United Security Bancshares, Inc. Reports First Quarter Results

THOMASVILLE, Ala.--(BUSINESS WIRE)-- United Security Bancshares, Inc. (NASDAQ: USBI - News) today reported its results for the first quarter of 2012. The Company reported a net loss of $(1.2) million, or $(0.21) per diluted share, for the first quarter of 2012, compared with net income of $819,000, or $0.14 per diluted share, for the first quarter of 2011.

"United Security's operations remained sound in the first quarter with $8.6 million in net interest income, but our profitability was reduced by a higher provision for loan losses and impairment charges related to other real estate owned (OREO) compared with the first quarter of last year," stated James F. House, President and CEO of United Security Bancshares, Inc. "We continue to experience higher than normal charges related to real-estate based loans where the market remains weak in terms of sales and prices. Our first quarter charges included a $2.8 million write-down in value on repossessed properties to reflect lower appraisals and a $2.2 million replenishment of our allowance for loan losses. We remain aggressive in recognizing problem loans and taking appropriate charge-downs and impairments to recognize these losses."

"We are pleased to report that OREO declined for the fourth consecutive quarter. The first quarter's decrease was due to sales and write-downs of OREO more than offsetting new additions. We believe that our progress in reducing OREO is a solid indicator of the progress that we are making to restore our profitability. We remain focused on reducing the level of non-performing assets and believe that this will be key to restoring our historical earnings performance."

"Our deposit base is up and reflects our strong market position and financial condition. United Security continues to be ranked as 'well-capitalized,' the highest regulatory rating. We are proud of maintaining this excellent rating through the economic downturn," continued Mr. House.

First Quarter Results

Net interest income was $8.6 million for the quarter ended March 31, 2012, and was basically even with the prior year's first quarter. Net interest margin was 6.01%, compared with 6.24% in the first quarter of 2011. The decline in net interest margin was due in large part to lower earning assets, primarily loans, and to a lower yield on interest earning assets.

Net loans declined to $365.8 million in the first quarter of 2012, compared with $381.1 million at December 31, 2011. The decrease in net loans was due to loan payoffs and write-downs outpacing new loans. Loan demand of all types remains soft in our markets due primarily to the prolonged weak economy that we are experiencing. Real estate sales and new construction activity for both residential and commercial projects have been significantly affected.

Interest expense declined 21.8% to $1.5 million in the first quarter of 2012, compared with $1.9 million in the first quarter of 2011. The decline in interest expense was due primarily to lower interest rates paid, partially offset by growth in deposits.

Provision for loan losses increased to $2.2 million in the first quarter of 2012, or 3.8% of annualized average loans, compared with $1.3 million, or 2.2% of annualized average loans, in the first quarter of 2011. Net charge-offs totaled $3.7 million in the first quarter of 2012, compared with $2.2 million in the first quarter of 2011.

Total non-interest income increased to $1.3 million in the first quarter of 2012, compared with $1.2 million in the first quarter of the prior year. The increase was due primarily to higher other income, partially offset by lower service and other charges on deposit accounts and credit life insurance income.

Non-interest expense increased to $9.8 million in the first quarter of 2012, compared with $7.4 million in the first quarter of 2011. Non-interest expense rose primarily due to an increase in impairment expense related to OREO. Impairment expense was $2.8 million in the first quarter of 2012, compared with $484,000 in the first quarter of 2011.

United Security was classified as well-capitalized at the end of the first quarter of 2012. Total risk-based capital was 15.04% for the holding company and 15.09% for First United Security Bank,

compared with a regulatory requirement of 10.0% for a well-capitalized institution and a minimum regulatory requirement of 8.0%. Tier 1 risk-based capital was 9.25% for the holding company and 9.29% for the bank, both measures significantly above the requirement of 6.0% for a well-capitalized institution and minimum regulatory requirement of 4.0%.

About United Security Bancshares, Inc.

United Security Bancshares, Inc. is a bank holding company that operates nineteen banking offices in Alabama through First United Security Bank. In addition, the Company’s operations include Acceptance Loan Company, Inc., a consumer loan company, and FUSB Reinsurance, Inc., an underwriter of credit life and credit accident and health insurance policies sold to the bank’s and ALC’s consumer loan customers. The Company’s stock is traded on the Nasdaq Capital Market under the symbol “USBI.”

Forward-Looking Statements

This press release contains forward-looking statements, as defined by federal securities laws. Statements contained in this press release that are not historical facts are forward-looking statements. These statements may address issues that involve significant risks, uncertainties, estimates and assumptions made by management. USBI undertakes no obligation to update these statements following the date of this press release, except as required by law. In addition, USBI, through its senior management, may make from time to time forward-looking public statements concerning the matters described herein. Such forward-looking statements are necessarily estimates reflecting the best judgment of USBI’s senior management based upon current information and involve a number of risks and uncertainties. Certain factors that could affect the accuracy of such forward-looking statements are identified in the public filings made by USBI with the Securities and Exchange Commission, and forward-looking statements contained in this *press release or in other public statements of USBI or its senior management should be considered in light of those factors. With respect to the adequacy of the allowance for loan losses for USBI, these factors include, but are not limited to, the rate of growth (or lack thereof) in the economy, the relative strength and weakness in the consumer and commercial credit sectors and in the real estate markets and collateral values. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements.*