UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
August 15, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

Commission file number 000-25917

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

Delaware (State or other jurisdiction of incorporation or organization)	63-0833573 (I.R.S. Employer Identification Number)
200 East Nashville Avenue, Atmore, Alabama (Address of principal executive offices)	36502 (Zip Code)

(251) 446-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as define in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of August 12, 2011.

Class A Common Stock.... 2,348,185 Shares
Class B Common Stock.... -0- Shares

UNITED BANCORPORATION OF ALABAMA, INC.

FORM 10-Q

For the Quarter Ended June 30, 2011

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PART I--FINANCIAL INFORMATION
United Bancorporation Of Alabama, Inc.
and Subsidiary
Consolidated Balance Sheets

Item 1.Financial Statements

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 10,455,302	$ 18,179,566
Interest bearing deposits in banks	42,441,489	62,786,543
Cash and cash equivalents	52,896,791	80,966,109
Securities available for sale (amortized cost of $66,014,500 and $69,518,789 respectively)	66,211,005	68,808,624
Securities held to maturity (fair values of $21,748,689 and $17,302,864 respectively)	21,390,928	17,262,606
Loans held for sale	857,000	-
Loans held for investment	263,755,383	261,770,815
Less: Allowance for loan losses	5,405,326	5,139,998
Net loans held for investment	258,350,057	256,630,817
Premises and equipment, net	16,117,302	16,472,056
Interest receivable	2,065,190	2,192,768
Other assets	12,887,418	14,723,722
Other real estate owned	10,852,521	10,163,992
Total assets	441,628,212	467,220,694
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	122,669,478	142,681,749
Interest bearing	268,073,556	274,350,971
Total deposits	390,743,034	417,032,720
Advances from Federal Home Loan Bank of Atlanta	1,197,900	1,280,300
Treasury, tax, and loan account	887,507	944,078
Interest payable	342,947	402,953
Accrued expenses and other liabilities	1,585,576	1,731,437
Note payable to Trust	10,310,000	10,310,000
Total liabilities	405,066,964	431,701,488
Stockholders' equity		
	10,114,279	10,080,227

Preferred stock of $.01 par value. Authorized 250,000 shares;10,300 shares, net of discount		
Class A common stock, $0.01 par value.		
Authorized 5,000,000 shares; issued and outstanding, 2,389,127 shares	23,891	23,891
Class B common stock, $0.01 par value.		
Authorized 250,000 shares; no shares issued or outstanding	-	-
Additional paid in capital	6,963,919	6,815,176
Accumulated other comprehensive income (loss) net of tax	117,898	(426,105)
Retained earnings	19,854,120	19,721,667
	37,074,107	36,214,856
Less: 63,965 and 86,757 treasury shares, at cost, respectively	512,859	695,650
Total stockholders' equity	36,561,248	35,519,206
Total liabilities and stockholders' equity	$441,628,212	$467,220,694

See Notes to Consolidated Financial Statements

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United Bancorporation Of Alabama, Inc.
And Subsidiary
Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Interest income:				
Interest and fees on loans	$4,004,038	$4,233,077	$7,901,026	$8,371,846
Interest on investment securities available for sale:				
Taxable	430,250	396,013	868,379	824,678
Nontaxable	82,102	237,282	166,748	495,650
Total investment income	512,352	633,295	1,035,127	1,320,328
Other interest income	29,871	39,271	75,563	72,005
Total interest income	4,546,261	4,905,643	9,011,716	9,764,179
Interest expense:				
Interest on deposits	794,015	1,140,477	1,660,422	2,445,931
Interest on other borrowed funds	70,281	72,776	139,335	141,149
Total interest expense	864,296	1,213,253	1,799,757	2,587,080
Net interest income	3,681,965	3,692,390	7,211,959	7,177,099
Provision for loan losses	300,000	600,000	600,000	1,038,000
Net interest income after provision for loan losses	3,381,965	3,092,390	6,611,959	6,139,099
Noninterest income:				
Service charge on deposits	793,622	834,472	1,590,304	1,660,489
Investment securities gains, net	25,104	59,889	25,104	219,354
Mortgage loan and related fees	57,466	82,736	121,036	137,701
Other	271,860	233,216	442,948	422,806
Total noninterest income	1,148,052	1,210,313	2,179,392	2,440,350
Noninterest expense:				
Salaries and benefits	2,213,492	2,153,319	4,421,362	4,321,981
Net occupancy expense	484,811	557,790	968,502	1,096,266
Other	1,327,274	1,505,006	2,605,638	2,737,353
Total noninterest expense	4,025,577	4,216,115	7,995,502	8,155,600
Earnings before income tax expense (benefits)	504,440	86,588	795,849	423,849
Income tax expense (benefits)	139,976	(58,767)	204,023	(77,309)
Net earnings	364,464	145,355	591,826	501,158
Preferred stock dividends	51,500	128,750	103,000	257,500
Accretion on preferred stock discount	15,249	16,192	32,153	32,153
Net earnings available to common shareholders	$297,715	$413	$456,673	$211,505

