UNITED BANCORPORATION OF ALABAMA INC
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001

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 of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

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

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

Aggregate market value of voting stock held by nonaffiliates as of March 20, 2002 was $33,225,148 based upon the price reported to the registrant at which the stock was sold on that date and using beneficial ownership of stock rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude voting stock owned by directors and executive officers, some of whom might not be held to be affiliates upon judicial determination.

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

Common Stock	Par Value	Outstanding at March 20,2002
Class A..........	$.01	1,098,352 Shares*
Class B..........	$.01	0 Shares

*Excludes 61,929 shares held as treasury stock.

PART I

ITEM 1. BUSINESS

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

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

United Bank offers a broad range of banking services. Services to business customers include providing checking and time deposit accounts and various types of lending services. Services provided to individual customers include checking accounts, NOW accounts, money market deposit accounts, statement savings accounts, repurchase agreements and various other time deposit savings programs and loans, including business, personal, automobile, home and home improvement loans. United Bank offers securities brokerage services, Visa and Master Card, multi-purpose, nationally recognized credit card services, and trust services through Morgan Trust of Chattanooga, 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.

3

Employees - The Corporation and its subsidiary had approximately 119 full-time equivalent officers and employees at December 31, 2001. All of the employees are engaged in the operations of United Bank, its subsidiary, or the Corporation. The Corporation considers its employee relations good, and has not experienced and does not anticipate any work stoppage attributable to labor disputes.

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

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

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

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

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

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

Dividends from United Bank constitute the major source of funds for the Corporation. United Bank is subject to state law restrictions on its ability to pay dividends, including the general restrictions 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, and 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 prohibit any dividends from being made from surplus without the Superintendent's prior written approval. 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 substantially revised statutory provisions. FDICIA established five capital tiers for insured depository institutions: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized", as defined by regulations adopted by the Federal Reserve, the FDIC and other federal depository institution regulatory agencies. At December 31, 2001, 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 expected by many commentators. The GLB Act includes significant provisions regarding the privacy of financial information. These new financial privacy provisions generally require a financial institution to adopt a privacy policy regarding its practices for sharing nonpublic personal information and to disclose such policy to their customers, both at the time the customer relationship is established and at least annually during the

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

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, 2001 and 2000. Averages referred to in the following statistical information are generally average daily balances.

AVERAGE CONSOLIDATED BALANCE SHEETS
2001 and 2000

	(Dollars In Thousands)	
Assets	2001	2000
Cash and due from banks	$ 7,916	$ 8,244
Interest-bearing deposits with other financial institutions	3,867	818
Federal funds sold and repurchase agreements	2,122	6,505
Taxable securities available for sale	30,072	36,368
Tax-exempt securities available for sale	19,233	13,248
Taxable investment securities held to maturity	0	4,900
Tax-exempt investment securities held to maturity	0	10,006
Loans, net	146,868	131,596
Premises and equipment, net	4,626	4,866
Interest receivable and other assets	4,071	3,691
Total assets	$ 218,775	220,242
Liabilities and Stockholders' Equity		
Demand deposits - noninterest-bearing	$ 30,425	29,622
Demand deposits - interest-bearing	29,069	43,580
Savings deposits	14,917	15,013
Time deposits	102,003	91,937
Other borrowed funds	8,403	8,949
Repurchase agreements	11,628	10,666
Accrued expenses and other liabilities	1,959	1,573
Total liabilities	198,404	201,340
Stockholders' equity:		
Common Stock	12	12
Surplus	5,008	4,918
Retained earnings	15,805	14,434
Less shares held in treasury, At cost	(454)	(462)
Total stockholders' equity	20,371	18,902
Total liabilities and stockholders' equity	$ 218,775	220,242

========== ==========

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

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

2000	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Loans, net (1)	$ 131,596	13,004	9.88%
Taxable securities available for sale	36,368	2,387	6.56
Tax exempt sec. available for Sale (2)	13,248	986	7.44
Taxable securities held to maturity	4,900	319	6.51
Tax exempt held to maturity (2)	10,006	745	7.45
Federal funds sold and repurchase agreements	6,505	457	7.02
Total interest-earning assets	$ 202,623	17,898	8.83%

Savings deposits and demand deposits - interest-bearing	$ 58,593	2,173	3.71%
Time deposits	91,937	5,253	5.71
Repurchase agreements	10,666	587	5.50
Other borrowed funds	8,949	542	6.05
Total interest-bearing liabilities	$ 170,145	8,555	5.03%
Net interest income/net yield on interest-earning assets		$ 9,343	4.61%

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

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

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

(Dollars in Thousands)
Average Balances

2001	2000		Interest Income Expense 2001	2000	Varianc
$146,868	131,596	Loans (Net)	13,030	13,004	26
30,072	36,368	Taxable Securities AFS(1)	2,003	2,387	(384
19,233	13,248	Tax Exempt Securities AFS(2)	1,450	986	464
0	4,900	Taxable Securities HTM(3)	0	319	(319
0	10,006	Tax Exempt HTM(2)	0	745	(745
2,122	6,505	Fed Funds Sold	99	398	(299
3,867	818	Interest Bearing Deposits	138	59	79
202,162	202,623	Total Interest Earning Assets	16,720	17,898	(1,178
		Savings and Interest Bearing			
43,986	58,593	Demand Deposits	1,063	2,173	(1,109
102,003	91,937	Other Time Deposits	5,575	5,253	322
8,403	8,949	Other Borrowed Funds	450	543	(93
11,628	10,666	Repurchase Agreements	362	587	(225
166,020	170,145	Total Int Bearing Liabilities	7,450	8,555	(1,105

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

(1) Available for Sale (AFS)

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

(3) Held to Maturity (HTM)

9

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

(Dollars in Thousands)
Average Balances

(Dollars in Thousands)

Average Balances 2000	Average Balances 1999		Interest Income Expense 2000	Interest Income Expense 1999	Var
$131,596	120,323	Loans (Net)	13,004	11,594	1
36,368	36,673	Taxable Securities AFS(1)	2,387	2,144	
13,248	10,369	Tax Exempt Securities AFS(2)	986	753	
4,900	5,473	Taxable Securities HTM(3)	319	342	
10,006	10,730	Tax Exempt HTM(2)	745	797	
6,505	3,554	Fed Funds Sold	457	235	
0	0	Interest Bearing Deposits	0	0	
202,623	187,122	Total Interest Earning Assets	17,898	15,865	2
		Savings and Interest Bearing			
58,593	51,717	Demand Deposits	2,173	1,640	
91,937	83,272	Other Time Deposits	5,253	4,238	1
8,949	10,233	Other Borrowed Funds	542	559	
10,666	11,833	Repurchase Agreements	587	498	
170,145	157,055	Total Int Bearing Liabilities	8,555	6,935	1

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

(1) Available for Sale (AFS)

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

(3) Held to Maturity (HTM)

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, 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 loan to deposit ratio as being 85%. This ratio as of December 31, 2001 was 82.76%. Growth in the loan portfolio is driven by general economic conditions and the availability of loans meeting the Bank's credit quality standards. Management expects that funding for any growth in the loan portfolio would come from deposit growth, reallocation of maturing investments and advances from the Federal Home Loan Bank (FHLB).

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

Investment Securities Held to Maturity
December 31, 2001 and 2000

(Dollars in Thousands)

	2001		2000	
	Amortized Cost	%	Amortized Cost	%
U.S. Government Agencies	$ 0	0	$ 2,995	21
Mortgage Backed Securities	0	0	1,683	12
State and Municipal	0	0	9,297	66
Total Amortized Cost	$ 0	0%	$ 13,975	100

Maturity Distribution of Investment Securities Held to Maturity

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

December 31, 2001 and 2000

(Dollars in Thousands)

	2001		2000	
	Amortized Cost	Weighted Avg Yld	Amortized Cost	Weighted Avg Yld
U.S. Government Agencies				
5 - 10 years	$ 0	0	$ 2,995	6.51%
	$ 0	0	$ 2,995	6.51%
State & Municipal (1)				
Within one year	$ 0	0	$ 450	7.72%
1 - 5 years	0	0	2,166	7.66%
5 - 10 years	0	0	3,603	7.50%
After 10 years	0	0	3,078	8.08%
Total	$ 0	0%	$ 9,297	7.74%
Mortgage Backed Securities				
1 - 5 years	$ 0	0%	$ 124	6.01%
5 - 10 years	0	0	1,003	6.67
After 10 years	0	0	556	7.47
Total	$ 0	0%	$ 1,683	6.89%
Total Yield		0%		7.37%
Total Amortized Cost	$ 0		$ 13,975	

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

12

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

Investment Securities Available for Sale
December 31, 2001 and 2000

(Dollars in Thousands)

	2001		2000	
	Amortized Cost	%	Amortized Cost	%
U.S. Treasury	$ 1,506	3.7%	$ 6,551	14.2%
U.S. Government Agencies	2,088	5.1	4,192	9.1
Mortgage Backed Securities	18,050	43.8	22,905	49.6
State and Municipal	18,532	45.0	12,010	26.0
Other	992	2.4	503	1.1
Total	$ 41,168	100.0%	$ 46,161	100.0%

