UNITED COMMUNITY BANKS INC
Form 10-K
March 16, 2011

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2010

Commission File Number 0-21656
UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia	58-1807304
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
125 Highway 515 East, Blairsville, Georgia	30512
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (706) 781-2265

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

Name of exchange on which registered: Nasdaq Global Select

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Sections 13 or 15(d) of the Act.
Yes o No x

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 o

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

Indicate by check mark 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.
o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

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

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

State the aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $354,624,336 (based on shares held by non-affiliates at $3.95 per share, the closing stock price on the Nasdaq stock market on June 30, 2010).

As of February 28, 2011, 87,081,150 shares of common stock were issued and outstanding. Also outstanding were presently exercisable options to acquire 2,715,738 shares, presently exercisable warrants to acquire 8,806,716 shares and 390,077 shares issuable under United Community Banks, Inc.'s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders are incorporated herein into Part III by reference.

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PART I

ITEM 1. BUSINESS.

United Community Banks, Inc. (“United”), a bank holding company registered under the Bank Holding Company Act of 1956, was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, Blairsville, Georgia, now known as United Community Bank, Blairsville, Georgia (the “Bank”).

Since the early 1990’s, United has actively expanded its market coverage through organic growth complemented by selective acquisitions, primarily of banks whose managements share United’s community banking and customer service philosophies. Although those acquisitions have directly contributed to United’s growth over the last ten years, their contribution has primarily been to provide United access to new markets with attractive organic growth potential. Organic growth in assets includes growth through existing offices as well as growth at de novo locations and post-acquisition growth at acquired banking offices.

To emphasize its commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of 27 separate “community banks”, which as of December 31, 2010, operated at 106 locations in north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee. The community banks offer a full range of retail and corporate banking services, including checking, savings, and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services, and other financial services, and are led by local bank presidents (referred to herein as the “Community Bank Presidents”) and management with significant experience in, and ties to, their communities. Each of the Community Bank Presidents has authority, alone or with other local officers, to make most credit decisions.

Recent Developments

On March 16, 2011, United announced its plans to sell $380 million of common stock in a private placement to a group of investors (the “Private Placement”). United has entered into definitive agreements with the investors and anticipates closing the Private Placement by March 31, 2011, subject to customary regulatory approvals and satisfaction of remaining conditions to closing. Pursuant to the Private Placement, the investors have agreed to purchase 17,338,497 shares of common stock and $347 million of mandatorily convertible preferred stock. If shareholders approval is received, such preferred stock will be converted into common stock and non-voting common stock. Following such shareholder approval, the purchasers in the Private Placement will own an aggregate of 120,429,003 shares of common stock and 79,570,997 shares of non-voting common stock.

Assuming the Private Placement is completed, United will be subject to certain ongoing obligations under the investment agreements with the investors. The lead investor in the Private Placement, an affiliate of Corsair Capital, LLC (“Corsair”) will be entitled to, among other things, the right to nominate one member to United’s board of directors and certain preemptive rights in connection with certain equity issuances by United. The investors will also have the benefit of certain registration rights under their respective agreements with us, and United has agreed to provide the investors certain indemnities under the agreements. The summaries of the various agreements mentioned above are qualified by reference to the full text of those agreements. For additional information on the Private Placement and the agreements, see United’s Current Reports on Form 8-K, filed on March 16, 2011.

United Community Bank (“UCB” or the “Bank”), through its full-service retail mortgage lending division, United Community Mortgage Services (“UCMS”), is approved as a seller/servicer for Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) and provides fixed and adjustable-rate home mortgages. During 2010, the Bank originated $325 million of residential mortgage loans throughout its footprint in Georgia, North Carolina and Tennessee for the purchase of homes and to refinance existing mortgage debt. Substantially all of these mortgages were sold into the secondary market without recourse to the Bank other than for breach of warranties.

Acquired in 2000, Brintech, Inc. (“Brintech”), a former subsidiary of the Bank, was a consulting firm for the financial services industry. Brintech provides consulting, advisory, and implementation services in the areas of strategic planning, profitability improvement, technology, efficiency, security, risk management, network, Internet banking, marketing, core processing, and telecommunications and regulatory compliance assistance. United sold Brintech effective March 31, 2010 and has excluded its results of operations from earnings from continuing operations in the consolidated statement of operations.

The Bank owns an insurance agency, United Community Insurance Services, Inc. (“UCIS”), known as United Community Advisory Services, which is a subsidiary of the Bank. United also owns a captive insurance subsidiary, United Community Risk Management Services, Inc. (“UCRMSI”) that provides risk management services for United and its subsidiaries.