Basic earnings per share	$0.13	$0.00	$0.20	$0.09
Diluted earnings per share	$0.13	$0.00	$0.20	$0.09
Basic weighted average shares outstanding	2,325,162	2,279,669	2,319,621	2,277,940
Diluted weighted average shares outstanding	2,325,162	2,280,456	2,319,621	2,278,727
Cash dividend per share	$-	$-	$-	$-
Statement of Comprehensive Income				
Net earnings	$364,464	$145,355	$591,826	$501,158
Other comprehensive income, net of tax:				
Unrealized holding gains arising during the period	676,370	488,290	559,065	516,427
Reclassification adjustment for gains included in net earnings	(15,062)	(35,933)	(15,062)	(131,612)
Comprehensive Income	$1,025,772	$597,712	$1,135,829	$885,973

See Notes to Consolidated Financial Statements

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United Bancorporation Of Alabama, Inc
And Subsidiary
Consollidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30 2011	2010
Cash flows from operating activities		
Net earnings	$ 591,826	$ 501,158
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	600,000	1,038,000
Depreciation of premises and equipment	471,032	583,058
Net amortization of premuim / discount on investment securities available for sale	207,859	118,576
Net amortization of premium / discount on investment securities held to maturity	83,089	26,128
Gain on sales of investment securities available for sale, net	(25,104)	(219,354)
Loss (gain) on sale of other real estate	9,281	(27,066)
Originations of loans held for sale	(1,493,350)	-
Proceeds from sales of loans held for sale	636,350	-
Stock-based compensation	12,446	13,748
Decrease in interest receivable	127,578	364,122
Decrease in other assets	1,474,857	533,366
Decrease in interest payable	(60,006)	(140,721)
Increase (decrease) in accrued expenses and other liabilities	(145,861)	54,887
Net cash provided by operating activities	2,489,997	2,845,902
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	4,912,042	13,933,798
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	2,387,586	5,235,000
Proceeds from sales of investment securities available for sale	5,554,800	6,405,693
Purchases of investment securities available for sale	(7,145,308)	(28,837,863)
Purchases of investment securities held to maturity	(6,598,997)	-
Net increase in loans	(3,832,411)	(580,138)
Purchases of premises and equipment, net	(116,278)	(40,170)
Proceeds from sale of other real estate	814,142	236,846
Net cash used in investing activities	(4,024,424)	(3,646,834)
Cash flows from financing activities		
Net increase (decrease) in deposits	(26,289,686)	34,548,696
Cash dividends - preferred stock	(103,000)	(257,500)
Cash dividends - common stock	(3,234)	(3,220)
Repayments of advances from FHLB Atlanta	(82,400)	(82,400)
Increase (decrease) in other borrowed funds	(56,571)	242,296

Net cash provided by (used in) financing activities		(26,534,891)		34,447,872
Net increase (decrease) in cash and cash equivalents		(28,069,318)		33,646,940
Cash and cash equivalents, beginning of period		80,966,109		54,668,111
Cash and cash equivalents, end of period	$	52,896,791	$	88,315,051
Supplemental disclosures				
Cash paid during the period for:				
Interest	$	1,859,763	$	2,727,801
Income taxes		52,509		51,704
Noncash transactions				
Transfer of loans to other real estatethrough foreclosure	$	1,513,171	$	1,304,139

See Notes to Consolidated Financial Statements

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements

NOTE 1 – General

This report includes interim consolidated financial statements of United Bancorporation of Alabama, Inc. (the “Corporation”) and its wholly-owned subsidiary, United Bank (the “Bank”). The interim consolidated financial statements in this report have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods. For further information, refer to the consolidated financial statements and footnotes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010.

