or assumptions could produce different provisions for loan losses. Because current economic conditions can change and future events are inherently difficult to predict, the anticipated amount of estimated loan losses, and therefore the adequacy of the allowance, could change. Management believes the allowance for loan losses is adequate and properly recorded in the financial statements. For further discussion of the allowance for loan losses, see PROVISION FOR LOAN LOSSES below, and Summary of Loan Loss Experience and Allowance for Loan Losses under BUSINESS above.

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NET INTEREST INCOME
(Dollars in Thousands)

	2004	2003	2002
Interest income (1)	$ 14,863	13,826	14,630
Interest expense	3,539	3,650	4,575
Net interest income	11,324	10,176	10,055
Provision for loan losses	720	741	837
Net interest income after provision for loan losses on a tax equivalent basis	10,604	9,435	9,218
Less: tax equivalent adjustment	510	483	613
Net interest income after provision for loan losses	$ 10,094	$ 8,952	8,605

(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 2004, 2003, and 2002.

Total interest income (on an FTE basis) increased to $14,863,000 in 2004, from $13,826,000 in 2003, an increase of $1,037,000, or 7.50%. This increase is a function of the change in average earning assets along with the change in interest rates. The majority of the change was due to the increase in loans. Average loans increased $20,737,000 while the average rate earned decreased 39 basis points causing an overall increase in interest earned on loans of $703,000. The average interest rate (FTE) earned on all earning assets in 2004 decreased to 5.88% from 6.17% in 2003. The interest rate spread decreased from 4.54% in 2003 to 4.48% in 2004, as rates only began to increase on interest earning assets towards the last half of 2004. The rise in prime rate in the last half of 2004 caused the variable rate loans to reprice at higher rates, while certificate of deposit rates were not affected as materially. Average taxable investment securities for 2004 were $32,878,000, as compared to $27,766,000 for 2003, an increase of $5,112,000, or 18.41%. After Hurricane Ivan hit the Gulf Coast, Bank deposits increased approximately $29,000,000. The Bank invested some of these monies in federal funds and some in higher yielding investments. Average tax-exempt investment securities increased $3,271,000, or 15.81%, to $23,966,000 in 2004 from $20,695,000 in 2003. The average volume of federal funds sold decreased to $3,176,000 in 2004 from $3,612,000 in 2003, a decrease of $436,000 or 12.07%.

Total interest income (on an FTE basis) decreased to $13,826,000 in 2003, from $14,630,000 in 2002, a decrease of $804,000 or 5.50%. This decrease was a function of the change in average earning assets along with the decline in interest rates. Average loans increased $11,028,000 while the average rate earned decreased 71 basis points causing an overall decrease in interest earned on loans of $320,000. The average interest rate (FTE) earned on all earning assets in 2003 decreased to 6.17% from 7.13% in 2002. The interest rate spread decreased from 4.90% in 2002 to 4.54% in 2003, as rates decreased more on interest earning assets than on interest bearing liabilities. The decline in the prime rates in 2003 caused the variable rate loans to reprice at lower rates, while certificate of deposit rates were not as materially affected. Average taxable investment securities for 2003 were $27,766,000, as compared to $29,024,000 for 2002, a decrease of $1,258,000, or 4.33%. The lower rate environment allowed home owners to refinance and pay off existing mortgages which in turn caused mortgage-

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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. Because of these prepayments, the Bank sold both mortgage backed securities and tax exempt bonds to take advantage of market gains before principal was prepaid on mortgage backed securities or such bonds were called at par. Average tax-exempt investment securities increased $1,585,000, or 8.29%, to $20,695,000 in 2003 from $19,110,000 in 2002. The average volume of federal funds sold increased to $3,612,000 in 2003 from $2,772,000 in 2002, an increase of $804,000 or 30.30%.

Total interest expense decreased $111,000 or 3.04%, to $3,539,000 in 2004, from $3,650,000 in 2003. 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 2004 was 1.75% as compared to 2.03% in 2003. Average interest-bearing liabilities increased to $202,784,000 in 2004, from $179,806,000 in 2003, an increase of $22,978,000, or 12.78%. Average savings and interest-bearing demand deposits increased $13,602,000 or 27.80% to $62,513,000 in 2004. Average time deposits increased to $109,333,000 in 2004, from $101,986,000 in 2003, an increase of $7,347,000, or 7.20%. The average rate paid on time deposits decreased to 2.11% in 2004 from 2.49% in 2003. The Corporation issued $4,124,000 of subordinated debentures in June of 2002 at an interest rate of three month LIBOR plus 3.65% with the initial rate of 5.93%. The interest expense associated with this issue in 2004 was $215,166 or an average rate of 5.22%.