United provides retail brokerage services through an affiliation with a third party broker/dealer.

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The Bank purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank (“SCB”) from the Federal Deposit Insurance Corporation (“FDIC”), as Receiver of SCB. The acquisition of SCB added assets and liabilities of $378 million and $367 million, respectively and resulted in a gain of $11.4 million. The acquisition of SCB added four banking offices in the Atlanta, Georgia MSA. UCB and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of the losses and share 80 percent of loss recoveries on the first $109 million of losses and absorb 95 percent of losses and share in 95 percent of loss recoveries exceeding $109 million.

Protection of Tax Benefits

As of February 22, 2011, United adopted a Tax Benefits Preservation Plan (the “Plan”) designed to protect our ability to utilize substantial tax assets. United’s tax attributes (the “Tax Benefits”) include net operating losses that it could utilize in certain circumstances to offset taxable income and reduce its federal income tax liability.

United’s ability to use the Tax Benefits would be substantially limited if we were to experience an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and related Internal Revenue Service pronouncements (“Section 382”). In general, an “ownership change” would occur if United’s “5-percent shareholders,” as defined under Section 382, collectively increase their ownership in United by more than 50% over a rolling three-year period. The Plan is designed to reduce the likelihood that United will experience an ownership change by discouraging any person or group from becoming a beneficial owner of 4.99% or more of United’s common stock then outstanding (a “Threshold Holder”). The lead investor and other investors in the Private Placement that are purchasing 4.99% or more of United’s common stock have been excluded from the Plan. There is no guarantee, however, that the Plan will prevent United from experiencing an ownership change under Section 382.

For additional information on the Plan, see United’s Current Reports on Form 8-K, filed on February 24, 2011.

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “could”, “should”, “projects”, “plans”, “goal”, “targets”, “potential forma”, “seeks”, “intends”, or “anticipates” or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following factors:

completion of the Private Placements;
the condition of the banking system and financial markets;
our ability to become profitable;

the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy was to continue to deteriorate;

our ability to raise capital consistent with our capital plan;

our ability to maintain liquidity or access other sources of funding;

changes in the cost and availability of funding;

the success of the local economies in which we operate;

our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;

changes in prevailing interest rates may negatively affect our net income and the value of our assets;

the accounting and reporting policies of United;

if our allowance for loan losses is not sufficient to cover actual loan losses;

we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;

our ability to fully realize our deferred tax asset balances;

competition from financial institutions and other financial service providers;

the United States Department of Treasury may change the terms of our Series B Preferred Stock;

- risks with respect to future expansion and acquisitions;
- conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the FDIC on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that occur, or any such proceedings or enforcement actions that is more severe than we anticipate; and
- the impact of the Private Placement generally and specifically on the market price of our common stock, our earnings per share, and the ownership interests of our shareholders.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-K.

Monetary Policy and Economic Conditions

United's profitability depends to a substantial extent on the difference between interest revenue received from loans, investments, and other earning assets, and the interest paid on deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of United, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits.

Competition

The market for banking and bank-related services is highly competitive. United actively competes in its market areas, which include north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies, and brokerage firms.

The table on the following page displays the respective percentage of total bank and thrift deposits for the last two years in each county where the Bank has operations. The table also indicates the Bank's ranking by deposit size in each county. All information in the table was obtained from the Federal Deposit Insurance Corporation Summary of Deposits as of June 30, 2010 and 2009. The following information only shows market share in deposit gathering, which may not be indicative of market presence in other areas.

Share of Local Deposit Markets by County - Banks and Savings Institutions

	2010 Market Share	2010 Rank in Market	2009 Market Share	2009 Rank in Market
Atlanta, Georgia MSA				
Bartow	9 %	4	8 %	5
Carroll	5	7	4	7
Cherokee	4	9	4	9
Cobb	3	10	3	7
Coweta	2	10	3	10
Dawson	30	1	29	1
DeKalb	1	21	1	18
Douglas	1	13	1	13
Fayette	9	4	11	4
Forsyth	2	13	3	11
Fulton	1	18	1	20
Gwinnett	3	8	3	7
Henry	4	9	4	8
Newton	3	8	3	9
Paulding	3	8	2	12
Pickens	2	7	2	7
Rockdale	12	4	12	3
Walton	1	10	1	10
Gainesville, Georgia MSA				
Hall	14	3	13	4