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NOTE 2 – Net Earnings per Share

Basic net earnings per share were computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the three and six month periods ended June 30, 2011 and 2010. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings per share for the three and six month periods ended June 30, 2011 and 2010 were computed by dividing net earnings by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options and restricted stock grants awarded under the Corporation's equity incentive plans, based on the treasury stock method using an average fair market value of the stock during the respective periods. There was no dilutive effect for the three and six months ended June 30, 2011 because the exercise price of the stock options was greater than the fair value of the stock as of June 30, 2011. Presented below is a summary of the components used to calculate diluted earnings per share for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Diluted earnings per share	$0.13	$-	$0.20	$0.09
Weighted average common shares outstanding	2,325,162	2,279,669	2,319,621	2,277,940
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	-	787	-	787
Total weighted average common shares and potential common stock outstanding	2,325,162	2,280,456	2,319,621	2,278,727

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NOTE 3 – Investment Securities

The amortized cost and fair value of investment securities available for sale at June 30, 2011 and December 31, 2010 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2011				
U.S. Treasury securities	$20,159,111	$179,918	$(42,935)	$20,296,094
U.S. government sponsored agencies	31,867,490	345,553	(191,962)	32,021,081
State and political subdivisions	9,012,111	130,971	(173,386)	8,969,696
Mortgage-backed securities	4,965,635	-	(48,941)	4,916,694
Equity securities	10,153	-	(2,713)	7,440
	$66,014,500	$656,442	$(459,937)	$66,211,005
December 31, 2010				
U.S. Treasury securities	$19,207,231	$157,497	$(135,666)	19,229,062
U.S. governmentsponsored agencies	35,391,603	273,654	(497,372)	35,167,885
State and political subdivisions	9,744,841	69,416	(447,406)	9,366,851
Mortgage-backed securities	5,164,961	-	(126,710)	5,038,251
Equity securities	10,153	-	(3,578)	6,575
	$69,518,789	$500,567	$(1,210,732)	$68,808,624

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The amortized cost and fair value of investment securities held to maturity at June 30, 2011 and December 31, 2010 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2011				
U.S. government sponsored agencies	$14,855,639	$331,276	$(66,567)	$15,120,348
Mortgage-backed securities	6,535,289	93,052	-	6,628,341
	$21,390,928	$424,328	$(66,567)	$21,748,689
December 31, 2010				
U.S. government sponsored agencies	$17,262,606	$290,222	$(249,964)	$17,302,864
	$17,262,606	$290,222	$(249,964)	$17,302,864

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Those investment securities classified as available for sale which have an unrealized loss position at June 30, 2011 and December 31, 2010 are detailed below:

June 30, 2011

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury securities	$3,032,344	$(42,935)	$-	$-	$3,032,344	$(42,935)
U.S. government sponsored agencies	13,241,628	(191,962)	-	-	13,241,628	(191,962)
State and political subdivisions	2,325,159	(53,880)	1,079,276	(119,506)	3,404,435	(173,386)
Mortgage-backed securities	4,916,694	(48,941)	-	-	4,916,694	(48,941)
Equity securities	-	-	7,440	(2,713)	7,440	(2,713)
Total temporarily impaired securities	$23,515,825	$(337,718)	$1,086,716	$(122,219)	$24,602,541	$(459,937)

December 31, 2010

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury securities	$3,954,531	$(135,666)	$-	$-	$3,954,531	$(135,666)
U.S. government sponsored agencies	17,681,269	(497,372)	-	-	17,681,269	(497,372)
State and political subdivdisions	4,537,904	(289,375)	636,830	(158,031)	5,174,734	(447,406)
Mortgage-backed securities	5,038,251	(126,710)	-	-	5,038,251	(126,710)
Equity securities	-	-	6,575	(3,578)	6,575	(3,578)
Total temporarily impaired securities	$31,211,955	$(1,049,123)	$643,405	$(161,609)	$31,855,360	$(1,210,732)

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Those investment securities classified as held to maturity which have an unrealized loss position at June 30, 2011 and December 31, 2010 are detailed below.