Total interest expense decreased $924,000 or 20.21%, to $3,650,000 in 2003, from $4,574,000 in 2002. This decrease was 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 2003 was 2.03% as compared to 2.74% in 2002. Average interest-bearing liabilities increased to $179,806,000 in 2003, from $167,232,000 in 2002, an increase of $12,574,000, or 7.52%. Average savings and interest-bearing demand deposits increased $4,126,000 or 9.21% to $48,911,000 in 2003. Average time deposits increased to $101,986,000 in 2003, from $101,444,000 in 2002, an increase of $542,000, or 0.53%. The average rate paid on time deposits decreased to 2.49% in 2003 from 3.40% in 2002. The interest expense associated with the subordinated debentures in 2003 was $199,392 or an average rate of 4.83%.

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, 2004 was $720,000 as compared to $740,704 in 2003, a decrease of $20,704, or 2.80%. 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, 2004 represents 1.30% of gross loans, as compared to 1.29% at December 31, 2003.

While it is the Bank s policy to charge off loans when a loss is considered probable, there exists the risk of

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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.

The 2004 loan loss provision decrease of $20,704 is due to management s assessment of the improving credit quality in the loan portfolio from last year.

NONINTEREST INCOME

	2004	2003	2002
Service Charge Income	$ 758,307	667,547	638,973
Nonsufficient Fund Charges, net	$ 1,500,874	1,460,002	1,302,294
Mortgage Origination Fees	$ 196,740	302,836	106,096
Investment Securities Gains, (net)	$ 170,898	488,647	76,995
Other	$ 418,099	547,587	601,209
	$ 3,044,918	3,466,619	2,725,567

Total noninterest income decreased $421,701 or 12.16%, to $3,044,918 in 2004, as compared to $3,466,619 in 2003.

Service charge income increased to $2,259,181 in 2004, from $2,127,549 in 2003, an increase of $131,632, or 6.19%. Service charges on deposit accounts increased $27,202 or 6.96%, and this increase is due to the overall growth of the Bank as all branches saw increases in service charge income. Most of the increase came from a program that was introduced in May of 2002 that allows depositors to overdraw their checking accounts to a pre-approved limit. When customers overdraw their account, the Bank pays the check and charges the customer a nonsufficient fund charge. Nonsufficient fund charges increased $48,601 from $1,559,949 in 2003 to $1,608,550 in 2004. Commissions on credit life insurance decreased $16,311, or 24.59%, to $50,016 in 2004, from $66,327 in 2003. Other income decreased to $564,823 in 2004, from $784,096 in 2003, a decrease of $219,273 or 27.97%. This decrease is attributable to a decrease of $106,096 mortgage origination fees for third parties, with a portion of the rest of the loss in other income is due to gains on OREO in 2003 and a decrease in earnings on Bank Owed Life Insurance. The return to higher interest rates in 2004 has caused the origination fees to decrease; management expects the fees to remain at the 2004 level for 2005. Gain on the sales of investments decreased $317,749 or 65.03%. The Bank sold investments in 2003 to take advantage of certain market conditions. With mortgage backed securities prepaying as fast as they have in recent history, the Bank sold its positions rather than let them prepay. The Bank also sold municipal bonds in order to take advantage of the market rates and to avoid the call options in these bonds.

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Total noninterest income increased $741,052 or 27.19%, to $3,466,619 in 2003, as compared to $2,725,567 in 2002.

Service charge income increased to $2,127,549 in 2003, from $1,941,267 in 2002, an increase of $186,282, or 9.60%. Service charges on deposit accounts decreased $15,297 or 3.03%, and this decrease is due to the offering of free checking accounts. Most of the increase came from the program that was introduced in May of 2002 that allows depositors to overdraw their checking accounts to a pre-approved limit. In its first full year net nonsufficient fund charges increased $157,708 or 12.11%. Commissions on credit life insurance increased $13,959, or 26.66%, to $66,327 in 2003, from $52,368 in 2002. Other income increased to $784,096 in 2003, from $654,937 in 2002, an increase of $129,159 or 19.72%. This increase is attributable to an increase of $116,247 on mortgage origination fees for third parties. Gain on the sales of investments increased $411,652 or 534.65% as the Bank sold investments in 2003 in order to take advantage of certain market conditions. The Bank sold its positions rather than let them prepay. The Bank also sold municipal bonds in order to take advantage of the market rates and to avoid the call options in these bonds.