13

Maturity Distribution of Investment Securities Available for Sale

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

December 31, 2001 and 2000
(Dollars in Thousands)

	2001		2000	
	Amortized Cost	Weighted Avg Yld	Amortized Cost	Weighted Avg Yld
U.S. Treasury Securities				
Within one year	$ 1,007	6.21%	$ 2,011	6.03%
1 - 5 years	499	5.51	4,540	5.95
	$ 1,506	5.97	$ 6,551	5.97
U.S. Government Agencies excluding Mortgage Backed Securities				
1 - 5 years	$ 1,000	2.46	$ 2,000	6.27
5 - 10 years	500	8.00	500	8.00
After 10 years	588	8.00	1,692	7.79
Total	$ 2,088	5.34%	$ 4,192	7.09%
Mortgage Backed Securities				
Within one year	$ 0	0%	$ 92	8.50%
1 - 5 years	250	6.50	346	6.39
5 - 10 years	3,503	6.28	1,430	6.81
After 10 years	14,297	6.45	22,905	6.79

Total	$ 18,050	6.42%	$ 22,905	6.79%
State & Municipal (1)				
Less than 1 year	$ 175	8.55%	$ 0	0
1 - 5 years	3,153	7.45	676	7.99
5 - 10 years	5,441	7.53	2,709	7.74
After 10 years	9,763	7.64	8,625	7.67
Total	$ 18,532	7.58%	12,010	7.70%

Continued on next page..

Continued from previous page

	2001		2000	
	Amortized Cost	Weighted Avg Yld	Amortized Cost	Weighted Avg Yld
Other Securities				
1 - 5 years	$ 503	6.22	$ 503	6.25
5 - 10 years	489	5.49	0	0.00
Total	$ 992	5.86%	$ 1,178	7.11%
Total Yield		6.86%		6.94%
Total amortized cost	$ 41,168		$ 46,161	

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

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

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

Interest rate risk is a function of the maturity of the loan and method of pricing. The Bank's loan maturity distribution reflects 37.25% of the portfolio maturing in one year or less. In addition, 31.96% of all loans float with an interest rate index. The maturity distribution and floating rate loans help protect the Bank from unexpected interest rate changes.

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

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

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

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

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

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

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

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

An average loan in the loan portfolio at December 31, 2001 is approximately $34,484, an increase of $3,017 from 2000. This continued increase in the average loan size is due to the shift of loans to commercial real estate, financial, agricultural, and 1-4 family residential loans from the installment loan portion of the portfolio. The Bank expects this growth to continue as long as the local markets continue to grow and prosper.

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

LOAN PORTFOLIO MATURITIES

December 31, 2001

(Dollars in Thousands)

	REMAINING MATURITY			
	One Year or Less	One-Five Years	After Five Years	Total
Commercial, Financial and agricultural	$ 33,289	47,414	17,178	97,881
Real estate - construction	6,100	1,278	0	7,378
Real estate - mortgage	9,117	13,718	4,399	27,234
Installment loans to individuals	9,253	7,039	261	16,553
Total	$ 57,759	69,449	21,838	149,046

SENSITIVITY TO CHANGES IN INTEREST RATES
LOANS DUE AFTER ONE YEAR

(Dollars in Thousands)

	Predetermined Rate	Floating Rate	Total

Commercial, financial and agricultural	$ 38,898	$ 26,040	$ 64,938
Real estate - construction	1,278	0	1,278
Real estate - mortgage	12,351	5,766	18,117
Installment loans to individuals	4,758	2,542	7,300

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

Non-performing Assets: The Corporation adopted the provisions of SFAS 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures on January 1, 1995. Under the provisions of SFAS 114 and 118, management considers a loan to be impaired when it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered impaired, the amount of impairment is measured based on the 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

17

used to determine the amount of impairment. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Subsequent recoveries are added to the allowance. Impaired loans are charged to the allowance when such loans are deemed to be uncollectible. At December 31, 2001, pursuant to the definition within SFAS 114, the Bank had no impaired loans.

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

	Description	2001	2000
		(Dollars in Thousands)	
(A)	Loans accounted for on a nonaccrual basis	$ 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).	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.	0	69
(D)	Other non-performing assets	556	158
	Total	$ 2,759	$ 627

If nonaccrual loans in (A) above had been current throughout their term, interest income would have been increased by $124,142 and $48,630 for 2001 and 2000, respectively. Of the assets in (D) above, at the end of 2001 $195,033 was other real estate owned (OREO) and $361,493 was repossessed collateral, and in 2000 $195,033 was OREO and $35,322 was repossessed collateral. The increase in nonaccrual loans is primarily due to two borrowers, one with a balance of $599,479 of which $402,975 is guaranteed by the Small Business Administration, and the other of which has a balance of $861,486 and is a borrower in bankruptcy currently making monthly payments per the reorganization plan.

At December 31, 2001, loans with a total outstanding balance of $4,127,632 were considered potential problem loans compared to $3,014,795 as of 12/31/00. Potential problem loans consist of those loans for which management is monitoring performance or has concerns has doubts 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, 2001. 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, 2001, the Corporation had $19,089,172 of agriculture-related loans as compared to $14,871,440 in 2000. Agriculture loans accounted for $0 and $75,106 of nonaccrual loans in 2001 and 2000, respectively.

Summary of Loan Loss Experience

	2001	2000	1999
Average amount of loans outstanding, net	$ 146,868	$ 131,596	$ 120,323
Allowance for loan losses, beginning January 1	$ 1,939	$ 1,676	$ 1,428
Losses charged off:			
Commercial, financial and agricultural	(176)	(39)	(27)
Real estate - mortgage	(49)	(27)	(0)
Installment loans to individuals	(255)	(186)	(270)

Total charged off	(480)	(252)	(297)
Recoveries during the period:			
Commercial, financial and agricultural	20	6	13
Real estate - mortgage	0	2	0
Installment loans to individuals	34	32	36
Total recoveries	54	40	49
	(426)	(212)	(248)
Additions to the allowance charged to operations	480	475	496
Total allowance, ending December 31	$ 1,993	$ 1,939	$ 1,676
Ratio of net charge offs during the period to average loans outstanding	.29%	.16%	.21%

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

19

operating expenses is that amount necessary to maintain the allowance for loan losses at a level indicative of the associated risk, as determined by management, of the current portfolio.

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

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

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

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

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

	Allowance		Loans as a percent of total	
	2001	2000	2001	2000
Commercial, Financial & Agricultural	$ 1,312	$ 1,198	65.8%	61.8%
Real Estate - Construction	97	108	4.9	5.6
Real Estate - Mortgage	363	384	18.2	19.8
Installment Loans	221	249	11.1	12.8
Total Allowance	$ 1,993	$ 1,939	100.0%	100.0%

20

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

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

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

21

DEPOSITS
(Dollars in Thousands)

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

	Deposits		Average rate paid	
	2001	2000	2001	2000
Noninterest-bearing demand deposits	$ 30,425	$ 29,622	0%	0%
Interest-bearing deposits:				
Demand	$ 29,069	43,580	2.67%	4.16%
Savings	14,917	15,013	1.93	2.48
Time	102,003	91,937	5.48	5.71
	$ 145,989	$ 150,530	4.55%	4.95%

The following shows the amount of time deposits outstanding at December 31, 2001, classified by time remaining until maturity.

Maturity	$100,000 or Greater Certificates of deposit	Other time deposits
Three months or less	$ 17,992	$ 22,985
Three to six months	7,027	20,001
Six to twelve months	7,803	18,498
Twelve months to five years	1,908	9,380

	$ 34,730	$ 70,864

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

	Maximum Outstanding At Any Month End	Average Balance	Average Interest Rate	Ending Balance	Average Interest Rate at Year-end
	(Dollars In Thousands)				
2001					
Securities sold under agreements to repurchase	$ 15,816	$ 11,628	3.15%	$ 9,069	1.00%
Other short term borrowings	$ 9,080	$ 668	4.97	$ 415	1.40
2000					
Securities sold under agreements to repurchase	$ 13,228	$ 10,666	5.52	$ 10,667	5.72
Other short term borrowings	$ 1,010	$ 506	6.52	$ 596	5.72

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, 2001 and 2000

	2001	2000
Return on average assets	0.95%	0.93%
Return on average equity	10.16%	10.82%
Dividend pay-out ratio	31.80%	29.38%

Ratio of average equity to average assets	9.31%	8.58%
	======	======

ITEM 2. PROPERTIES

The Corporation's bank subsidiary occupies ten offices, which the subsidiary owns or leases. The offices are located in Escambia County (cities of Atmore and Flomaton), Monroe County (cities of Monroeville and Frisco City), and Baldwin County (cities of Foley, Lillian, and Bay Minette, Magnolia Springs and Silverhill) Alabama, with the principal office located in Atmore, Alabama. The Bank operates a loan production office in Jay, Florida. The office in Atmore is a modern, three story, brick building while the Flomaton, Monroeville, Frisco City and Foley offices are similar, modern, one story, brick buildings. The subsidiary Bank also leases land near the Atmore office on which a drive through teller facility is located. The land lease is for twenty years, expiring in 2004. The Foley office is leased for a twenty-year period, expiring in 2016. 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 2002. The Corporation purchased a two story brick building in Bay Minette which is leased to the subsidiary. The lease is for a five-year period ending in December of 2003. The office in Silverhill is the original post office built in 1902, and is a two story wooden structure. The Magnolia Springs office is a two story wooden structure located on Magnolia River. It is leased from a third party until 2005.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

PART II

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

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

(1) 5,000,000 shares of Class A common stock, $.01 par value per share, of which 1,160,281 shares are issued and 1,098,352 are outstanding and held by approximately 625 shareholders of record, as of March 20, 2002.