	2010 Market Share	2010 Rank in Market	2009 Market Share	2009 Rank in Market
North Georgia				
Chattooga	39 %	1	40 %	1
Fannin	49	1	50	1
Floyd	14	3	13	3
Gilmer	15	2	14	2
Habersham	16	3	14	3
Jackson	5	8	4	8
Lumpkin	28	2	29	1
Rabun	11	5	10	5
Towns	37	2	27	2
Union	86	1	88	1
White	43	1	39	1
Tennessee				
Blount	2	11	3	11
Bradley	5	7	5	7
Knox	1	25	1	16
Loudon	14	3	16	3
McMinn	2	9	3	9
Monroe	3	8	4	7
Roane	8	6	10	4

	2010 Market Share	2010 Rank in Market	2009 Market Share	2009 Rank in Market
Coastal Georgia				
Chatham	1 %	10	1 %	11
Glynn	15	3	13	3
Ware	4	8	7	7
North Carolina				
Avery	17	1	15	4
Cherokee	29	1	34	1
Clay	49	1	51	1
Graham	72	1	74	1
Haywood	11	5	12	4
Henderson	3	11	3	11
Jackson	25	1	24	1
Macon	8	5	9	4
Mitchell	34	1	32	1
Swain	30	2	28	2
Transylvania	13	4	14	3
Watauga	1	11	2	11
Yancey	19	2	17	4

Loans

The Bank makes both secured and unsecured loans to individuals, firms, and corporations. Secured loans include first and second real estate mortgage loans and commercial loans secured by non-real estate assets. The Bank also makes direct installment loans to consumers on both a secured and unsecured basis. At December 31, 2010, commercial (commercial and industrial), commercial (secured by real estate), commercial construction, residential construction, residential mortgage and consumer installment loans represented approximately 10%, 38%, 6%, 15%, 28% and 3%, respectively, of United’s total loan portfolio.

Specific risk elements associated with the Bank’s lending categories include, but are not limited to:

Loan Type	Risk Elements
Commercial (commercial and industrial)	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and other non-real estate assets); use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payments; declines in general economic conditions.

Commercial (secured by real estate)	Loan portfolio concentrations; declines in general economic conditions and occupancy rates; business failure and lack of a suitable alternative use for property; environmental contamination.
Commercial construction	Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property.
Residential construction	Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property.
Residential mortgage	Loan portfolio concentrations; changes in general economic conditions or in the local economy; loss of borrower's employment; insufficient collateral value due to decline in property value.
Consumer installment	Loss of borrower's employment; changes in local economy; the inability to monitor collateral.

Lending Policy

The Bank makes loans primarily to persons or businesses that reside, work, own property, or operate in its primary market areas. Unsecured loans are generally made only to persons who qualify for such credit based on net worth, income and liquidity. Secured loans are made to persons who are well established and have net worth, collateral, and cash flow to support the loan. Exceptions to the Bank's policies are permitted on a case-by-case basis. Major policy exceptions require the approving officer to document the reason for the exception. Loans exceeding the lending officer's credit limit must be approved through the credit approval process involving Regional Credit Managers.

United's Credit Administration department provides each lending officer with written guidelines for lending activities as approved by the Bank's Board of Directors. Limited lending authority is delegated to lending officers by Credit Administration as authorized by the Bank's Board of Directors. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by Credit Administration as authorized by the Bank's Board of Directors. At December 31, 2010, the Bank's legal lending limit was $182 million; however, the Board of Directors has established an internal lending limit of $20 million. All loans to borrowers for any individual residential or commercial construction project that exceeds $12 million or whose total aggregate loans exceed $15 million require the approval of two Bank directors and must be reported quarterly to the Bank's Board of Directors for ratification.

Regional Credit Managers

United utilizes its Regional Credit Managers to provide credit administration support to the Bank as needed. The Regional Credit Managers have joint lending approval authority with the Community Bank Presidents within varying limits set by Credit Administration based on characteristics of each market. The Regional Credit Managers also provide credit underwriting support as needed by the community banks they serve.