NONINTEREST EXPENSE

	2004	2003	2002
Salaries and benefits	$ 5,779,483	5,360,972	4,581,132
Net occupancy	1,988,538	1,828,286	1,605,593
Other	2,605,966	2,424,717	2,506,111
Total	$ 10,373,987	9,613,975	8,692,836

Total noninterest expense increased $760,012, or 7.91%, to $10,373,987 in 2004, from $9,613,975 in 2003. Salaries and other compensation expense increased $418,511 or 7.81% to $5,779,483 in 2004 from $5,360,972 for 2003. This increase is due to increases in insurance costs, payroll taxes, 401K contributions, and salaries including staffing for new offices. Occupancy expenses increased from $1,828,286 in 2003 to $1,988,538 in 2004 an increase of $160,252 or 8.77%. Of this increase software and hardware maintenance increased $38,752 or 15.91% from $243,571 in 2003 to $282,323 in 2004. As the Bank continues to expand and remodel branches depreciation expense increased $102,886 or 11.98% from $755,612 in 2003 to $858,498. Income tax expense for 2004 was $612,602 as compared to $673,353 in 2003. The effective tax rate in 2004 was 22.12% as compared to 24.01% in 2003. Other expense increased to $2,605,966 in 2004, from $2,424,717 in 2003, an increase of $181,249, or 7.48%. This increase was caused in part by a $50,000 write down of other real estate owned in 2004. Board of Director fees also increased $28,819 as the Board met every week immediately following the Hurricane Ivan in September. Marketing and advertising also increased $26,494 as the Bank celebrated its 100th anniversary.

As management anticipated, compliance with the Sarbanes-Oxley Act of 2002 increased expenses in 2004, as audit and accounting fees increased $40,770. The extent of such increases in 2005 has not yet been determined. Management also anticipates an increase in occupancy expense as it currently has plans to open three new branches and remodel two in 2005.

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Total noninterest expense increased $921,139, or 10.59%, to $9,613,975 in 2003, from $8,692,836 in 2002. Salaries and other compensation expense increased $779,840 or 17.02% to $5,360,972 in 2003 from $4,581,132 for 2002. This increase is due to increases in insurance cost of $58,954, and payroll taxes of $ 31,082 and a general increase in salaries including staffing of new offices. Occupancy expenses increased from $1,605,593 in 2002 to $1,828,286 in 2003, an increase of $222,693 or 13.87%. Of this increase, software and hardware maintenance increased $62,103 or 34.2% from $181,468 in 2002 to $243,571 in 2003. As the Bank continued to expand and remodel branches, depreciation expense increased $82,671 or 11.64% from $710,453 in 2002 to $793,124. Maintenance on equipment increased $48,206 or 14.3% from $338,159 in 2002 to $386,365 in 2003. Income tax expense for 2003 was $673,353 as compared to $602,847 in 2002. The effective tax rate in 2003 was 24.01% as compared to 22.85% in 2002. Other expense decreased to $2,424,717 in 2003, from $2,506,111 in 2002, a decrease of $81,394, or 3.25%. The decrease in other expenses is due partly to a decrease in other real estate owned expenses of $83,159, most of which decrease was caused by the $103,034 of OREO writedowns in 2002. The Bank also experienced charge offs of approximately $40,000 due to fraudulent checks in 2002, which did not recur in 2003. Professional fees decreased $59,834 due to very little turnover on the officer level in 2003, as the bank used recruiters to find qualified applicants. The Bank also had some expenses increase such as a blanket bond of $28,287, and legal fees which increased approximately $70,000 as the Bank explored new branching opportunities and the Corporation assessed new SOA compliance requirements. Marketing and advertising also increased $18,675 as the Bank readied for its 100th anniversary.

The Bank is in the process of completing repairs and renovations to the two branches damage by Hurricane Ivan and expects the total cost to be less than $1,000,000. The Bank has already recovered under its insurance policies amounts sufficient to cover the material portion of these costs. Management does not expect the cost to have a material impact on the earnings of the Bank.