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

(Amounts in Thousands except per share data)

	2001	2000	1999	1998
Interest income	$ 16,221	17,310	15,338	14,117
Interest expense	7,451	8,555	6,935	6,697
Net interest income	8,769	8,755	8,404	7,420
Provision for loan losses	480	475	496	240
Net interest income after Provision for loan losses	$ 8,289	8,280	7,908	7,180
Investment securities gains/ (losses), net	$ 173	35	32	133
Net Earnings	$ 2,070	2,047	1,947	1,932
Balance sheet data:				
Total assets	$ 219,955	231,487	221,967	189,193

Total loans, net	$ 147,052	139,595	122,000	103,090
Total deposits	$ 180,509	191,590	183,208	152,826
Total stockholders' equity	$ 21,846	20,104	17,647	16,048
Per share data:				
Basic earnings per share	$ 1.89	1.87	1.88	1.87
Diluted earnings per share	$ 1.87	1.86	1.86	1.87
Cash dividends per Share(1)	$ 0.60	0.55	0.55	0.55

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

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.

SUMMARY OF OPERATIONS

The Corporation's 2001 net income was $2,069,570, as compared to a net income in 2000 of $2,046,571. Average net interest spread decreased by 2 basis points from 3.80% in 2000 to 3.78% in 2001. This decrease was caused by the rapid decline in interest rates in the year 2001. Average interest earning assets, which decreased from $202,623,000 in 2000 to $202,162,000 in 2001, produced a $14,821 increase in net interest income in 2001. Non-interest income increased by $641,528 from $1,662,429 in 2000 to $2,303,957 in 2001. The provision for loan losses in 2001 was $480,000 as compared to $475,000 in 2000. The 2001 provision was the amount established by management to maintain the allowance at the appropriate level. Non-interest expenses for 2001 increased $654,576 from $7,226,178 in 2000 to $7,880,754 in 2001.

The Corporation's 2000 net income was $2,046,571, as compared to a net income in 1999 of $1,947,776. Average net interest spread decreased by 28 basis points from 4.06% in 1999 to 3.78% in 2000. This is due to an increase in interest rates, which drove the cost of deposits up faster than the interest rates on loans. Average interest earning assets, which increased from $187,122,000 in 1999 to $202,623,000 in 2000, produced a $372,479 increase in net interest income in 2000. Noninterest income increased by $186,416 from $1,476,013 in 1999 to $1,662,429 in 2000. The provision for loan losses in 2000 was $475,000 as compared to $496,000 in 1999. The 2000 provision was the amount established by management to maintain the allowance at the appropriate level. Noninterest expenses for 2000 increased $416,166 from $6,810,012 in 1999 to $7,226,178 in

2000.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, 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 involve a higher degree of judgment and complexity than the Bank's other significant accounting policies. Further, these estimates can be materially impacted by changes in market conditions or the actual or perceived financial condition of the Bank's borrowers, subjecting the Bank to significant volatility of earnings. The allowance for credit losses is established through a provision for loan losses, which is a charge against earnings. Provision for loan losses are made to reserve for estimated probable losses on loans.

The allowance for loan losses is a significant estimate and is regularly evaluated by management for accuracy by taking into consideration factors such as changes in the nature and volume of the loan portfolio; trends in actual and forecasted portfolio credit quality, including delinquency,

27

charge-off and bankruptcy rates; and current economic conditions that may affect a borrower's ability to pay. The use of different estimates or assumptions could produce different provisions for loan losses.

NET INTEREST INCOME
(Dollars in Thousands)

	2001	2000	1999
Interest income (1)	$ 16,715	17,899	15,865
Interest expense	$ 7,451	8,555	6,935
Net interest income	9,264	9,344	8,930
Provision for loan losses	480	475	496
Net interest income after provision for loan losses on a tax equivalent basis	8,784	8,869	8,434
Less: tax equivalent adjustment	494	589	527
Net interest income after provision for loan losses	$ 8,290	8,280	7,907

(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 2001,

2000, and 1999.

Total interest income (on an FTE basis) decreased to $16,715,000 in 2001, from $17,899,000 in 2000, a decrease of $1,184,000, or 6.61%. This decrease is a function of the average earning assets decreasing $461,000 and falling interest rates. Average loans increased $15,272,000 while the average rate earned decreased 101 basis points. The average interest rate (FTE) earned on all earning assets in 2001 decreased to 8.27% from 8.83% in 2000. The interest rate spread decreased from 3.80% in 2000 to 3.78% in 2001, as rates decreased more on interest earning assets than on interest bearing liabilities. Average taxable investment securities for 2001 were $30,072,000, as compared to $41,268,000 for 2000, a decrease of $11,196,000, or 27.13%. Average tax-exempt investment securities decreased $4,021,000, or 17.29%, to $19,233,000 in 2001 from $23,254,000 in 2000. These changes in investment securities were the result primarily of the loss of $20,000,000 in public fund deposits. The average volume of federal funds sold decreased to $2,122,000 in 2001 from $5,687,000 in 2000, a decrease of $3,565,000 or 62.69%. This decrease was also caused by the loss of the public deposits described above.

Total interest expense decreased $1,104,423, or 12.91%, to $7,451,042 in 2001, from $8,555,465 in 2000. This decrease is a function of the decrease in the volume of interest bearing liabilities and the decrease in interest rates. The average rate paid on interest-bearing liabilities in 2001 was 4.49% as compared to 5.03% in 2000. Average interest-bearing liabilities decreased to $166,020,000 in 2001, from $170,145,000 in 2000, a decrease of

$4,125,000, or 2.42%. Average savings and interest-bearing demand deposits decreased $14,607,000 or 24.93% to $43,986,000 in 2001 because of the loss of the public fund deposits, from $58,593,000 in 2000. Average time deposits increased to $102,003,000 in 2001, from $91,937,000 in 2000, an increase of $10,066,000, or 10.95%. The growth in time deposits was fueled by new growth from the new Baldwin County branches, and the purchasing of internet time deposits to help fund the loss of the public funds. The average rate paid on time deposits decreased to 5.46% in 2001 from 5.71% in 2000. This decrease was caused by the rate decreases of the Federal Reserve Bank in the year 2001. The Bank expects the Federal Reserve Bank to increase interest rates in 2002, which will raise the rate paid on Certificates of Deposit.

Total interest income (on an FTE basis) increased to $17,899,000 in 2000, from $15,865,000 in 1999, an increase of $2,034,000, or 12.82%. This increase is a function of the average earning assets increasing $15,501,000 while rising interest rates also influenced the increase. Average loans increased $11,273,000 while the average rate earned increased 24 basis points. The average interest rate (FTE) earned on all earning assets in 2000 increased to 8.83% from 8.48% in 1999. The interest rate spread decreased from 4.06% in 1999 to 3.80% in 2000, as interest rates rose faster on interest bearing liabilities than on interest earning assets. Average taxable investment securities for 2000 were $41,268,000, as compared to $42,807,000 for 1999, a decrease of $1,539,000, or 3.59%. Average tax-exempt investment securities increased $2,155,000, or 10.21%, to $23,254,000 in 2000 from $21,099,000 in 1999. These slight changes were the result of the Bank increasing tax free income in an attempt to maximize returns. The average volume of federal funds sold increased to $6,505,000 in 2000 from $3,554,000 in 1999, an increase of $2,951,000 or 83.03%. This increase was caused by the increase in deposits from a public entity that kept deposits with the Bank for a full year in 2000 as opposed three quarters of the year in 1999.

Total interest expense increased $1,620,000, or 23.36%, to $8,555,000 in 2000, from $6,935,000 in 1999. This increase was a function of the increase in the volume of interest bearing liabilities and the increase in interest rates. The average rate paid on interest-bearing liabilities in 2000 was 5.03% as compared to 4.42% in 1999. Average interest-bearing liabilities increased to $170,145,000 in 2000, from $157,055,000 in 1999, an increase of $13,090,000, or 8.33%. Average savings and interest-bearing demand deposits increased $6,876,000 or 13.29% to $58,593,000 in 2000, from $51,717,000 in 1999. Average time deposits increased to $91,937,000 in 2000, from $83,272,000 in 1999, an increase of $8,665,000, or 10.41%. The average rate paid on time deposits increased to 5.71% in 2000 from 5.09% in 1999. This increase was caused by the rate increases of the Federal Reserve Bank in the year 2000.