Loan Review and Nonperforming Assets

The Loan Review Department of United reviews, or engages an independent third party to review, the Bank's loan portfolio on an ongoing basis to identify any weaknesses in the portfolio and to assess the general quality of credit underwriting. The results of such reviews are presented to Executive Management, the Community Bank Presidents, Credit Administration Management and the Audit Committee of the Board of Directors. If an individual loan or credit relationship has a material weakness identified during the review process, the risk rating of the loan, or generally all loans comprising that credit relationship, will be downgraded to the classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, collateral, and other secondary source of repayment, different loans in a relationship can be assigned different risk ratings. Under United's 10-tier loan grading system, grades 1 through 6 are considered "pass" (acceptable) credit risk, grade 7 is a "watch" rating, and grades 8 through 10 are "adversely classified" credits that require management's attention. The entire 10-grade rating scale provides for a higher numeric rating for increased risk. For example, a risk rating of 1 is the least risky of all credits and would be typical of a loan that is 100% secured by a deposit at the Bank. Risk ratings of 2 through 6 in the pass category each have incrementally more risk. The four watch list credit ratings and rating definitions are:

7 (Watch) Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past-due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

8 (Substandard) Specific and well-defined weaknesses that may include poor liquidity and deterioration of financial ratios. Loan may be past-due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

9 (Doubtful) Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. No reliable secondary source of full repayment.

10 (Loss) Same characteristics as Doubtful, however, probability of loss is certain. Loans classified as such are generally charged-off.

In addition, Credit Administration, with supervision and input from Accounting, prepares a quarterly analysis to determine the adequacy of the Allowance for Loan Losses ("ALL"). The ALL analysis starts with total loans and subtracts loans fully secured by deposit accounts at the Bank, which effectively have no risk of loss. Next, all loans that are considered impaired are individually reviewed and assigned a specific reserve if one is warranted. Effective with the third quarter of 2009, as mandated by the FDIC, all impaired loans with specific reserves were required to be charged down by the amount of the specific reserve (loan charge-off) to net realizable value. The remaining loan balance for each major loan category is then multiplied by its respective loss factor that is derived from the average historical loss rate for the preceding two year period, weighted toward the most recent quarters, and adjusted to reflect current economic conditions. Loss factors for these loans are determined based on historical loss experience by type of loan. The unallocated portion of the allowance is maintained due to imprecision in estimating loss factors and economic and other conditions that cannot be entirely quantified in the analysis.

Asset/Liability Committee

United's asset/liability committee ("ALCO") is composed of executive officers and the Treasurer of United. ALCO is charged with managing the assets and liabilities of United and the Bank. ALCO's primary role is to balance asset growth and income generation with the prudent management of interest rate risk, market risk and liquidity risk and with the need to maintain appropriate levels of capital. ALCO directs the Bank's overall balance sheet strategy, including the acquisition and investment of funds. At regular meetings, the committee reviews the interest rate sensitivity and liquidity positions, including stress scenarios, the net interest margin, the investment portfolio, the funding mix and other variables, such as regulatory changes, monetary policy adjustments and the overall state of the economy. A more comprehensive discussion of United's Asset/Liability Management and interest rate risk is contained in Management's Discussion and Analysis (Part II, Item 7) and Quantitative and Qualitative Disclosures About Market Risk (Part II, Item 7A) sections of this report.

Investment Policy

United's investment portfolio policy is to balance income generation with liquidity, interest rate sensitivity, pledging and regulatory needs. The Chief Financial Officer and the Treasurer of United administer the policy, and it is reviewed from time to time by United's ALCO and the Board of Directors. Portfolio activity, composition, and performance are reviewed and approved periodically by United's Board of Directors or a committee thereof.

Employees

As of December 31, 2010, United and its subsidiaries had 1,763 full-time equivalent employees. Neither United nor any of its subsidiaries are a party to any collective bargaining agreement and management believes that employee relations are good.

Available Information

United's Internet website address is ucbi.com. United makes available free of charge through its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with, or furnished to, the Securities & Exchange Commission.

Supervision and Regulation

The following is an explanation of the supervision and regulation of United and the Bank as financial institutions. This explanation does not purport to describe state, federal or Nasdaq Stock Market supervision and regulation of general business corporations or Nasdaq listed companies.

General. United is a registered bank holding company subject to regulation by 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"). United is required to file annual and quarterly financial information with the Federal Reserve and is subject to periodic examination by the Federal Reserve.

The BHC Act requires every bank holding company to obtain the Federal Reserve's prior approval before (1) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities listed in the BHC Act or found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are:

- making or servicing loans and certain types of leases;
- performing certain data processing services;
- acting as fiduciary or investment or financial advisor;
- providing brokerage services;
- underwriting bank eligible securities;
- underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and
- making investments in corporations or projects designed primarily to promote community welfare.

Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act (the "GLB Act") relaxed the previous limitations and permitted bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies which may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Among the activities that are deemed "financial in nature" include:

- lending, exchanging, transferring, investing for others or safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;
- providing financial, investment, or economic advisory services, including advising an investment company;
- issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and
- underwriting, dealing in or making a market in securities.