June 30, 2011

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies	$6,752,953	$(66,567)	$-	$-	$6,752,953	$(66,567)
Total temporarily impaired securities	$6,752,953	$(66,567)	$-	$-	$6,752,953	$(66,567)

December 31, 2010

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies	$7,640,567	$(249,964)	$-	$-	$7,640,567	$(249,964)
Total temporarily impaired securities	$7,640,567	$(249,964)	$-	$-	$7,640,567	$(249,964)

U.S. Treasury securities. The unrealized loss on one investment in U.S. Treasury obligations was caused by interest rate increases. The contractual terms of the investment do not permit the issuer to settle the security at a price less than the amortized cost base of the investment. Because the Corporation does not currently intend to sell the investment and it is not more likely than not that the Corporation will be required to sell the investment before recovery of the amortized cost base, which may be at maturity, the Corporation does not consider this investments to be other-than-temporarily impaired at June 30, 2011.

U.S. Government sponsored agencies. The unrealized losses on twelve investments in direct obligations of U.S. government sponsored agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at June 30, 2011.

States and political subdivisions. The unrealized losses associated with thirteen securities issued by state and political subdivisions are primarily driven by wider credit spreads and changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at June 30, 2011.

Mortgage-backed securities. The unrealized losses on the Corporation's investment in two mortgage-backed securities were caused by interest rate increases. As the mortgaged-backed securities are obligations of GNMA and a direct obligation of the U.S. Government, the decline in market value is attributable to changes in interest rates and not credit quality. Because the Corporation does not currently intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at June 30, 2011.

Equity securities. The Corporation's investment in equity securities consists of a single investment in the common stock of a government-sponsored enterprise. Because of the Corporation's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Corporation does not consider this investment to be other-than-temporarily impaired at June 30, 2011.

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The following table presents the amortized costs, fair value and weighted-average yield of securities available for sale by contractual maturity at June 30, 2011. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal Income Tax rate.

	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized Cost					
U.S. Treasury securities	$8,013,619	$8,062,098	$4,083,394	$-	$20,159,111
U.S. governement sponsored agencies	-	18,572,835	13,294,655	-	31,867,490
State and political subdivisions	149,935	563,866	2,988,833	5,309,477	9,012,111
Mortgage-backed securities	-	-	-	4,965,635	4,965,635
Equity securities	10,153	-	-	-	10,153
Total	$8,173,707	$27,198,799	$20,366,882	$10,275,112	$66,014,500
Fair Value					
U.S. Treasury securities	$8,049,688	$8,194,844	$4,051,562	$-	$20,296,094
U.S. governement sponsored agencies	-	18,705,727	13,315,354	-	32,021,081
State and political subdivisions	150,963	590,135	3,009,989	5,218,609	8,969,696
Mortgage-backed securities	-	-	-	4,916,694	4,916,694
Equity securities	7,440	-	-	-	7,440
Total	$8,208,091	$27,490,706	$20,376,905	$10,135,303	$66,211,005
Total Average Yield	1.04 %	1.64 %	2.84 %	3.88 %	2.28 %

The following table presents the amortized costs, fair value and weighted-average yield of securities held to maturity by contractual maturity at June 30, 2011. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal income tax rate.

	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized Cost					
U.S. government sponsored agencies	$999,913	$7,036,207	$6,819,519	$-	$14,855,639
Mortgage-backed securities	-	-	-	6,535,289	6,535,289
Total	$999,913	$7,036,207	$6,819,519	$6,535,289	$21,390,928
Fair Value					
U.S. government sponsored agencies	$1,009,525	$7,357,871	$6,752,952	$-	$15,120,348
Mortgage-backed securities	-	-	-	6,628,341	6,628,341
Total	$1,009,525	$7,357,871	$6,752,952	$6,628,341	$21,748,689
Total Average Yield	2.02 %	2.76 %	2.11 %	3.16 %	2.64 %

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The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the three months and six months ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Gross gains realized	$ 25,697	$ 69,583	$ 25,697	$ 306,058
Gross losses realized	(593)	(9,694)	(593)	(86,704)
Net gain (loss) realized	$ 25,104	$ 59,889	$ 25,104	$ 219,354

There were no sales of securities held to maturity for the three or six months ended June 30, 2011 or 2010.

Investment securities available for sale with fair values of $30,551,574 and $28,143,732 at June 30, 2011 and December 31, 2010, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

Investment securities held to maturity with amortized costs of $13,856,669 and $15,424,330 at March 31, 2011 and December 31, 2010, respectively, were pledged to secure federal funds lines and public and trust deposits as required by law and for other purposes.