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, 2001 was $480,000, as compared to $475,000 in 2000, a increase of $5,000, or 1.05%. 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, 2001 represents 1.34% of gross loans, as compared to 1.37% at December 31, 2000.

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

NONINTEREST INCOME

	2001	2000	1999
Service charges on deposits	$ 1,607,296	$ 1,243,544	$ 1,108,164
Commission - credit life insurance	61,197	39,940	45,878
Investment securities gains and (losses) (net)	173,214	34,725	31,907
Other	462,250	344,220	290,064
Total	$ 2,303,957	$ 1,662,429	$ 1,476,013

============ ============ ============

Total noninterest income increased $641,528 or 38.59%, to $2,303,957 in 2001, as compared to $1,662,429 in 2000.

Service charge income increased to $1,607,296 in 2001, from $1,243,544 in 2000, an increase of $363,752, or 29.25%. This increase was attributable to increases in the pricing of the services that the Bank offers, and the growth of demand accounts, when adjusted for the loss of public fund deposits. Commissions on credit life insurance increased $21,257, or 53.22%, to $61,197 in 2001, from $39,940 in 2000. Other income increased to $462,250 in 2001, from $344,220 in 2000, an increase of $118,030 or 35.32%. This increase is attributable to an increase of $66,033 on mortgage origination fees for third parties and an increase of $113,640 in earnings on bank-owned life insurance offset by a decrease in brokerage commissions of $67,492.

30

Total noninterest income increased $186,416 or 12.63%, to $1,662,429 in 2000, as compared to $1,476,013 in 1999.

Service charge income increased to $1,243,544 in 2000, from $1,108,164 in 1999, an increase of $135,380, or 12.21%. This increase was attributable to increases in the pricing of the services that the Bank offers. Commissions on credit life insurance decreased $5,938, or 12.94%, to $39,940 in 2000, from $45,878 in 1999. Other income increased to $344,220 in 2000, from $290,064 in 1999, an increase of $54,156 or 18.67%.

NONINTEREST EXPENSE

	2001	2000	1999
Salaries and benefits	$ 4,221,498	3,841,509	3,879,425
Net occupancy	1,414,763	1,258,739	1,003,641
Other	2,244,493	2,125,930	1,926,946
Total	$ 7,880,754	7,226,178	6,810,012

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

Basic earnings per share in 2001 were $1.89, as compared to a basic earnings per share of $1.87 in 2000. Diluted earnings per share in 2001 were $1.87 and $1.86

in 2000. Return on average assets for 2001 was 0.95%, as compared to 0.93% in 2000. Return on average equity was 10.16% in 2001, as compared to 10.82% in 2000.

Total noninterest expense increased $416,166, or 6.11%, to $7,226,178 in 2000, from $6,810,012 in 1999. Other expense increased to $2,125,930 in 2000, from $1,926,946 in 1999, an increase of $198,984, or 10.33%. The increase in other expenses was due partly to increased data processing expenses of $44,545 and related professional services of $57,315. There was also an increase in activity at the Federal Reserve that increased Federal Reserve charges of $39,910. Salaries and other compensation expense decreased $37,916 or 0.98% to $3,841,509 in 2000 from $3,879,425 for 1999. This decrease was because several employees left the Bank and were replaced by employees not eligible for profit sharing at year end, causing $26,500 to be credited to expenses. Income tax expense for 2000 was $669,696 as compared to $625,762 in 1999.

Basic earnings per share in 2000 were $1.87, as compared to a basic earnings per share of $1.88 in 1999. Diluted earnings per share in 2000 were $1.86 and $1.86 in 1999. Return on average assets for 2000 was 0.93%, as compared

31

to 0.97% in 1999. Return on average equity was 10.82% in 2000, as compared to 11.96% in 1999.

	LOANS AT DECEMBER 31		
	2001	2000	1999
Commercial, financial and agricultural	$ 97,881,448	87,479,810	76,705,657
Real estate -construction	7,377,897	7,404,300	3,585,107
Real estate - mortgage	27,233,771	28,580,500	25,322,667
Installment loans to individuals	16,552,493	18,072,546	18,082,531
	$ 149,045,609	141,537,156	123,695,962

Total loans increased to $149,045,609 at December 31, 2001, from $141,537,156 at year end 2000, an increase of $7,508,453, or 5.30%. Commercial, financial and agricultural loans increased to $97,881,448 at year end 2001, from $87,479,810 at December 31, 2000. Most of the increase can be attributed to the new Baldwin County offices, more competitive pricing in present markets, and a growth in agricultural loans. Real Estate construction loans decreased by $26,403 or 0.36% in 2001 to $7,377,897 from $7,404,300 in 2000. The majority of these loans are for 1-4 family and owner-occupied commercial building. Real Estate mortgage loans decreased in 2001 by $1,346,729 or 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.

Total loans increased to $141,537,156 at December 31, 2000, from $123,695,962 at year end 1999, an increase of $17,841,194, or 14.42%. Commercial, financial and agricultural loans increased to $87,479,810 at year end 2000, from $76,705,657 at December 31, 1999. Most of the increase was attributable to the Baldwin County markets, and more competitive pricing in present markets. Real Estate construction loans increased by $3,819,193 or 106.53% in 2000 to $7,404,300 from $3,585,107 in 1999. The increase in these loans was related to the increased economic activity in Baldwin County, one of the fastest growing counties in Alabama. The majority of these loans are for 1-4 family and owner-occupied commercial building. Real Estate mortgage loans increased in 2000 by $3,257,833 or 12.86% to $28,580,500 from $25,322,667 in 1999. Installment loans to individuals remained level at $18,072,546 at December 31, 2000, when compared to $18,082,531 at year end 1999. The ratio of loans to deposits on December 31, 2000, was 73.88%, as compared to 67.51% in 1999.

LIQUIDITY

One of the Bank's goals is to provide adequate funds to meet changes in loan demand or any potential increase in the normal level of deposit withdrawals. This goal is accomplished primarily by generating cash from operating activities and maintaining sufficient short-term assets. These sources,

coupled with a stable deposit base, allow the Bank to fund earning assets and maintain the availability of funds. Management believes that the Bank's traditional sources of maturing loans and investment securities, cash from operating activities and a strong base of core deposits are adequate to meet the Bank's liquidity needs for normal operations. To provide additional liquidity, the Bank utilizes short-term financing through the purchase of federal funds, and maintains a borrowing relationship with the Federal Home Loan Bank to provide liquidity. Should the Bank's traditional sources of liquidity be constrained, forcing the Bank to purse avenues of funding not typically used, the Bank's net interest margin could be impacted negatively.

As of December 31, 2001, management believes liquidity was adequate. The corporation relies primarily on the Bank for its liquidity needs. In addition to $2,644,000 in federal funds sold, the balance of the Bank's cash and due from banks was $16,704,812 at year end. At December 31, 2001 the gross loan to deposit ratio was 82.57%. 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. A contract with a public entity that maintained accounts with an aggregate balance of $20,741,491 at the end of December, 2000, ended March 1, 2000. The Bank replaced these funds with FHLB advances, internet time deposits and the sale of securities. The Bank did not experience any liquidity problems from the withdrawal of these funds.

As revealed in the Consolidated Statement of Cash Flows, the Corporation generates the majority of its cash flows from financing activities. Financing activities used $13,115,677 in cash in 2001, with the majority of this coming from a net decrease in deposits. The investing activities of the Corporation provided $9,590,738 of the cash flows primarily from the investment portfolio of the Bank. Operations provided $2,513,578 in cash flows with these funds coming from net income and depreciation for the year ended December 31, 2001.

INTEREST RATE SENSITIVITY
Interest Rate Sensitivity Analysis
Year Ended December 31
2001
(In Thousands)

	Three Months Or Less	Three To Six Months	Six Months to One Year	1 to 5 Years
Earning Assets:				
Loans, net of unearned income	$ 13,710	14,781	22,737	74,6
Taxable securities AFS	130	1,006	0	2,5
Tax exempt securities AFS	0	0	45	2,8
Federal Funds Sold & Securities Purchased Under agreements to resale	2,644	0	0	
Other Earning Assets	0	0	0	
Total Interest Earning Assets	$ 16,484	15,787	22,782	80,0
Interest Bearing Liabilities				
Demand Deposits	$ 0	0	0	
Savings Deposits	0	0	0	
Certificates of Deposit less than $100,000	22,985	20,001	18,498	9,3
Certificates of Deposit greater than $100,000	17,992	7,027	7,803	1,9
Federal Funds Purchased and securities sold under agreement to repurchase	9,096	0	0	
Other Short Term Borrowings	416	0	0	
Federal Home Loan Bank Borrowing		1,000	1,000	
TOTAL Interest Bearing Source	$ 50,489	28,028	27,301	11,3
Liabilities				
Non Interest Bearing Source of Funds	0	0	0	
Interest Sensitivity Gap	(34,005)	(12,241)	(4,519)	68,6
Cumulative Gap	(34,005)	(46,246)	(50,765)	17,8

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 2001 was 9.31% as compared to 8.58% in 2000. Total stockholders' equity on December 31, 2001 was $21,846,493, an increase of $1,742,020, or 8.66%, from $20,104,473 at year end 2000. This increase is the result of the Corporation's net earnings during 2001, less dividends declared to stockholders of $658,080, plus other comprehensive income of $263,997, the sale of stock and the exercise of stock options. The Corporation's risk based capital of $23,570,000, or 14.54%, at December 31, 2001, was well above the Corporation's minimum risk based capital requirement of $12,972,000 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.