A bank holding company may become a financial holding company under this statute only if each of its subsidiary banks is well-capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. Any bank holding company that does not elect to become a financial holding company remains subject to the bank holding company restrictions of the BHC Act.

Under this legislation, the Federal Reserve Board serves as the primary "umbrella" regulator of financial holding companies with supervisory authority over each parent company and limited authority over its subsidiaries. The primary regulator of each subsidiary of a financial holding company will depend on the type of activity conducted by the subsidiary. For example, broker-dealer subsidiaries will be regulated largely by securities regulators and insurance subsidiaries will be regulated largely by insurance authorities.

United has no current plans to register as a financial holding company.

United must also register with the Georgia Department of Banking and Finance ("DBF") and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationship of United and the Bank and related matters. The DBF may also require such other information as is necessary to keep itself informed concerning compliance with Georgia law and the regulations and orders issued thereunder by the DBF, and the DBF may examine United and the Bank. Although the Bank operates branches in North Carolina and Tennessee, neither the North Carolina Banking Commission ("NCBC"), nor the Tennessee Department of Financial Institutions ("TDFI") examines or directly regulates out-of-state holding companies.

United is an "affiliate" of the Bank under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Bank to United, (2) investments in the stock or securities of United by the Bank, (3) the Bank taking the stock or securities of an "affiliate" as collateral for loans by the Bank to a borrower, and (4) the purchase of assets from United by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank and each of its subsidiaries are regularly examined by the FDIC. The Bank, as a state banking association organized under Georgia law, is subject to the supervision of, and is regularly examined by, the DBF. The Bank's North Carolina branches are subject to examination by the NCBC. The Bank's Tennessee branches are subject to examination by the TDFI. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving the Bank.

Payment of Dividends. United is a legal entity separate and distinct from the Bank. Most of the revenue of United results from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by United to its shareholders.

Under the regulations of the DBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the DBF, unless such bank meets all the following requirements:

(a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);
(b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and
(c) the ratio of equity capital to adjusted assets is not less than 6%.

Effective April 2009, United adopted a board resolution proposed by the Federal Reserve Bank of Atlanta pursuant to which we agreed to not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior regulatory approval (the “Board Resolution”). Since that date, we requested and received approval to pay all cash dividends and interest payments during 2010 and 2009 but were not given permission to pay interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. As a result of such deferrals, United may not pay dividends on any of common or preferred stock or trust preferred securities until all accrued and unpaid amounts under the deferred securities have been paid.

The Bank is currently subject to an informal memorandum of understanding with the FDIC and Georgia Department of Banking and Finance (the "MOU"). The MOU requires, among other things, that prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators.

On December 5, 2008, United entered into a Letter Agreement and Securities Purchase Agreement (the "TARP Purchase Agreement") with the U.S. Treasury Department ("Treasury") under the TARP Capital Purchase Program discussed below, pursuant to which United sold (i) 180,000 shares of United's Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 2,132,701 shares (1,099,542 shares, as adjusted for subsequent stock dividends and a 50% reduction following United's stock offering in September 2009) of United's common stock for an aggregate purchase price of $180 million in cash. Pursuant to the terms of the Purchase Agreement, the ability of United to declare or pay dividends or distributions on its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($.09) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions. In addition, as long as Series B Preferred Stock is outstanding, dividend payments are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. This restriction will terminate on December 5, 2011, or earlier, if the Series B Preferred Stock has been redeemed in whole or Treasury has transferred all of the Series B Preferred Stock to third parties.

The payment of dividends by United and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank. In addition to the restrictions previously discussed, due to the net loss for 2010 and our accumulated deficit (negative retained earnings), the Bank does not have the ability, without prior regulatory approval, to pay cash dividends to the parent company in 2011. United did not pay cash dividends on its common stock in 2010 or 2009. In 2008, United declared cash dividends to common stockholders totaling $8.5 million, or $.18 per common share.

Capital Adequacy. Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of Total Capital to risk-weighted assets of 8%; and (2) a minimum Tier 1 Capital to risk-weighted assets of 4%. In addition, the Federal Reserve and the FDIC have established a minimum 3% leverage ratio of Tier 1 Capital to quarterly average total assets for the most highly-rated banks and bank holding companies. "Total Capital" is composed of Tier 1 Capital and Tier 2 Capital. "Tier 1 Capital" includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets. "Tier 2 Capital" includes, among other things, perpetual preferred stock and related surplus not meeting the Tier 1 Capital definition, qualifying mandatory convertible debt securities, qualifying subordinated debt and allowances for possible loan and lease losses, subject to limitations. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The Federal Reserve will require a bank holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The FDIC, the Office of the Comptroller of the Currency (the "OCC") and the Federal Reserve consider interest rate risk in the overall determination of a bank's capital ratio, requiring banks with greater risk to maintain adequate capital for the risk. For example, regulators frequently require financial institutions with high levels of classified assets to maintain a leverage ratio of at least 8%.