Restricted equity securities (included in Other assets in the Consolidated Balance Sheets) consist of the following as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Federal Home Loan Bank stock	$ 946,700	$ 1,046,700
First National Bankers' Bank stock	825,000	825,000
	$ 1,771,700	$ 1,871,700

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NOTE 4 – Loans and Allowance for Loan Losses

At June 30, 2011 and December 31, 2010, the composition of the loan portfolio was as follows:

	June 30, 2011	December 31, 2010
Real estate:		
Construction and land loans	$ 36,081,554	$ 36,825,855
Farmland	30,286,286	30,269,876
1-4 family residential mortgage	56,879,895	58,342,993
Multifamily	3,478,769	3,082,066
Commercial	72,848,376	73,800,481
Agriculture	24,012,923	12,633,816
Commercial	22,146,804	29,413,147
Consumer	14,027,496	13,597,817
States and political subdivisions	3,899,262	3,735,144
Other loans	94,018	69,620
Gross loans held for investment	263,755,383	261,770,815
Allowance for loan losses	(5,405,326)	(5,139,998)
Net loans held for investment	258,350,057	256,630,817
Loans held for sale	857,000	-
Total loans	$ 259,207,057	$ 256,630,817

Historically, the Bank has acted in an agent or broker capacity when originating mortgage loans for customers. During the second quarter, the Bank began to originate mortgage loans in a principal capacity and hold them for resale. These loans, totaling $857,000 as of June 30, 2011, are held pending sale at their fair value and identified in the table above. The Bank may be exposed to additional, yet contained, risks associated with the addition of loans held for sale to both the its loan portfolio and operations. These risks are further discussed in Risk Factors.

The following table summarizes the activity in the allowance for loan losses for the six month periods ended (in thousands):

	June 30, 2011	2010
Balance at beginning of year	5,140	7,436
Provision charged to expense	600	1,038
Loans charged off	(448)	(807)
Recoveries	113	74
Balance at end of period	5,405	7,741

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At June 30, 2011 and 2010, the amounts of nonaccrual loans were $15,146,000 and $20,891,000, respectively.

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

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

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

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

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

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

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

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

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

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

The following tables summarize the credit risk profile of the loan portfolio by internally assigned grades as of June 30, 2011 (in thousands).

	Pass	Special Mention	Substandard / Doubtful	Total
Real estate:				
Construction and land loans	$21,355	$3,852	$10,875	$36,082
Farmland	20,105	5,049	5,132	30,286
1-4 family residential mortgage	51,406	4,171	1,303	56,880
Multifamily	3,479	-	-	3,479
Commercial	50,770	12,183	9,895	72,848
Agriculture	18,641	3,480	1,892	24,013
Commercial	19,902	774	1,471	22,147
Consumer	13,941	63	23	14,027
States and political subdivisions	3,899	-	-	3,899
Other loans	94	-	-	94
Total	$203,592	$29,572	$30,591	$263,755

Approximately $534,000 of the $30,591,000 identified as Substandard / Doubtful above were considered Doubtful as of June 30, 2011.

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The following table summarizes the credit risk profile of our loan portfolio by internally assigned grades as of December 31, 2010 (in thousands).

	Pass	Special Mention	Substandard / Doubtful	Total
Real estate:				
Construction and land loans	$19,306	$4,250	$13,270	$36,826
Farmland	18,438	6,352	5,480	30,270
1-4 family residential mortgage	52,544	3,538	2,261	58,343
Multifamily	3,082	-	-	3,082
Commercial	53,704	12,026	8,070	73,800
Agriculture	8,807	2,110	1,717	12,634
Commercial	21,853	3,223	4,337	29,413
Consumer	13,335	65	198	13,598
States and political subdivisions	3,735	-	-	3,735
Other loans	65	-	5	70
Total	$194,869	$31,564	$35,338	$261,771

Approximately $615,000 of the $35,338,000 identified as Substandard / Doubtful above were considered Doubtful as of December 31, 2010.

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The following table details the Bank's non-accrual loans as of June 30, 2011 and December 31, 2010 (in thousands).

	June 30, 2011	December 31, 2010
Non-accrual loans:		
Real estate:		
Construction, land development, and other land loans	$7,948	$ 8,966
Farmland	851	1,210
1-4 family residential mortgage	508	801
Multifamily	-	-
Commercial	2,998	2,803
Agriculture	1,468	1,603
Commercial	1,371	2,162
Consumer	2	-
States and political subdivisions	-	-
Other loans	-	-
Total nonaccrual loans	$15,146	$ 17,545

The following table details the Bank's allowance for loan loss as of June 30, 2011 and December 31, 2010 (in thousands).