FORWARD LOOKING STATEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

36

the Asset liability model developed by HNC, an independent third party vendor, which takes the current rate structure of the portfolio and shocks for each rate level and calculates the new market value of equity at each rate. The Bank's Board of Directors has adopted an interest rate risk policy, which establishes maximum allowable decreases in net interest margin in the event of a sudden and sustained increase or decrease in market interest rates. The following table presents the Bank's projected change in NPV (fair value assets less fair value liabilities) for the various rate shock levels as of December 31, 2001. All market risk sensitive instruments presented in this table are held to maturity or available for sale. The Bank has no trading securities.

(In thousands)

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

300	$ 41,726	2,788	7
200	41,188	2,250	6
100	40,358	1,420	4
0	38,938	0	0
(100)	36,907	(2,031)	(5)
(200)	34,426	(4,512)	(12)
(300)	31,301	(7,637)	(20)

The preceding table indicates that at December 31, 2001, 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Corporation's consolidated financial statements as of December 31, 2001 and 2000 and for each of the years in the three-year period ended December 31, 2001 are included in the following pages shown in the index below.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of United Bancorporation of Alabama, Inc. and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Bancorporation of Alabama, Inc. and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Birmingham, Alabama
February 27, 2002

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2001 and 2000

ASSETS	2001	2
Cash and due from banks	$ 16,704,812	18,
Federal funds sold and securities purchased under agreements to resell	2,644,000	2,
Cash and cash equivalents	19,348,812	20,
Investment securities available for sale, at fair value (cost of $41,167,492 and $46,160,342 at December 31, 2001 and 2000, respectively)	41,615,592	46,
Investment securities held to maturity (fair value of $14,011,852 at December 31, 2000)	--	13,
Loans	149,045,609	141,
Less: Unearned income	--	
Allowance for loan losses	1,993,245	1,
Net loans	147,052,364	139,
Premises and equipment, net	5,901,032	4,
Interest receivable	1,979,310	2,
Other assets	4,058,422	3,
Total assets	$219,955,532	231,

(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2
Deposits:		
Noninterest bearing	$ 33,406,633	30,
Interest bearing	147,102,536	161,
Total deposits	180,509,169	191,
Securities sold under agreements to repurchase	9,069,292	10,
Advances from Federal Home Loan Bank	6,235,327	5,
Treasury, tax and loan account	415,728	
Accrued expenses and other liabilities	1,879,523	2,
Total liabilities	198,109,039	211,
Stockholders' equity:		
Class A common stock, $.01 par value		
Authorized 5,000,000 shares; 1,159,481 and 1,156,881		

shares issued in 2001 and 2000, respectively	11,595	
Class B common stock, $.01 par value		
Authorized 250,000 shares; no shares issued	--	
Preferred stock, $.01 par value		
Authorized 250,000 shares; no shares issued	--	
Surplus	5,056,304	4,
Retained earnings	16,961,631	15,
Accumulated other comprehensive income, net of deferred taxes of $179,237 and $3,244 in 2001 and 2000, respectively	268,863	
	22,298,393	20,
Less 62,181 and 62,649 treasury shares at cost in 2001 and 2000, respectively	451,900	
Total stockholders' equity	21,846,493	20,
Commitments and contingencies		
Total liabilities and stockholders' equity	$219,955,532	231,

See accompanying notes to consolidated financial statements.

F-3

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Statements of Operations

Years ended December 31, 2001, 2000, and 1999

	2001	2
Interest income:		
Interest and fees on loans	$ 13,029,747	13,
Interest on investment securities:		
Taxable	1,939,741	2,
Nontaxable	957,204	1,
Total interest on investment securities	2,896,945	3,
Other interest income	294,187	
Total interest income	16,220,879	17,
Interest expense:		
Interest on deposits	6,638,940	7,
Interest on other borrowed funds	812,102	1,
Total interest expense	7,451,042	8,
Net interest income	8,769,837	8,
Provision for loan losses	480,000	
Net interest income after provision for loan losses	8,289,837	8,

Noninterest income:		
Service charges on deposits	1,607,296	1,
Commissions on credit life insurance	61,197	
Investment securities gains, net	173,214	
Other	462,250	
Total noninterest income	2,303,957	1,
Noninterest expense:		
Salaries and benefits	4,221,498	3,
Net occupancy expense	1,414,763	1,
Other	2,244,493	2,
Total noninterest expense	7,880,754	7,
Earnings before income taxes	2,713,040	2,
Income tax expense	643,470	
Net earnings	$ 2,069,570	2,
Basic earnings per share	$ 1.89	
Basic weighted average shares outstanding	1,095,706	1,
Diluted earnings per share	$ 1.87	
Diluted weighted average shares outstanding	1,108,630	1,

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Years ended December 31, 2001, 2000, and 1999

	SHARES	COMMON STOCK	SURPLUS
Balance December 31, 1998	1,096,320	10,964	3,476,5
Net earnings	--	--	
Unrealized change in fair value investment securities available for sale, net	--	--	
Comprehensive income			
Cash dividends declared ($0.55 per share)	--	--	
Amortization of difference between fair value and exercise price of stock options	--	--	193,3
Exercise of stock options	5,000	50	79,9
Sale of common stock	47,961	480	1,054,6
Balance December 31, 1999	1,149,281	11,494	4,804,4
Net earnings	--	--	

Unrealized change in fair value investment securities available for sale, net	--	--	
Comprehensive income			
Cash dividends declared ($0.55 per share)	--	--	
Amortization of difference between fair value and exercise price of stock options	--	--	45,7
Exercise of stock options	5,600	55	89,5
Sale of common stock	2,000	20	43,9
Sale of treasury stock under employee stock purchase plan	--	--	10,7
Balance December 31, 2000	1,156,881	$ 11,569	4,994,4
Net earnings			
Unrealized change in fair value investment securities available for sale, net	--	--	
Comprehensive income			
Cash dividends declared ($0.60 per share)	--	--	
Amortization of difference between fair value and exercise price of stock options	--	--	12,4
Exercise of stock options	2,600	26	41,5
Sale of treasury stock under employee stock purchase plan	--		7,7
Balance December 31, 2001	1,159,481	$ 11,595	5,056,3

	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOT STOCKHO EQU
Balance December 31, 1998	284,877	(465,590)	16,0
Net earnings	--	--	1,9
Unrealized change in fair value investment securities available for sale, net	(1,093,477)	--	(1,0
Comprehensive income			
Cash dividends declared ($0.55 per share)	--	--	(5
Amortization of difference between fair value and exercise price of stock options	--	--	1
Exercise of stock options	--	--	
Sale of common stock	--	--	1,0
Balance December 31, 1999	(808,600)	(465,590)	17,6
Net earnings	--	--	2,0
Unrealized change in fair value investment securities available for sale, net	813,466	--	8
Comprehensive income			
Cash dividends declared ($0.55 per share)	--	--	(6
Amortization of difference between fair value and exercise price of stock options	--	--	
Exercise of stock options	--	--	
Sale of common stock	--	--	

Sale of treasury stock under employee stock purchase plan	--	9,010	
Balance December 31, 2000	4,866	(456,580)	20,1
Net earnings	--	--	2,0
Unrealized change in fair value investment securities available for sale, net	263,997	--	2
Comprehensive income			
Cash dividends declared ($0.60 per share)	--	--	(6
Amortization of difference between fair value and exercise price of stock options	--	--	
Exercise of stock options	--	--	
Sale of treasury stock under employee stock purchase plan	--	4,680	
Balance December 31, 2001	268,863	(451,900)	21,8

See accompanying notes to consolidated financial statements.