In addition, Section 38 of the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "1991 Act"). The "prompt corrective action" provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank's financial condition declines. The FDIC is required to resolve a bank when its capital leverage ratio reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a "well-capitalized" institution has a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an "adequately capitalized" institution has a Total risk-based capital ratio of at least 8%, a Tier 1 risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an "undercapitalized" institution has a Total risk-based capital ratio of under 8%, a Tier 1 risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a "significantly undercapitalized" institution has a Total risk-based capital ratio of under 6%, a Tier 1 risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a "critically undercapitalized" institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also allow it to "downgrade" an institution to a lower capital category based on supervisory factors other than capital.

Although as of December 31, 2010 and 2009, the most recent notifications from the FDIC categorize the Bank as "well-capitalized" under current regulations, regulators expect to maintain capital well above the minimum levels. In addition, the Bank's MOU, requires that the Bank must maintain its Tier I leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10%.

The federal regulatory authorities' risk-based capital guidelines parallel the 1988 Capital Accord of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. On December 17, 2009, the Basel Committee issued a set of proposals (the "Capital Proposals") that would significantly revise the definitions of Tier 1 Capital and Tier 2 Capital, with the most significant changes being to Tier 1 Capital. Most notably, the Capital Proposals would disqualify certain structured capital instruments, such as trust preferred securities, from Tier 1 Capital status. The Capital Proposals would also re-emphasize that common equity is the predominant component of Tier 1 Capital by adding a minimum common equity to risk-weighted assets ratio and requiring that goodwill, general intangibles and certain other items that currently must be deducted from Tier 1 Capital instead be deducted from common equity as a component of Tier 1 Capital. The Capital Proposals also leave open the possibility that the Basel Committee will recommend changes to the minimum Tier 1 Capital and Total Capital ratios of 4.0% and 8.0%, respectively.

Concurrently with the release of the Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the "Liquidity Proposals," and together with the Capital Proposals, the "2009 Basel Committee Proposals"). The Liquidity Proposals have three key elements, including the implementation of (i) a "liquidity coverage ratio" designed to ensure that a bank maintains an adequate level of unencumbered, high quality assets sufficient to meet the bank's liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a "net stable funding ratio" designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors and that supervisors should use in monitoring the liquidity risk profiles of supervised entities.

Final provisions to the Basel Committee's proposal are expected to be finalized by December 31, 2012. Any implementation of such proposals in the U.S. will be subject to the discretion of the U.S. bank regulators, and the regulations or guidelines adopted by such agencies may, of course, differ from the 2009 Basel Committee Proposals and other proposals that the Basel Committee may promulgate in the future.

Pursuant to the Bank's MOU, among other things, the Bank must maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the MOU. As of December 31, 2010, the Bank's Tier 1 leverage ratio was 7.45% which will be resolved with the Private Placement.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted on July 21, 2010. The Dodd-Frank Act resulted in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. Among other things, the Dodd-Frank Act includes the following provisions:

Creates a new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws. Smaller depository institutions, those with $10 billion or less in assets, will be subject to the Consumer Financial Protection Bureau's rule-writing authority, and existing depository institution regulatory agencies will retain examination and enforcement authority for such institutions;

Establishes a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk;

Implements corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all companies whose securities are registered with the SEC, not just financial institutions;

Changes the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital;
Provides that interchange fees for debit cards will be set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard;
Applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies and require the FDIC and Federal Reserve to seek to make their respective capital requirements for state nonmember banks and bank holding companies countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;
Makes permanent the $250,000 limit for federal deposit insurance and provides unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions; and
Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers or the financial industry more generally.

Troubled Asset Relief Program. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted establishing the Troubled Asset Relief Program ("TARP"). On October 14, 2008, Treasury announced its intention to inject capital into U.S. financial institutions under the TARP Capital Purchase Program ("CPP") and since has injected capital into many financial institutions, including United. On December 5, 2008, United entered into the Purchase Agreement with Treasury under the CPP pursuant to which United sold 180,000 shares of Series B Preferred Stock and the Warrant for an aggregate purchase price of $180 million in cash. In the Purchase Agreement, United is subject to restrictions on its ability to pay dividends on its common stock and make certain repurchases of equity securities, including its common stock, without Treasury's consent. In addition, United agreed that, until such time as Treasury ceases to own any securities of United acquired pursuant to the Purchase Agreement, United will take all necessary actions to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of EESA as implemented by any guidance or regulation under the EESA and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing. Finally, the Purchase Agreement provides that Treasury may unilaterally amend any provision of the Purchase Agreement to the extent required to comply with any changes in applicable federal law.