	June 30, 2011	December 31, 2010
Allowance for loan losses:		
Real estate:		
Construction, land development, and other land loans	$2,298	$ 2,176
Farmland	147	119
1-4 family residential mortgage	557	576
Multifamily	8	7
Commercial	1,209	1,100
Agriculture	293	201
Commercial	714	772
Consumer	167	178
States and political subdivisions	9	9
Other loans	3	2
Total allowance for loan losses	$5,405	$ 5,140

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Changes in the allowance for loan losses for the periods ended June 30, 2011 and 2010 are as follows (in thousands):

	June 30, 2011	June 30, 2010
Average amount of loans outstanding, net	$264,795	$282,441
Reserve for loan losses:		
Beginning balance	$5,140	$7,436
Loans charged off:		
Real estate:		
Construction and land loans	(41)	(188)
Farmland	-	-
1-4 family residential mortgage	(199)	(238)
Multifamily	-	-
Commercial	(109)	(29)
Agriculture	(17)	-
Commercial	(39)	(241)
Consumer	(42)	(107)
States and political subdivisions	-	-
Other loans	(1)	(4)
Total charged off	(448)	(807)
Recoveries:		
Real estate:		
Construction and land loans	4	8
Farmland	-	-
1-4 family residential mortgage	5	40
Multifamily	-	-
Commercial	9	-
Agriculture	7	10
Commercial	72	2
Consumer	16	13
States and political subdivisions	-	-
Other loans	-	1
Total recoveries	113	74
Loans charged off, net	(335)	(733)
Additions to the allowance charged to operations	600	1,038
Ending balance	$5,405	$7,741
Net annualized charge offs to average loans	0.25%	0.52%

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

The following tables detail the Bank's impaired loans, by portfolio class, as of June 30, 2011 (in thousands).

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no specific allowance reserved				
Real estate:				
Construction and land loans	$229	$229	$-	$2
Farmland	663	663	-	-
1-4 family residential mortgage	427	427	-	-
Multifamily	-	-	-	-
Commercial	314	314	-	11
Agriculture	1,352	1,352	-	-
Commercial	113	632	-	1
Consumer	207	207	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$3,305	$3,824	$-	$14

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With specific allowance reserved				
Real estate:				
Construction and land loans	$8,697	$10,300	$1,181	$36
Farmland	147	147	69	-
1-4 family residential mortgage	634	634	56	26
Multifamily	-	-	-	-
Commercial	2,889	2,889	665	-
Agriculture	116	116	65	-
Commercial	1,382	2,632	495	3
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$13,865	$16,718	$2,531	$65

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	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
Total Impaired Loans				
Real estate:				
Construction and land loans	$8,926	$10,529	$1,181	$38
Farmland	810	810	69	-
1-4 family residential mortgage	1,061	1,061	56	26
Multifamily	-	-	-	-
Commercial	3,203	3,203	665	11
Agriculture	1,468	1,468	65	-
Commercial	1,495	3,264	495	4
Consumer	207	207	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$17,170	$20,542	$2,531	$79

The following tables detail the Bank's impaired loans, by portfolio class, as of December 31, 2010 (in thousands).

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no specific allowance reserved				
Real estate:				
Construction and land loans	$2,748	$3,948	$-	$2
Farmland	3,485	3,485	-	55
1-4 family residential mortgage	1,320	1,320	-	42
Multifamily	-	-	-	-
Commercial	256	256	-	11
Agriculture	1,338	1,338	-	45
Commercial	1,157	3,168	-	12
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$10,304	$13,515	$-	$167

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	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With specific allowance reserved				
Real estate:				
Construction and land loans	$6,813	$7,315	$1,029	$95
Farmland	150	150	33	5
1-4 family residential mortgage	223	223	129	9
Multifamily	-	-	-	-
Commercial	2,871	2,871	565	61
Agriculture	252	252	74	14
Commercial	987	987	445	8
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$11,296	$11,798	$2,275	$192

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
Total Impaired Loans				
Real estate:				
Construction and land loans	$9,561	$11,263	$1,029	$97
Farmland	3,635	3,635	33	60
1-4 family residential mortgage	1,543	1,543	129	51
Multifamily	-	-	-	-
Commercial	3,127	3,127	565	72
Agriculture	1,590	1,590	74	59
Commercial	2,144	4,155	445	20
Consumer	-	-	-	-
States and political subdivisions	-	-	-	-
Other loans	-	-	-	-
Total	$21,600	$25,313	$2,275	$359

The impaired loan amounts above included approximately $213,000 and $383,000 of troubled debt restructured loans as of June 30, 2011 and December 31, 2010, respectively.