Basic earnings per share in 2004 were $0.97, as compared to basic earnings per share of $0.98 in 2003. Diluted earnings per share in 2004 were $0.97 and $0.98 in 2003. Return on average assets for 2004 was 0.77%, as compared to 0.86% in 2003. Return on average equity was 8.38% in 2004, as compared to 8.73% in 2003. As the Bank implements its growth strategy over the next few years these ratios may continue to decline.

Basic earnings per share in 2003 were $0.98, as compared to basic earnings per share of $0.93 in 2002. Diluted earnings per share in 2003 were $0.98 and $0.91 in 2002. Return on average assets for 2003 was 0.86%, as compared to 0.91% in 2002. Return on average equity was 8.74% in 2003, as compared to 10.11% in 2002.

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LOANS AT DECEMBER 31

	2004	2003	2002	2001	2000
Commercial, financial and agriculture	$ 151,295,232	115,721,929	111,429,905	97,881,448	87,479,810
Real estate - construction	6,505,508	6,791,566	8,295,383	7,377,897	7,404,300
Real estate - mortgage	28,794,030	30,324,415	27,784,873	27,233,771	28,580,500
Installment loans to individuals	12,565,675	11,309,245	14,926,017	16,552,493	18,072,546
Lease Financing					
Foreign government and official institutions					
Banks and other financial institutions					
Commercial and industrial					
Other loans					
Totals	$ 199,160,445	164,147,155	162,436,178	149,045,609	141,537,156

Total loans increased to $199,160,445 at December 31, 2004, from $164,147,155 at year-end 2003, an increase of $35,013,290, or 21.33%. Commercial, financial and agricultural loans increased to $149,313,993 at year end 2004, from $115,721,929 at December 31, 2003. Most of the increase can be attributed to commercial loans. The Bank has experienced this growth in its Baldwin County markets as its newer branches begin to mature. Real estate construction loans decreased by $286,058 or 4.21% in 2004 to $6,505,508 from $6,791,556 in 2003. The majority of these loans are for 1-4 family homes. Real estate mortgage loans decreased in 2004 by $1,530,385 or 5.05% to $28,794,030 from $30,324,415 in 2003. Installment loans to individuals increased to $12,565,675 at December 31, 2004, when compared to $11,309,246 at year end 2003. The ratio of loans to deposits and repurchase agreements on December 31, 2004 was 73.21%, as compared to 77.10% in 2003. The decrease in loan to deposits and repurchase agreements ratio is due to the increase in deposits in 2004.

Total loans increased to $164,147,155 at December 31, 2003, from $162,436,178 at year-end 2002, an increase of $1,710,977, or 1.05%. Commercial, financial and agricultural loans increased to $115,721,929 at year end 2003, from $111,429,905 at December 31, 2002. Most of the increase was attributed to agricultural loans. Real estate construction loans decreased by $1,503,817 or 18.13% in 2003 to $6,791,566 from $8,295,383 in 2002. The majority of these loans were for 1-4 family homes. Real estate mortgage loans increased in 2003 by $2,539,542 or 9.14% to $30,324,415 from $27,784,873 in 2002. Installment loans to individuals decreased to $11,309,246 at December 31, 2003, when compared to $14,926,017 at year end 2002. The ratio of loans to deposits and repurchase agreements on December 31, 2003 was 77.10%, as compared to 85.17% in 2002.

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 was 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 were 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 was 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 were for 1-4 family and owner-occupied commercial building. Real Estate mortgage loans decreased in 2001 by $1,346,729 or 4.67% 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.

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. Additionally, the Company requires cash for various operating needs including dividends to shareholders, the servicing of debt and general corporate expenses. The primary source of liquidity for the Company is dividends from the Bank. Should the Bank s traditional sources of liquidity be constrained, forcing the Bank to pursue avenues of funding not typically used, the Bank s net interest margin could be impacted negatively.

Asset and liability management functions not only serve to assure adequate liquidity in order to meet the needs of the Bank s customers, but also to maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities so that the Company can earn a return that meets the investment requirements of its

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shareholders. Daily monitoring of the sources and uses of funds is necessary to maintain an acceptable cash position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments, maturities of investment securities available for sale and, to a lesser extent, sales of investment securities available for sale. Other short-term investments such as federal funds sold, and securities purchased under agreements to resell, are additional sources of liquidity funding.

The liability portion of the balance sheet provides liquidity through various customers interest bearing and noninterest bearing deposit accounts. Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings are additional sources of liquidity. The Bank utilizes this short-term financing and maintains a borrowing relationship with the Federal Home Loan Bank to provide liquidity. These sources of liquidity are short-term in nature and are used as necessary to fund asset growth and meet short-term liquidity needs.

