United Security Bancshares, Inc. Reports Third Quarter Results

THOMASVILLE, Ala.--(BUSINESS WIRE)--November 7, 2011--United Security Bancshares, Inc. (NASDAQ: USBI) today reported its financial results for the third quarter and nine months ended September 30, 2011. Net loss attributable to USBI was $1.3 million, or $(0.22) per diluted share, for the third quarter ended September 30, 2011, compared with net income of $351,000, or $0.06 per diluted share, for the same period of 2010.

United Security reported an increase in net interest income, non-interest income and net interest margin in the third quarter of 2011 compared with the prior year's third quarter; however, higher costs related to the provision for loan losses and expenses associated with other real estate owned (OREO) were the primary factors in the loss for the third quarter. The provision for loan losses rose to $2.3 million in the third quarter of 2011, compared with $1.4 million in the third quarter of 2010. Impairment charges for OREO rose to $3.0 million in the third quarter of 2011, compared with $2.0 million in the third quarter of 2010.

United Security remains focused on reducing the level of non-performing loans and OREO as key drivers to improving future profitability. OREO declined to $23.0 million at the end of the third quarter 2011 due to real estate sales and write-downs that more than offset new additions to OREO. This was the third consecutive quarterly decrease in OREO. Loans 90-days past due declined to $3.1 million in the third quarter of 2011, compared with $5.0 million in the third quarter of 2010. In addition, non-accrual loans declined to $19.9 million at the end of the third quarter, compared with $28.9 million at the end of the second quarter of 2011. United Security remains focused on moving non-performing loans through the collection or foreclosure process to minimize potential losses and to protect its capital base.

United Security expects near-term earnings to be affected by the continued weakness in its real estate loan portfolio related to a slowdown in real estate sales and lower real estate values that affect loan demand and collateral values.

Third Quarter Results

Interest income totaled $10.7 million in the third quarter of 2011, compared with $11.4 million in the third quarter of 2010. The decrease in interest income was due primarily to lower interest rates and a 2.7% decrease in average earning assets.

Interest expense declined 29.6% to $1.7 million in the third quarter of 2011, compared with $2.5 million in the third quarter of 2010. The decrease resulted primarily from a decline in interest rates paid compared with the third quarter of 2010, partially offset by an increase in interest bearing deposit accounts.

Net interest income remained flat at $8.97 million for the quarter ended September 30, 2011 compared with the quarter ended September 30, 2010. Net interest margin rose 18 basis points to 6.2% in the third quarter of 2011, compared with 6.0% in the third quarter of 2010.

Provision for loan losses rose to $2.3 million in the third quarter of 2011, or 2.2% of annualized average loans, compared with $1.4 million, or 1.4% of annualized average loans, in the third quarter of 2010. Net charge-offs rose to $6.0 million in the third quarter of 2011, compared with $1.3 million in the third quarter of 2010.

Core earnings for the third quarter remained positive with growth in net interest income and net interest margin compared with the third quarter of 2010. Net loans were down 1.3% from year-end 2010 due to reduced loan demand and loans transferred to OREO. Loan demand remains weak across First United Security Bank's markets due to the soft economy and its effect on real estate transactions and related loan activity.

Total non-interest income was $1.6 million in the third quarter of 2011, up slightly compared with the third quarter of 2010.

Total non-interest expense increased 19.2% to $10.6 million in the third quarter of 2011, compared with $8.9 million in the third quarter of 2010. Salary and benefit costs rose 9.8% to $3.8 million, other real estate expenses increased 52% to $3.3 million and other expense was up 8% to $2.6 million, all compared with the third quarter of 2010.

United Security and First United Security Bank continued to be rated as 'well-capitalized,' the highest regulatory rating, as of September 30, 2011. Total risk-based capital was 16.9% for the Company and for the 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 15.6% for the Company and for the Bank, both measures significantly above the requirement of 6.0% for a well-capitalized institution and minimum regulatory requirement of 4.0%.

Nine Months Results

For the first nine months of 2011, net income attributable to USBI was $414,000, or $0.07 per diluted share, compared with $3.3 million, or $0.55 per diluted share, for the first nine months of 2010.

For the nine months ended September 30, 2011, net interest income increased 1.6% to $26.4 million, compared with $26.0 million for the same period of 2010. Net interest margin improved to 6.2% for the first nine months of 2011 from 5.7% in the first nine months of 2010.

Provision for loan losses was $5.2 million in the first nine months of 2011, compared with $6.8 million in the first nine months of 2010.

Non-interest income declined to $5.0 million for the first nine months of 2011, compared with $8.7 million for the same period of 2010. The 2010 results included an insurance settlement of $4.2 million arising from the proceeds of the Company's fidelity bond claim that was included in other income for the first nine months of 2010.

Non-interest expense was up 11.6% to $26.2 million in the first nine months of 2011, compared with $23.4 million in the first nine months of 2010. The increase was due to higher salary, occupancy, furniture and equipment expense, impairment of OREO and other expenses and a loss on sale of OREO.

Shareholders' equity was $77.5 million, or $12.89 per share, at September 30, 2011, compared with $74.5 million, or $12.40 per share, at December 31, 2010, and $83.0 million, or $13.81 per share, at September 30, 2010.

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.