Of the $21,600,000 in impaired loans as of December 31, 2010, approximately $266,000 was charged off against the allowance, $1,716,000 was foreclosed and recorded as ORE, and $3,965,000 was repaid in the first six months of 2011. The remainder was not considered impaired in the 2011 analysis.

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The average amount of impaired loans for the six months ended June 30, 2011 was $19,385,000. If impaired loans had been current throughout their terms, interest income would have been increased by $392,554 as of the six months ended June 30, 2011. There was $78,500 of interest income recognized from impaired loans for the six months ended June 30, 2011.

The following table summarizes the allowance related to impaired loans and the impaired loan balances by portfolio segment at June 30, 2011 (in thousands):

	ALL Ending Balance	Individually Evaluated	Collectively Evaluated
Real estate:			
Construction and land loans	$ 1,181	$ 8,926	$ -
Farmland	69	810	-
1-4 family residential mortgage	56	1,061	-
Multifamily	-	-	-
Commercial	665	3,203	-
Agriculture	65	1,468	-
Commercial	495	1,495	-
Consumer	-	207	-
States and political subdivisions	-	-	-
Other loans	-	-	-
Total	$ 2,531	$ 17,170	$ -

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The following table summarizes the allowance related to impaired loans and the impaired loan balances by portfolio segment at December 31, 2010 (in thousands):

	ALL Ending Balance	Individually Evaluated	Collectively Evaluated
Real estate:			
Construction and land loans	$ 1,029	$ 9,561	$ -
Farmland	33	3,635	-
1-4 family residential mortgage	129	1,543	-
Multifamily	-	-	-
Commercial	565	3,127	-
Agriculture	74	1,590	-
Commercial	445	2,144	-
Consumer	-	-	-
States and political subdivisions	-	-	-
Other loans	-	-	-
Total	$ 2,275	$ 21,600	$ -

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The table below provides an analysis of past due status as of June 30, 2011 (in thousands):

	Past Due Loans (Accruing Interest)						Total
	30-59 days	60-89 days	90+ days	Total	Nonaccrual	Current	Loans
Real estate:							
Construction and land loans	$393	$24	$-	$417	$7,948	$27,717	$36,082
Farmland	365	-	-	365	851	29,070	30,286
1-4 family residential mortgage	497	56	-	553	508	55,819	56,880
Multifamily	-	-	-	-	-	3,479	3,479
Commercial	1,733	-	-	1,733	2,998	68,117	72,848
Agriculture	34	-	-	34	1,468	22,511	24,013
Commercial	37	-	-	37	1,371	20,739	22,147
Consumer	49	14	-	63	2	13,962	14,027
States and political subdivisions	-	-	-	-	-	3,899	3,899
Other loans	-	-	-	-	-	94	94
Totals	$3,108	$94	$-	$3,202	$15,146	$245,407	$263,755

The table below provides an analysis of past due status as of December 31, 2010 (in thousands):

	Past Due Loans (Accruing Interest)						Total
	30-59 days	60-89 days	90+ days	Total	Nonaccrual	Current	Loans
Real estate:							
Construction and land loans	$860	$106	$-	$966	$8,966	$26,894	$36,826
Farmland	2,527	18	519	3,064	1,210	25,996	30,270
1-4 family residential mortgage	155	51	-	206	801	57,336	58,343
Multifamily	-	-	-	-	-	3,082	3,082
Commercial	880	610	-	1,490	2,803	69,507	73,800
Agriculture	-	-	-	-	1,603	11,031	12,634
Commercial	119	-	-	119	2,162	27,132	29,413
Consumer	100	15	19	134	-	13,464	13,598
States and political subdivisions	-	-	-	-	-	3,735	3,735
Other loans	1	-	-	1	-	69	70
Totals	$4,642	$800	$538	$5,980	$17,545	$238,246	$261,771

NOTE 5 – Operating Segments

The Corporation operates in only one segment – commercial banking.

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NOTE 6 – Stock Based Compensation

At June 30, 2011, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan and the 2007 Equity Incentive Plan are described more fully in Note 13 to the Consolidated Financial Statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010. The Corporation recognizes compensation expense for all stock based payments based upon the grant date fair value.