As of December 31, 2004, management believes liquidity was adequate. At December 31, 2004 the gross loan to deposit ratio was 78.57%.

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 see ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As revealed in the Consolidated Statement of Cash Flows, the Corporation generates the majority of its cash flows from financing activities. Financing activities provided $53,486,402 in cash in 2004, with the majority of this coming from an increase in deposits and an increase in repurchase agreements. The investing activities of the Corporation used $35,643,404 of the cash flows, to fund the investment and the loan portfolios of the Bank. Operations provided $1,650,377 in cash flows with the majority of these funds coming from net income for the year ended December 31, 2004.

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The following table presents information about the Company s contractual obligations and commitments at December 31, 2004.

Contractual Obligations
(Dollars in Thousands)

	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
Time Deposits	$ 84,224	16,477	13,873	0
FHLB Advances	0	5,026	0	3,268
Long-term debt	0	4,124	0	0
Operating Leases	143	254	212	300
Letters of Credit	2,304			
Commitments to extend credit	18,627	1,003	675	576
Credit Card Lines	2,924			

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements as such term is defined in Item 303(a)(4) of Regulation S-K.

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INTEREST RATE SENSITIVITY
Interest Rate Sensitivity Analysis
Year Ended December 31, 2004
(Dollars in Thousands)

		Three months or less	Three to Six months	Six months to one year	One year to five years	Five years or after	Total
Earning Assets:							
Loans, net of Unearned income	$	35,483	12,646	24,939	97,129	26,982	197,179
Taxable securities AFS					8,213	22,573	30,786
Tax exempt securities AFS		165			3,506	20,045	23,716
Federal funds sold & securities purchased under agreements to resale		27,742					27,742
Other earning assets						1,276	1,276
Total Interest Earning Assets	$	63,390	12,646	24,939	108,848	70,876	280,699
Interest Bearing Liabilities:							
Demand Deposits						43,120	43,120
Savings Deposits						26,481	26,481
Certificates of Deposit less than $100,000	$	20,915	17,736	16,661	16,884		72,196
Certificates of Deposit greater than $100,000		11,308	6,475	11,129	13,465		42,377
Federal funds sold & securities purchased under agreements to resale		18,381					18,381
Other short term borrowings		713					713
Note payable to Trust, net of debt issuance cost subordinate debt securities, net of issuance cost					3,993		3,993
Federal Home Loan Bank borrowings					5,026	3,268	8,294
Total interest bearing source liabilities		51,317	24,211	27,790	39,368	72,869	215,555
Non interest bearing source of funds						68,764	68,764
Interest sensitivity gap		12,073	(11,565)	(2,851)	69,480	(70,757)	(3,620)
Cumulative gap	$	12,073	508	(2,343)	67,137	(3,620)	

The interest sensitive assets at December 31, 2004 that mature within twelve months were $102,956,000 while the interest sensitive liabilities that mature within the same time frame were $103,318,000. At December 31, 2004, the 12-month cumulative GAP position, was negative $1,768,000 resulting in a GAP ratio of interest sensitive assets to interest sensitive liabilities of .99%. This negative GAP indicates that the Company has more interest-bearing liabilities than interest-earning assets that mature within the GAP period of one year. This analysis does not consider the sensitivity based on the repricing structure of the interest sensitive assets and liabilities.

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 2004 was 9.20% as compared to 9.90% in 2003. Total stockholders equity on December 31, 2004 was $26,345,094, an increase of $1,376,157, or 5.51%, from $24,968,937 at year end 2003. This increase is the result of the Corporation s net earnings during 2004, less dividends declared to stockholders of $664,814, less other comprehensive loss of $153,129. Stockholders equity was also affected by the sale of stock under the Employee Stock Purchase Plan of $40,872. The Corporation s risk based capital of $31,827,000, or 14.12%, of risk weighted assets at December 31, 2004, was well above the Corporation s minimum risk based capital requirement of $18,027,000 or 8.0% of risk weighted assets. 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.

In December 2003, the Financial Accounting Standards Board issued a revised interpretation of FIN 46, which required deconsolidation of subordinated beneficial interests. As a result of FASB s Interpretation, questions were raised whether Trust Preferred Securities would still qualify for treatment as Tier 1 Capital. In March of 2005, the Federal Reserve issued a final rule providing for the inclusion of Trust Preferred securities in Tier 1 risk weighted capital, up to a limit of 25% of total Tier 1 capital. These securities comprised of 14.09% of the Corporation s Tier 1 Capital as of December 31, 2004.