The Special Inspector General for the Troubled Asset Relief Program ("SIGTARP"), was established pursuant to Section 121 of EESA, and has the duty, among other things, to conduct, supervise, and coordinate audits and investigations of the purchase, management and sale of assets by the Treasury under TARP and the CPP, including the shares of non-voting preferred shares purchased from United.

American Recovery and Reinvestment Act of 2009. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA") was enacted. The ARRA, commonly known as the economic stimulus or economic recovery package, includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes additional executive compensation and corporate expenditure limits on all current and future TARP recipients, including United, until the institution has repaid Treasury. This repayment is now permitted under ARRA without penalty and without the need to raise new capital, subject to Treasury's consultation with the recipient's appropriate regulatory agency. The executive compensation standards include (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of the executive's total annual compensation, (ii) prohibitions on severance payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) required establishment of a company-wide policy regarding “excessive or luxury expenditures”, and (vi) inclusion in a participant’s proxy statements for annual shareholder meetings of a nonbinding “say on pay” shareholder vote on the compensation of executives.

Incentive Compensation. On October 22, 2009, the Federal Reserve issued a proposal on incentive compensation policies (the “Incentive Compensation Proposal”) intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Proposal, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the institution’s board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of financial institutions, such as United, that are not “large, complex banking organizations.” These reviews will be tailored to each financial institution based on the scope and complexity of the institution’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the financial institution’s supervisory ratings, which can affect the institution’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a financial institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the institution’s safety and soundness and the institution is not taking prompt and effective measures to correct the deficiencies.

On February 7, 2011, the federal banking agencies proposed rule-making implementing provisions of the Dodd-Frank Act to prohibit incentive-based compensation plans that expose "covered financial institutions" to inappropriate risks. Covered financial institutions are institutions that have over $1 billion in assets and offer incentive-based compensation programs. The proposed rules would:

- Prohibit incentive-based compensation that would encourage inappropriate risks by providing excessive compensation, or that could lead to a material loss for the institution;
- Require each covered financial institution to establish and maintain policies and procedures regarding incentive compensation that are commensurate with the size and complexity of the institution; and
- Require covered financial institutions with over $50 billion in assets, in addition to the above, to defer at least 50 percent of incentive-based payments to executive officers for a minimum of three years.

The scope and content of banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect United's ability to hire, retain and motivate its key employees.

Commercial Real Estate. The federal banking agencies, including the FDIC, restrict concentrations in commercial real estate lending and have noted that recent increases in banks' commercial real estate concentrations have created safety and soundness concerns in the current economic downturn. The regulatory guidance mandates certain minimal risk management practices and categorizes banks with defined levels of such concentrations as banks requiring elevated examiner scrutiny. The Bank has concentrations in commercial real estate loans in excess of those defined levels. Although management believes that United's credit processes and procedures meet the risk management standards dictated by this guidance, regulatory outcomes could effectively limit increases in the real estate concentrations in the Bank's loan portfolio and require additional credit administration and management costs associated with those portfolios.

Fair Value. United's impaired loans and foreclosed assets may be measured and carried at "fair value", the determination of which requires management to make assumptions, estimates and judgments. When a loan is considered impaired, a specific valuation allowance is allocated or a partial charge-off is taken, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost or "fair value", less cost to sell, following foreclosure. "Fair value" is defined by accounting principles generally accepted in the United States of America ("GAAP") "as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets; it is not a forced transaction (for example, a forced liquidation or distress sale)." Recently in the Bank's markets there have been very few transactions in the type of assets which represent the vast majority of the Bank's impaired loans and foreclosed properties which reflect "orderly transactions" as so defined. Instead, most transactions in comparable assets have been distressed sales not indicative of "fair value." Accordingly, the determination of fair value in the current environment is difficult and more subjective than it would be in a stable real estate environment. Although management believes its processes for determining the value of these assets are appropriate factors and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. Because of this increased subjectivity in fair value determinations, there is greater than usual grounds for differences in opinions, which may result in increased disagreements between management and the Bank's regulators, disagreements which could impair the relationship between the Bank and its regulators.