Stock Options

1998 Stock Option Plan

The following table represents stock option activity for the six months ended June 30, 2011:

	Shares under option	average exercise price per share	remaining contractual life
Options outstanding, beginning of period	22,486	16.15	
Granted	—	—	
Surrendered	—	—	
Exercised	—	—	
Options outstanding, end of period	22,486	16.15	1.7
Exercisable, end of period	22,486	16.15	1.7

There was no intrinsic value of option shares outstanding and exercisable for the periods ended June 30, 2011 and 2010, respectively.

The 1998 Stock Option Plan expired pursuant to its terms effective December 22, 1998 and no additional awards will be made under such plan.

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2007 Equity Incentive Plan

The following table represents stock option activity for the six months ended June 30, 2011:

	Shares under option	Weighted average exercise price per share	Weighted average remaining contractual life
Options outstanding, beginning of period	4,000	$ 14.85	8.4
Granted	—	—	
Surrendered	—	—	
Exercised	—	—	
Options outstanding, end of period	4,000	14.85	7.9
Exercisable, end of period	2,400	14.85	7.9

There was no intrinsic value of option shares outstanding and exercisable for the periods ended June 30, 2011 and 2010, respectively.

Restricted Stock

The following table represents restricted stock activity under the 2007 Equity Incentive Plan for the six months ended June 30, 2011:

	Restricted stock activity	Weighted average fair value
Shares under grant at beginning of period	5,515	16.65
Granted	—	—
Surrendered	—	—
Vested	—	—
Shares under grant at end of period	5,515	16.65

Shares available for future stock grants to employees and directors under the 2007 Equity Incentive Plan of United Bancorporation of Alabama, Inc. were 293,843 at June 30, 2011.

As of June 30, 2011, there was $50,383 of total unrecognized compensation costs related to the nonvested share based compensation arrangements granted under the 1998 and 2007 Plans. That cost is expected to be recognized over a period of approximately 3 years.

NOTE 7 – Fair Value of Financial Instruments

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

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

Fair Value Hierarchy

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

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

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

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

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

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Assets Measured at Fair Value on a Recurring Basis

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

Available for Sale Securities

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

		Fair Value Measurements at June 30, 2011 Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs (Level 3)
AFS Securities	$66,211,005	$20,303,534	$45,907,471	$ -

		Fair Value Measurements at December 31, 2010 Using		
	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs (Level 3)
AFS Securities	$ 68,808,624	$21,203,537	$47,605,087	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

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

Impaired Loans

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

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Other Real Estate (Foreclosed Assets)

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

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The following tables present the assets carried on the balance sheet by asset type and by level within the FASB ASC 820 valuation hierarchy (as described above) as of June 30, 2011 and 2010, for which a nonrecurring change in fair value has been recorded during the periods ended June 30, 2011 and 2010.

	Carrying Value at June 30, 2011				Six Months Ended June 30, 2011
	Total	Level 1	Level 2	Level3	Total gains (losses)
Impaired loans (1)	$11,604,753	$-	$-	$11,604,753	$(576,632)
Foreclosed assets	10,853,521	-	-	10,853,521	(9,281)

(1) Losses related to loans were recognized as either charge-offs or specific allocations of the allowance for loan loss

	Carrying Value at December 31, 2010				Twelve Months Ended December 31, 2010
	Total	Level 1	Level 2	Level3	Total losses
Impaired loans	$11,367,697	$-	$-	$11,367,697	$ (4,023,954)
Foreclosed assets	10,163,992	-	-	10,163,992	(199,999)

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation's financial instruments, but rather a good–faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

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

(a) Cash and Short-term Investments
Fair value approximates the carrying value of such assets.

(b) Investment Securities and Other Securities
The fair value of investment securities is based on quoted market prices. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

(c) Loans
The fair value of loans is calculated using discounted cash flows and excludes lease–financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation's historical experience with repayments adjusted to estimate the effect of current market conditions.

(d) Bank Owned Life Insurance
The fair value of bank owned life insurance approximates its carrying value.

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

The fair value estimates in the table below do not include the benefit that results from the low–cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

(f) FHLB, Other Borrowed Funds and Subordinated Debt
The fair value of the Corporation's other borrowed funds and subordinated debt approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

(g) Accrued Interest
The fair value of accrued interest receivable and payable approximates their carrying value.