FORWARD LOOKING STATEMENTS

When used or incorporated by reference herein, the words anticipate , estimate , expect , project , target , goal , a 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 Financial Solutions, 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, 2004. All market risk sensitive instruments presented in this table are held to maturity or available for sale. The Bank has no trading securities.

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(In thousands)

Increase (Decrease) in Interest Rates (Basis Points)	Market Value Equity	Change in Market Value Equity	Change in Market Value Equity Percent
300	$ 62,661	12,559	25%
200	59,449	9,347	19%
100	55,215	5,113	10%
0	50,102		0%
(100)	44,151	(5,951)	-12%
(200)	37,105	(12,997)	-26%
(300)	29,308	(20,794)	-42%

The preceding table indicates that at December 31, 2004, 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, 2004 and 2003 and for each of the years in the three-year period ended December 31, 2004 are included in the following pages shown in the index below.

Index to Financial Statements	Page(s)
Report of Independent Registered Public Accounting Firm	F1
Consolidated Balance Sheets as of December 31, 2004 and 2003	F3
Consolidated Statements of Operations for the years ended December 31, 2004, 2003, and 2002	F5
Consolidated Statements of Stockholders Equity and Other Comprehensive Income for the years ended December 31, 2004, 2003, and 2002	F6
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003, and 2002	F7
Notes to Consolidated Financial Statements - December 31, 2004, 2003, and 2002	F9

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2004, 2003, and 2002

(With Report of Independent Registered Public

Accounting Firm Thereon)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of **United Bancorporation of Alabama, Inc. and Subsidiary** as of December 31, 2004 and the related consolidated statements of operations, stockholders equity and comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of United Bancorporation of Alabama, Inc. and Subsidiary as of December 31, 2003 and for each of the two years in the period ended December 31, 2003 were audited by other auditors, whose report dated March 5, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides 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, 2004 and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Maudlin & Jenkins, LLC

Birmingham, Alabama
March 4, 2005

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of United Bancorporation of Alabama, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the years in the two year period ended December 31, 2003. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Birmingham, Alabama
March 5, 2004

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**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY**

Consolidated Balance Sheets

December 31, 2004 and 2003

	2004	2003
Assets		
Cash and due from banks	$ 16,446,574	9,901,225
Federal funds sold and securities purchased under agreements to resell	27,494,426	14,546,400
Cash and cash equivalents	43,941,000	24,447,625
Investment securities available for sale, at fair value (cost of $54,502,411 and $52,908,801 at December 31, 2004 and 2003, respectively)	55,004,982	53,666,589
Loans	199,160,445	164,147,155
Less:		
Allowance for loan losses	2,562,239	2,116,060
Net loans	196,598,206	162,031,095
Premises and equipment, net	7,192,202	7,581,389
Interest receivable	2,711,694	2,078,890
Other assets	6,383,140	5,173,562
Total assets	$ 311,831,224	254,979,150

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2004 and 2003

	2004	2003
Liabilities and Stockholders Equity		
Deposits:		
Noninterest bearing	$ 68,763,895	42,687,610
Interest bearing	184,174,772	156,717,972
Total deposits	252,938,667	199,405,582
Securities sold under agreements to repurchase	18,381,063	13,495,670
Advances from Federal Home Loan Bank	8,292,612	10,909,975
Treasury, tax, and loan account	712,768	563,730
Accrued expenses and other liabilities	1,168,375	1,652,715
Note payable to Trust, net of debt issuance costs of $131,355 and $141,459 in 2004 and 2003, respectively	3,992,645	3,982,541
Total liabilities	285,486,130	230,010,213
Stockholders equity:		
Class A common stock, $0.01 par value Authorized 5,000,000 shares; issued and outstanding, 2,363,762 and 1,181,881 shares in 2004 and 2003, respectively	23,638	11,819
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	5,444,563	5,418,175
Retained earnings	21,414,370	19,925,926
Accumulated other comprehensive income, net of deferred taxes of $201,028 and $303,114 in 2004 and 2003, respectively	301,542	454,671
	27,184,113	25,810,591
Less: 147,706 and 149,518 treasury shares at cost in 2004 and 2003, respectively	839,019	841,654
Total stockholders equity	26,345,094	24,968,937
Total liabilities and stockholders equity	$ 311,831,224	254,979,150

See accompanying notes to consolidated financial statements.

