THOMASVILLE, Ala., Nov. 3 -- United Security Bancshares, Inc. USBI today reported net income of $1.0 million, or $0.17 per diluted share, for the third quarter ended September 30, 2009, compared with $1.4 million, or $0.23 per diluted share, for the same period of 2008.

"We are pleased to report that United Security maintained its solid profitability in the third quarter despite the weak economy," stated R. Terry Phillips, President and Chief Executive Officer of United Security Bancshares, Inc. "We remain focused on improving our operating results but expect that the continuation of soft real estate markets and higher unemployment in our core markets will result in lower loan demand and will put additional pressure on our loan quality metrics."

"United Security and First United Security Bank continue to be rated as 'well-capitalized,' the highest regulatory rating. We believe that our strong capital base provides us with an important buffer to the soft economy. We remain diligent in monitoring our loan quality metrics and working through our non-performing assets to minimize future losses and to protect our capital base," continued Mr. Phillips.

Third Quarter Results

United Security's net income was down from 2008 due to lower net interest income, lower non-interest income and higher non-interest expenses. Net interest income was reduced by lower loan demand and lower interest rates. Non-interest expenses were up from 2008 due to higher costs for FDIC insurance premiums and increased expenses for other real estate owned (OREO).

Interest income totaled $11.8 million in the third quarter of 2009, compared with $12.8 million in the third quarter of 2008. The decrease in interest income was due to a decline in yield and a change in the mix of earning assets.

Interest expense declined 17.5% to $3.3 million in the third quarter of 2009, compared with $4.0 million in the third quarter of 2008. The decline in interest expense was due primarily to lower rates, offset partially by an increase in interest-bearing liabilities. Average deposits increased 3.1% to $499.3 million, compared with $484.1 million in the third quarter of 2008.

Net interest income decreased 3.8% to $8.5 million in the third quarter of 2009, compared with $8.8 million in the third quarter of the prior year. Net interest margin was 5.46% in the third quarter of 2009, compared with 5.91% in the third quarter of 2008. The decline in net interest income was due to a decrease in average loans, combined with the decline in net interest margin.

"Our net interest margin has been under pressure due to our asset yields declining at a faster rate than our funding costs since last year," noted Mr. Phillips. "The overall decline in our loans has also resulted in our excess liquidity being invested in short-term investments that have a much lower yield than our loan portfolio. In addition, the increase in non-accrual loans since last year has reduced our interest income, further affecting our margin."

Provision for loan losses was $1.5 million in the third quarter of 2009, or 1.5% annualized of average loans, compared with $1.9 million, or 1.9% annualized of average loans, in the third quarter of 2008. Net interest income after provision for loan losses rose to $7.0 million in the third quarter of 2009, compared with $6.9 million in the third quarter of 2008.

"Our provision for loan losses was up slightly from the second quarter of 2009, reflecting an increase in our non-performing loans," stated Mr. Phillips. "We have experienced an increase in our non-performing loans since last year as a result of the soft economy. We remain focused on working through our non-performing loans and foreclosed real estate to improve our credit quality and to improve our future earnings potential."

Total non-interest income decreased 21.7% to $1.2 million in the third quarter of 2009, compared with $1.5 million in the third quarter of the prior year. The decline in non-interest income was due to lower service charges, credit life insurance income and other income.

Non-interest expense increased 8.5% to $7.0 million in the third quarter of 2009, compared with $6.4 million in the third quarter of 2008. Salary and employee benefit costs were up 8% to $3.5 million due, in part, to higher health insurance costs. Other expenses rose 14.8% to $2.6 million due to higher FDIC insurance premiums and costs related to OREO, offset partially by lower legal expenses compared with the third quarter of 2008.

Nine Month Results

For the first nine months of 2009, net income increased 8.0% to $5.2 million, or $0.86 per diluted share, compared with $4.8 million, or $0.79 per diluted share, for the first nine months of 2008. The 2009 results include $2.7 million, or $0.30 per share, of non-interest income related to the settlement of a lawsuit.

For the 2009 nine-month period, net interest income declined 3.6% to $25.4 million, compared with $26.4 million for the same period last year. The decrease in net interest income was due primarily to a decline in interest earned on loans related to lower volume and yields.

Provision for loan losses declined to $4.9 million in the first nine months of 2009, or 1.5% annualized of average loans, compared with $5.5 million, or 1.7% annualized of average loans, for the same period in 2008.

Non-interest income rose 40.2% to $6.4 million for the first nine months of 2009, compared with $4.6 million for the same period in 2008. The increase in non-interest income resulted primarily from proceeds of $2.7 million from the settlement of a lawsuit.

Non-interest expense was up 6.0% for the first nine months of 2009 to $19.6 million, compared with $18.5 million in the same period of 2008. The increase was due to higher salary and benefits, FDIC insurance and assessment costs, offset partially by lower legal expenses.

Shareholders' equity totaled $82.7 million, or book value of $13.75 per share, at the end of the third quarter of 2009. Return on average assets for the first nine months of 2009 was 1.01%, and return on average equity was 8.64%. Regular dividends were $0.11 per share in the third quarter of 2009.

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."