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2001, 2000, and 1999

	2001	2000
Cash flows from operating activities:		
Net earnings	$ 2,069,570	2,046
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	480,000	475
Compensation expense arising from stock option awards	12,480	45
Depreciation of premises and equipment	610,438	511
Net amortization of premium on investment securities	28,742	89
Gains on sales of investment securities available for sale, net	(173,214)	(34
Deferred income taxes	6,008	(45
Decrease (increase) in interest receivable	599,243	(379
(Increase) decrease in other assets	(182,263)	(1,853
(Increase) decrease in accrued expenses and other liabilities	(937,426)	233
Net cash provided by operating activities	2,513,578	1,089
Cash flows from investing activities:		
Proceeds from maturities, calls, and principal		

repayments of investment securities held to maturity	--	1,533
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	17,477,907	6,813
Proceeds from sales of investment securities available for sale	9,443,336	4,627
Purchases of investment securities available for sale	(7,808,314)	(13,970
Net increase in loans	(8,009,062)	(18,070
Purchases of premises and equipment	(1,513,129)	(529
Proceeds from sales of other real estate	--	72
Net cash provided by (used in) investing activities	9,590,738	(19,523

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued

Years ended December 31, 2001, 2000, and 1999

	2001	2000
Cash flows from financing activities:		
Net (decrease) increase in deposits	$(11,080,510)	8,381,228
Net (decrease) increase in securities sold under agreements to repurchase	(1,597,262)	1,731,551
Cash dividends	(658,080)	(601,300)
Exercise of stock options	41,600	89,600
Proceeds from sale of common stock	--	44,000
Proceeds from sale of treasury stock	12,453	19,713
Advance from FHLB	2,000,000	--
Repayments of advances from FHLB	(1,653,821)	(3,898,614)
(Decrease) increase in other borrowed funds	(180,057)	71,044
Net cash (used in) provided by financing activities	(13,115,677)	5,837,222
Net (decrease) increase in cash and cash equivalents	(1,011,361)	(12,596,917)
Cash and cash equivalents, beginning of year	20,360,173	32,957,090
Cash and cash equivalents, end of year	$ 19,348,812	20,360,173
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ 7,843,008	8,003,132
Income taxes	864,980	682,305
Noncash transactions:		
Transfer of loans to other real estate through foreclosure	$ 72,000	82,539
Transfer of securities from held to maturity to available for sale	13,975,608	--

See accompanying notes to consolidated financial statements.

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

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

(b) BASIS OF PRESENTATION

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

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

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

(c) CASH EQUIVALENTS

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

(d) INVESTMENT SECURITIES

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

(Continued)

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

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

(e) LOANS

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

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

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

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

(f) ALLOWANCE FOR LOAN LOSSES

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

(Continued)

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

(g) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using both the declining-balance method and the straight-line method over the estimated useful lives of the assets, which range from three to fifty years.

(h) OTHER REAL ESTATE

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

(i) INCOME TAX EXPENSE

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

The Company files its federal income tax returns on a consolidated basis.

(j) STOCK OPTION PLAN

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

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows companies to apply APB No. 25 as long as certain pro forma disclosures are made assuming hypothetical fair value method application. See note 10 for pro forma disclosures required by SFAS No. 123.

(Continued)

December 31, 2001, 2000, and 1999

(k) EARNINGS PER SHARE

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

(l) BUSINESS SEGMENTS

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

(m) RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For the Company, SFAS No. 133 as amended was effective January 1, 2001. Upon adoption of SFAS No. 133, management reclassified securities with a book value of $13,975,608 and a fair value of $14,011,852 from the held-to-maturity classification to available-for-sale classification as permitted by the Standard. This resulted in an increase of accumulated other comprehensive income of $21,746, which was net of a corresponding deferred tax liability of $14,498. Otherwise, the adoption of SFAS No. 133 has had no impact on the consolidated financial statements of the Corporation.

In September 2000, the FASB issued SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 140 is applicable to all transfers and servicing of financial assets and extinguishments of liabilities after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Due to the nature of the Company's activities, SFAS No. 140 has had no impact on the consolidated financial statements of the Corporation.

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The Company is required to adopt the provision of SFAS No. 141 effective

(Continued)

immediately and SFAS No. 142 effective January 1, 2002. The Company does not currently have any goodwill capitalized on its balance sheet. Accordingly, the Company currently does not expect the adoption of SFAS Nos. 141 and 142 to have an impact on the consolidated financial statements of the Company.

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When a liability is initially recorded, an entity must capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company is required to adopt the provisions of SFAS No. 143 for fiscal years beginning after September 15, 2002. The Corporation is currently assessing whether SFAS No. 143 will have an impact on its consolidated financial statements.

In July 2001, the Office of the Chief Accountant and the Division of Corporation Finance of the Securities and Exchange Commission (the Commission) released Staff Accounting Bulletin No. 102 (SAB 102), Selected Loan Loss Allowance Methodology and Documentation Issues, which provides certain views of the Commission staff on the development, documentation, and application of a systematic loan loss allowance methodology. SAB 102 does not change any of the accounting profession's existing rules on accounting for loan loss provision or allowances. Rather, the SAB draws upon existing guidance, in Commission rules and interpretations, generally accepted accounting principles, and generally accepted auditing standards, and explains certain view of the Commission staff on applying existing guidance related to loan loss allowance methodologies and supporting documentation. SAB 102 is effective immediately and has not had a significant impact on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which supersedes both SFAS No. 121 and the accounting and reporting provisions of APB Opinion No. 30, Reporting and Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequent Occurring Events and Transactions (Opinion No. 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used, as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion No. 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will not result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, Goodwill and Other Intangible Assets.

(Continued)

The Company is required to adopt SFAS No. 144 no later than the year beginning after December 15, 2001, and plans to adopt its provisions for the year ending March 31, 2002. Management does not expect the adoption of SFAS No. 144 to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the statement for assets held for sale or other disposals generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot fully determine the potential effects that adoption of SFAS No. 144 will have on the Company's consolidated financial statements.

(2) CASH AND DUE FROM BANKS

The Corporation's subsidiary bank is required by the Federal Reserve Bank to maintain daily cash balances. These balances were $1,052,000 and $1,023,000 at December 31, 2001 and 2000, respectively.

(3) INVESTMENT SECURITIES

No investment securities were classified as held to maturity as of December 31, 2001.

The amortized cost and fair value of investment securities held to maturity at December 31, 2000 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
U.S. government agencies excluding mortgage-backed securities	$ 2,995,318	2,182	(46,260)
State and political subdivisions	9,297,013	107,315	(34,381)
Mortgage-backed securities	1,683,277	12,150	(4,762)
	$ 13,975,608	121,647	(85,403)

(Continued)

The amortized cost and fair value of investment securities available for sale at December 31, 2001 and 2000 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
2001			
U.S. Treasury	$ 1,506,392	37,828	--
U.S. government agencies, excluding mortgage-backed securities	2,087,767	85,068	(23,220)
State and political subdivisions	18,532,023	248,324	(135,173)
Mortgage-backed securities	18,049,489	272,639	(38,285)
Corporate notes and other	991,821	16,166	(15,247)

	$ 41,167,492	660,025	(211,925)
2000			
U.S. Treasury	$ 6,550,881	8,291	(17,282)
U.S. government agencies, excluding mortgage-backed securities	4,191,571	51,792	(39,563)
State and political subdivisions	12,010,159	169,604	(131,384)
Mortgage-backed securities	22,905,303	134,356	(156,627)
Corporate notes and other	502,428	--	(11,078)
	$ 46,160,342	364,043	(355,934)

The amortized cost and fair value of debt securities classified as investment securities available for sale at December 31, 2001, categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	AMORTIZED COST	FAIR VALUE
Investment securities available for sale:		
Due in one year or less	$ 1,181,970	1,200,102
Due after one year through five years	5,080,762	5,168,802
Due after five years through ten years	6,369,806	6,446,763
Due after ten years	10,485,465	10,516,082
Subtotal	23,118,003	23,331,749
Mortgage-backed securities	18,049,489	18,283,843
Total	$ 41,167,492	41,615,592

(Continued)

Proceeds from sales of investment securities available for sale during

2001, 2000, and 1999, were $9,443,336, $4,627,751, and $7,499,649, respectively. Gross gains of $225,376 and gross losses of $52,162 were realized on those sales in 2001. Gross gains of $40,041 and gross losses of $5,316 were realized on those sales in 2000. Gross gains of $43,974 and gross losses of $12,067 were realized on those sales in 1999.

Securities with carrying values of $30,112,910 and $51,207,392 at December 31, 2001 and 2000, respectively, were pledged to secure public and trust deposits as required by law and for other purposes.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At December 31, 2001 and 2000, the composition of the loan portfolio was as follows:

	2001	2000
Commercial and financial	$ 78,792,276	72,608,370
Agricultural	19,089,172	14,871,440
Real estate - construction	7,377,897	7,404,300
Real estate - 1-4 family residential mortgage	27,233,771	28,580,500
Installment loans to individuals	16,552,493	18,072,546
Total	$149,045,609	141,537,156

A summary of the transactions in the allowance for loan losses for the years ended December 31, 2001, 2000, and 1999 follows:

	2001	2000	199
Balance at beginning of year	$ 1,939,307	1,676,274	1,42
Provision charged to earnings	480,000	475,000	49
Less: Loans charged-off	479,901	252,430	29
Plus: Loan recoveries	53,839	40,463	4
Net charge-offs	426,062	211,967	24
Balance at end of year	$ 1,993,245	1,939,307	1,67

Loans on which the accrual of interest had been discontinued or reduced amounted to $2,184,316 and $386,213 as of December 31, 2001 and 2000, respectively. If these loans had been current throughout their terms, interest income would have been increased by $123,443, $48,630, and $36,625, for 2001, 2000, and 1999, respectively. At December 31, 2000, the Company had impaired loans of $72,811. At December 31, 2001 and 1999, the Company had no significant impaired loans.