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2004, 2003, and 2002

	2004	2003	2002
Interest income:			
Interest and fees on loans	$ 11,979,772	11,277,285	11,596,575
Interest on investment securities:			
Taxable	1,223,185	1,002,576	1,417,090
Nontaxable	990,195	939,453	921,270
Total interest on investment securities	2,213,380	1,942,029	2,338,360
Other interest income	159,834	123,250	81,789
Total interest income	14,352,986	13,342,564	14,016,724
Interest expense:			
Interest on deposits	2,882,638	3,053,714	4,007,598
Interest on other borrowed funds	655,420	596,421	567,118
Total interest expense	3,538,058	3,650,135	4,574,716
Net interest income	10,814,928	9,692,429	9,442,008
Provision for loan losses	720,000	740,704	837,000
Net interest income after provision for loan losses	10,094,928	8,951,725	8,605,008
Noninterest income:			
Service charges on deposits	2,259,181	2,127,549	1,941,267
Commissions on credit life insurance	50,016	66,327	52,368
Investment securities gains, net	170,898	488,647	76,995
Mortgage fee income	196,740	306,781	190,534
Other	368,083	477,315	464,403
Total noninterest income	3,044,918	3,466,619	2,725,567
Noninterest expense:			
Salaries and benefits	5,779,483	5,360,972	4,581,132
Net occupancy expense	1,988,538	1,828,286	1,605,593
Other	2,605,966	2,424,717	2,506,111
Total noninterest expense	10,373,987	9,613,975	8,692,836

Earnings before income taxes	2,765,859	2,804,369	2,637,739
Income tax expense	612,602	673,353	602,847
Net earnings	$ 2,153,257	2,131,016	2,034,892
Basic earnings per share	$ 0.97	0.98	0.93
Basic weighted average shares outstanding	2,216,032	2,173,970	2,185,172
Diluted earnings per share	$ 0.97	0.98	0.91
Diluted weighted average shares outstanding	2,218,381	2,174,478	2,246,460

See accompanying notes to consolidated financial statements.

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**UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY**

Consolidated Statements of Stockholders Equity and Comprehensive Income

Years ended December 31, 2004, 2003, and 2002

	Shares	Common stock	Additional paid in Capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders equity	Comprehensive income
Balance December 31, 2001	1,159,481	$ 11,595	$ 5,056,304	$ 16,961,631	$ 268,863	$ (451,900)	$ 21,846,493	
Net earnings				2,034,892			2,034,892	2,034,892
Unrealized change in fair value investment securities available for sale, net					528,392		528,392	528,392
Comprehensive income								2,563,284
Cash dividends declared ($0.28 per share)				(597,700)			(597,700)	
Exercise of stock options	2,000	20	31,980				32,000	
Purchase of treasury stock						(397,736)	(397,736)	
Sale of 252 shares of treasury stock			4,443			2,520	6,963	
Balance December 31, 2002	1,161,481	11,615	5,092,727	18,398,823	797,255	(847,116)	23,453,304	
Net earnings				2,131,016			2,131,016	2,131,016
Unrealized change in fair value investment					(342,584)		(342,584)	(342,584)

securities available for sale, net								
Comprehensive income								1,788,432
Cash dividends declared ($.28 per share)				(603,913)			(603,913)	
Exercise of stock options	20,400	204	326,196				326,400	
Purchase of treasury stock								
Sale of 176 shares of treasury stock			(748)			5,462	4,714	
Balance December 31, 2003	1,181,881	11,819	5,418,175	19,925,926	454,671	(841,654)	24,968,937	
Net earnings				2,153,257			2,153,257	2,153,257
Unrealized change in fair value investment securities available for sale, net					(153,129)		(153,129)	(153,129)
Comprehensive income								2,000,128
Stock Split Two for One	1,181,881	11,819	(11,819)					
Cash dividends declared ($.30 per share)				(664,813)			(664,813)	
Purchase of treasury stock						(30,366)	(30,366)	
Sale of 2,339 shares of treasury stock			38,207			33,001	71,208	
Balance December 31, 2004	2,363,762	$ 23,638	$ 5,444,563	$ 21,414,370	$ 301,542	$ (839,019)	$ 26,345,094	

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