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

During 2000 and 1999, certain executive officers and directors of the Corporation and its subsidiary, including their immediate families and companies with which they are associated, were loan customers of the Bank. Total loans outstanding to these related parties at December 31, 2001 and 2000, amounted to $5,874,226 and $5,006,428, respectively. The change from December 31, 2000 to December 31, 2001 reflects advances amounting to $1,681,145 and payments of $813,347 made during the year. Such loans are made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements, and do not represent more than a normal credit risk.

(5) PREMISES AND EQUIPMENT

At December 31, 2001 and 2000, premises and equipment were as follows:

	2001	2000
Land	$ 1,072,612	1,066,112
Buildings and leasehold improvements	4,433,492	4,488,710
Furniture, fixtures and equipment	3,885,957	3,097,827
Automobiles	133,475	136,919
	9,525,536	8,789,568
Less accumulated depreciation	3,624,504	3,791,227
	$ 5,901,032	4,998,341

(6) BORROWED FUNDS

The Company was liable to the Federal Home Loan Bank of Atlanta on the following advances at December 31, 2001:

MATURITY DATE	INTEREST RATE

April 2002	4.45%	$ 1,000,000
October 2002	4.66%	1,000,000
June 2006	7.19%	77,535
March 2011	4.22%	2,000,000
May 2012	7.41%	123,200
July 2017	6.93%	1,040,000
September 2017	6.82%	590,625
August 2017	6.84%	171,675
July 2020	7.54%	232,292
Total (weighted average rate of 5.350%)		$ 6,235,327

At December 31, 2001, the advances were collateralized by a blanket pledge of first-mortgage residential loans.

(Continued)

(7) DEPOSITS

At December 31, 2001 and 2000, deposits were as follows:

	2001	2000
Noninterest bearing accounts	$ 33,406,633	30,020,542
NOW accounts	19,274,192	44,755,793
Money market investment accounts	7,218,784	7,107,980
Savings account	15,016,012	14,286,862
Time deposits:		
Certificates of deposit less than $100,000	70,864,115	65,663,087
Certificates of deposit greater than $100,000	34,729,433	29,755,415
Total deposits	$180,509,169	191,589,679

Interest expense on certificates of deposit greater than $100,000 amounted to $1,337,682, $1,463,856, and $1,183,108 for the years ended December 31, 2001, 2000, and 1999, respectively.

The Bank had a contract between it and a public entity that ended March 1, 2001. That entity maintained several accounts which had an aggregate account balance of $20,741,491 at the end of December 2000. The contract was not renewed and these funds were withdrawn from the Bank in 2001.

(8) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The maximum amount of outstanding securities sold under agreements to repurchase during 2001 and 2000 was $15,815,554 and $13,228,003, respectively. The weighted average borrowing rate at December 31, 2001 and 2000 was 1.00% and 5.72%, respectively. The average amount of outstanding securities sold under agreements to repurchase during 2001 and 2000 was $11,612,232 and $10,665,742, respectively. The weighted average borrowing rate during the years ended December 31, 2001 and 2000 was 3.15% and 5.52%, respectively. Securities underlying these agreements are under the Company's control.

(9) INCOME TAXES

Total income tax expense (benefit) for the years ended December 31, 2001, 2000, and 1999 was allocated as follows:

	2001	2000	19
Income from continuing operations	$ 643,470	669,696	62
Stockholders' equity, for other comprehensive income	$ 176,878	542,360	(72

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

The components of income tax expense attributable to income from continuing operations for the years ended December 31, 2001, 2000, and 1999 were as follows:

	2001	2000	1999
Current:			

Federal	$ 580,936	599,579	711,10
State	56,526	115,388	61,09
Total	637,462	714,967	772,19
Deferred:			
Federal	7,866	(40,280)	(134,47
State	(1,858)	(4,991)	(11,95
Total	6,008	(45,271)	(146,43
Total income tax expense	$ 643,470	669,696	625,76

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

	2001	2000	
Income tax at statutory rate	$ 922,434	923,531	
Increase (decrease) resulting from:			
Tax exempt interest	(342,371)	(406,384)	(
Interest disallowance	46,908	60,867	
Deferred compensation	10,077	12,186	
State income tax net of federal benefit	36,081	72,862	
Premium amortization on tax exempt investment securities	8,722	21,382	
Cash surrendered value of life insurance	(34,962)	--	
Other, net	(3,419)	(14,748)	
	$ 643,470	669,696	

(Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are as follows:

	2001
Deferred tax assets:	
Loans, principally due to the allowance for loan losses	$ 448,241
Other real estate, principally due to differences in carrying value	20,925
Accrued expenses	31,384
Security writedown	4,427
Other	42
Total deferred tax assets	505,019
Deferred tax liabilities:	
Premises and equipment, principally due to difference in depreciation	172,860
Investment securities available for sale	179,237
Discount accretion	40,468
Accrued employee benefits	--
Other	546
Total deferred tax liabilities	393,111
Net deferred tax asset (included in other assets)	$ 111,908

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

(Continued)

(10) STOCK OPTION PLAN

The United Bancorporation of Alabama, Inc. 1998 Stock Option Plan (the Plan) provides for the grant of options to officers, directors, and employees of the Corporation to purchase up to an aggregate of 77,000 shares of Class A Stock. On May 5, 1999, options for shares totaling 42,480 were awarded under the Plan. Of the 42,480 shares, 19,440 vested immediately and the remaining 23,040 vest over a period of three years from the grant date. The changes in outstanding options are as follows:

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

(Continued)

Stock options outstanding and exercisable on December 31, 2001 and 2000 were as follows:

2001

EXERCISE PRICE PER SHARE	SHARES UNDER OPTION	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS

Outstanding:		
$16.00	25,200	7.0
22.50	4,080	7.0
30.00	4,080	8.0
31.30	4,080	9.0
32.50	4,080	10.0
$16.00 - 32.50	41,520	7.6
Exercisable:		
$16.00	25,200	7.0
22.50	4,080	7.0
30.00	4,080	8.0
31.30	4,080	9.0
32.50	4,080	10.0
$16.00 - 32.50	41,520	7.6

2000

EXERCISE PRICE PER SHARE	SHARES UNDER OPTION	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS
Outstanding:		
$16.00	27,800	8.0
22.50	4,080	8.0
30.00	4,080	9.0
31.30	4,080	10.0
$16.00 - 31.30	40,040	8.3
Exercisable:		
$16.00	20,120	8.0
22.50	4,080	8.0
30.00	4,080	9.0
31.30	4,080	10.0
$16.00 - 31.30	32,360	8.4

(Continued)

AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

Had compensation expense for the Company's stock options been recognized based on the fair value on the grant date under the methodology prescribed by SFAS 123, the Company's net earnings and earnings per share for the years ended December 31, 2001, 2000, and 1999 would have been impacted as shown in the following table:

	2001	2000	199
Reported net earnings	$ 2,069,570	2,046,571	1,94
Pro forma net earnings	2,058,300	2,035,300	1,87
Reported diluted earnings per share	1.87	1.86	
Pro forma diluted earnings per share	1.86	1.85	

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

	2001	2000	199
Expected life of option	10 yrs	10 yrs	1
Risk-free interest rate	3.50%	4.15%	
Expected volatility of Company stock	12.00%	12.7	
Expected dividend yield of Company stock	2.84%	1.6	

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

	2001	2000	199
Fair value of each option granted	$ 7.84	8.05	
Total number of options granted	54,720	50,640	4
Total fair value of all options granted	429,094	407,510	37

In accordance with SFAS No. 123, the weighted average fair value of stock options granted is required to be based on a theoretical statistical model using the preceding Black-Scholes assumptions.

(Continued)

(11) NET INCOME PER SHARE

Presented below is a summary of the components used to calculate diluted earnings per share for the years ended December 31, 2001, 2000, and 1999:

	2001	2000
Diluted earnings per share:		
Weighted average common shares outstanding	1,095,706	1,091,538
Effect of the assumed exercise of stock options-based on the treasury stock method using average market price	12,924	9,164
Total weighted average common shares and potential common stock outstanding	1,108,630	1,100,702

(12) EMPLOYEE BENEFIT PLANS

The Company adopted a 401(k) employee incentive savings plan effective January 1, 1988. Employees become eligible after completing six months of service and attaining age 20.5. They can contribute a minimum of 1% up to 10% of salary to the plan. The Company contributes twenty-five cents for each dollar the employee contributes, up to 4% of the employee's salary. Total Company contributions to the plan during 2001, 2000, and 1999 were $28,829, $24,249, and $31,428, respectively.

The Company also maintains a profit-sharing plan for eligible employees. Eligibility requirements for this plan are the same as the 401(k) Employee Incentive Savings Plan. Annual profit sharing contributions of $110,600, $82,000, and $98,000 were made in 2001, 2000, and 1999, respectively.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Company's financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Company. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements.

(Continued)

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

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

Fair value equals the carrying value of such assets.

(b) INVESTMENT SECURITIES

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

(c) LOANS

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

(d) DEPOSITS

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, is equal to 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.

(e) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

(f) FHLB AND OTHER BORROWED FUNDS

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

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

There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Thereby it is not practical to establish their fair value.

(Continued)

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2001 and 2000 are as follows (in thousands):

	2001		2000
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT
Financial assets:			
Cash and short-term investments	$ 19,348	19,348	20,360
Investment securities	$ 41,615	41,615	60,812
Loans, net of unearned income and allowance for loan losses	$ 147,052	151,823	139,595

Financial liabilities:			
Deposits	$ 180,509	181,433	191,590
Securities sold under agreements to repurchase	$ 9,069	9,069	10,667
Other borrowed funds	$ 416	416	596
FHLB advances	$ 6,235	6,885	5,889

(14) DIVIDENDS FROM SUBSIDIARY

Dividends paid by the subsidiary bank are the primary source of funds available to the Corporation for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the subsidiary bank. In addition, the subsidiary bank is also required to maintain minimum amounts of capital to total "risk-weighted" assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary bank. At December 31, 2001, the Bank could have declared dividends of approximately $4,220,425 without prior approval of regulatory authorities.

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

(15) COMPREHENSIVE INCOME

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

	YEAR ENDED DECEMBE	
	2001	2000
Other comprehensive income before tax		
Unrealized holding gains (losses) arising during the period, net	$ 613,205	1,390,551
Less: reclassification adjustment for gains		

included in net earnings	173,214	34,725
Other comprehensive income, before income taxes	439,991	1,355,826
Income tax expense (benefit) related to other comprehensive income:		
Unrealized holding gains (losses) arising during the period, net	245,280	556,250
Less: reclassification adjustment for gains included in net income	69,286	13,890
Total income tax expense (benefit) related to other comprehensive income	175,994	542,360
Other comprehensive income (loss), after taxes	$ 263,997	813,466

(16) LITIGATION

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

(Continued)

(17) COMMITMENTS

The Corporation's subsidiary bank leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. Future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2001 are as follows:

YEARS ENDING DECEMBER 31	
2002	$ 101,875
2003	95,125
2004	94,857

2005	83,652
2006	49,902
Thereafter	--
	$ 425,411

Rental expense for all operating leases charged to earnings aggregated $105,625, $92,175, and $103,298 for the years ended December 31, 2001, 2000, and 1999, respectively.

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

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

The financial instruments whose contract amounts represent credit risk as of December 31, 2001, are as follows:

Commitments to extend credit	$ 13,983,989
Standby letters of credit	637,000

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

(Continued)

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

(18) OTHER NONINTEREST INCOME AND EXPENSE

Components of other noninterest expense exceeding 1% of the total of interest income and other income for any of the years ended December 31, 2001, 2000, and 1999, respectively, include the following:

	2001	2000	1999
Data processing fees	$ 247,584	297,320	252,773
Supplies expenses	214,006	279,544	293,732

(19) REGULATORY MATTERS

The Company and the subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework of prompt corrective action, the Company and the subsidiary bank must meet specific capital guidelines that involve quantitative measures of each bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the subsidiary bank are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary bank to maintain minimum core capital (Tier I Capital) of at least 4% of risk-weighted assets, minimum total capital (Total Qualifying Capital) of at least 8% of risk-weighted assets and a minimum leverage ratio of at least 4% of average assets. Management believes, as of December 31, 2001, that the Company and the subsidiary bank meet all capital adequacy requirements to which they are subject.

(Continued)

As of December 31, 2001, the most recent notification from the appropriate regulatory agencies categorized the subsidiary bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the subsidiary banks must maintain minimum Total Qualifying Capital, Tier I Capital, and leverage ratios of at least 10%, 6%, and 5%, respectively. There are no conditions or events since that notification that management believes have changed the subsidiary bank's category.

The following table presents the actual capital amounts and ratios of the Corporation and its significant subsidiary banks at December 31, 2001 and 2000:

	TOTAL QUALIFYING CAPITAL		TIER I CAPITAL	
	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2001				
Consolidated	$ 23,570	$ 14.54%	21,577	$ 13.31%
United Bank	22,564	13.84%	20,571	12.62%
As of December 31, 2000				
Consolidated	21,992	14.52%	20,099	13.27%
United Bank	20,973	14.02%	19,102	12.77%

(Continued)

(20) PARENT COMPANY FINANCIAL INFORMATION

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

(Parent Company Only)
Condensed Balance Sheet Information
December 31, 2001 and 2000

ASSETS	2001
Cash	$ 175,156
Dividend receivable from subsidiary bank	384,055
Other receivable	--
Premises and equipment	840,588
Investment in subsidiary bank	20,840,844

Total assets	$ 22,240,643

LIABILITIES AND STOCKHOLDERS' EQUITY

Other liabilities	$ 394,150
Stockholders' equity:	
Class A common stock of $.01 par value. Authorized 5,000,000 shares; 1,159,481 and 1,156,881 shares issued in 2001 and 2000, respectively	11,595
Class B common stock of $.01 par value. Authorized 250,000 shares; no shares issued	--
Preferred stock of $.01 par value. Authorized 250,000 shares; no shares issued	--
Surplus	5,056,304
Retained earnings	16,961,631
Accumulated other comprehensive income, net of tax	268,863
	22,298,393
Less 62,181 and 62,649 treasury shares at cost in 2001 and 2000, respectively	451,900
Total stockholders' equity	21,846,493
Total liabilities and stockholders' equity	$ 22,240,643

(Continued)

F-30

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

(Parent Company Only)
Condensed Statements of Operations Information
Years ended December 31, 2001, 2000, and 1999

	2001	2000
Income:		

Cash dividends from subsidiary	$ 659,055	766
Other	43,550	36
Expense:		
Salaries and benefits	12,480	80
Other	90,794	130
Earnings before equity in undistributed earnings of subsidiary	599,331	591
Equity in undistributed earnings of subsidiary	1,470,239	1,454
Net earnings	$ 2,069,570	2,046

(Continued)

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY

Notes to Financial Statements

December 31, 2001, 2000, and 1999

(Parent Company Only)
Condensed Statements of Cash Flows Information
Years ended December 31, 2001, 2000, and 1999

	2001	2000
Cash flows from operating activities:		
Net earnings	$ 2,069,570	2,046,571
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(1,470,239)	(1,454,894
Compensation expense arising from stock option awards	12,480	45,760
Increase (decrease) in other liabilities	48,636	8,734
Decrease (increase) in receivables	32,195	(328,000
Net cash provided by operating activities	692,642	318,171

Cash flows from investing activities:		
Purchases of premises and equipment	(5,416)	(204,316
Capital investment in subsidiary	--	--
Net cash used in investing activities	(5,416)	(204,316
Cash flows from financing activities:		
Cash dividends	(658,080)	(601,300
Proceeds from private placement	--	44,000
Proceeds from sale of treasury stock	12,453	19,713
Exercise of stock options	41,600	89,600
Net cash provided by financial activities	(604,027)	(447,987
Net increase (decrease) in cash	83,199	(334,132
Cash, beginning of year	91,957	426,089
Cash, end of year	$ 175,156	91,957

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

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

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

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

3.1 Restated Certificate of Incorporation of the Registrant (Incorporated by reference herein from Exhibit 3a to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988).

3.1.1 Certificate of Amendment to Restated Certificate of Incorporation Of the Registrant(Incorporated by reference herein from Exhibit 3.1.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999).

3.2 Amended and Restated Bylaws of the Registrant (Incorporated by reference herein from Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).

10.1 Form of Employment Agreement between United Bank and Robert R. Jones, III(Incorporated by reference herein from Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.*

10.2 Supplemental Agreement between United Bank, the Registrant and Robert R. Jones III (Incorporated by reference herein from

Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998)*.

10.3 1998 Stock Option Plan of United Bancorporation of Alabama, Inc. (Incorporated by reference herein from Exhibit 3.1.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999).

10.4 1999 Employee Stock Purchase Plan of United Bancorporation of Alabama, Inc. (incorporated herein by reference from appendix A to the Registrants definitive proxy statement dated April 10, 2000)*.

21 Subsidiary of the Registrant.

(b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended December 31, 2001.

SIGNATURES

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

UNITED BANCORPORATION OF ALABAMA, INC.
(Registrant)

BY: /s/ Robert R. Jones, III

Robert R. Jones, III
President and Chief Executive Officer
March 29, 2002

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

SIGNATURES	CAPACITY IN WHICH SIGNED	DATE
/s/ Robert R. Jones, III ---------------------------- Robert R. Jones, III	President, Chief Executive Officer, and Director	March 29, 2002
/s/ Mitchell D. Staples ---------------------------- Mitchell D. Staples	Treasurer (principal financial and principal accounting officer)	March 29, 2002
/s/ H. Leon Esneul ---------------------------- H. Leon Esneul	Director	March 29, 2002

/s/ David D. Swift David D. Swift	Director	March 29, 2002
/s/ William J. Justice William J. Justice	Director	March 29, 2002
/s/ Bobby W. Sawyer Bobby W. Sawyer	Director	March 29, 2002
/s/ William C. Grissett William C. Grissett	Director	March 29, 2002
/s/ L. Walter Crim L. Walter Crim	Director	March 29, 2002

42

INDEX TO EXHIBITS

Exhibit		Page
21	Subsidiary of the registrant	E2