Source of Strength Doctrine. Federal Reserve regulations and policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, United is expected to commit resources to support the Bank.

Loans. Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. The Bank adopted the federal guideline in 2001.

Transactions with Affiliates. Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Generally, these requirements limit these transactions to a percentage of the bank's capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

Financial Privacy. In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. The USA Patriot Act of 2001 (the "USA Patriot Act") has imposed significant new compliance and due diligence obligations, creating new crimes and penalties. The United States Treasury Department has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to United and the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Future Legislation. Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of United and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of United or any of its subsidiaries. With the current economic environment, the nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

Executive Officers of United

Senior executives of United are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors.

The senior executive officers of United, and their ages, positions with United, past five year employment history and terms of office as of February 1, 2011, are as follows:

Name (age)	Position with United	Officer of United Since
Jimmy C. Tallent (58)	President, Chief Executive Officer and Director	1988
Guy W. Freeman (74)	Executive Vice President, Chief Operating Officer	1995

Rex S. Schuette (61)	Executive Vice President and Chief Financial Officer	2001
David Shearrow (51)	Executive Vice President and Chief Risk Officer since April 2007; prior to joining United, he served as Executive Vice President and Senior Credit Officer of SunTrust Banks	2007
Craig Metz (55)	Executive Vice President of Marketing	2002
Bill M. Gilbert (58)	Senior Vice President of Retail Banking	2003
Glenn S. White (59)	President of the Atlanta Region since 2008; previously, he was the President of United Community Bank - Gwinnett since 2007; prior to joining United, he served as Chief Executive Officer of Gwinnett Commercial Group, Inc.	2008

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with directors or officers of United acting solely in their capacities as such.

ITEM 1A. RISK FACTORS.

An investment in United's common stock involves risk. Investors should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K and the documents incorporated by reference before deciding to purchase common stock. It is possible that risks and uncertainties not listed below may arise or become material in the future and affect United's business.

Completion of the Private Placement is subject to various closing conditions which may not be satisfied.

Completion of the Private Placement is subject to various conditions to closing, many of which are outside of our control, and may not be satisfied. We cannot assure you that all conditions will be satisfied timely or at all. A failure to consummate the Private Placement could have a material adverse effect on our financial condition, our ability to avoid additional, heightened enforcement actions and our ability to raise capital in the future.

If the Private Placement is completed, our existing shareholders' interests will be substantially diluted and the market price of our common stock may fall.

As described above, we expect to complete the Private Placement, assuming the satisfaction of the remaining conditions. Because a large number of common shares is contemplated to be issued in the Private Placement at a price that is significantly less than our tangible book value, the ownership interest of existing shareholders and our earnings per share will be substantially diluted and the market price of our common stock may fall.

We may suffer substantial additional dilution due to our agreements to indemnify investors in the Private Placement if we experienced an ownership change at or prior to closing.

In our agreements with the investors in the Private Placement, we agreed to indemnify the investors if we experienced an ownership change under Section 382 at or prior to closing. In such case, we will be required to issue 48 million additional shares of non-voting common stock at no additional cost. As a result, if such indemnity is triggered, the ownership interest of existing shareholders and our earnings per share will be further diluted and the market price of our common stock may decline.

Assuming the completion of the Private Placement, subsequent resales of our common shares in the public market may cause the market price of our common shares to fall.

We plan to issue a large number of common shares to the investors in the Private Placement. The investors in the Private Placement will have certain registration rights with respect to the common shares held by them. The market value of our common shares could decline as a result of sales by the investors from time to time of a substantial amount of the common shares held by them.

Assuming the completion of the Private Placement, the lead investor will become a substantial holder of our common shares.

Assuming the completion of the Private Placement and the conversion of the preferred stock issued in connection with the Private Placement, the lead investor will become holder of approximately 9.9% of our outstanding voting common shares and 22.5% of total common stock and non-voting common stock and will have a representative on our Board of Directors. Although it has entered into certain passivity agreements with the Federal Reserve in connection with their proposed investments in us, the lead investor may have an influence over our corporate policy and business strategy. In addition, it will have pre-emptive rights to maintain it percentage ownership of our common shares in the event of certain issuances of securities by us.

Enforcement actions could have a material negative effect on our business, operations, financial condition, results of operations or the value of our common stock.

Pursuant to the Board Resolution, United has agreed to not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior regulatory approval. The MOU requires, among other things, that the Bank maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the MOU and that, prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators. As of December 31, 2010, the Bank's Tier 1 leverage ratio was below the target level of 8%.

If we are unable reduce our classified assets, complete the Private Placement or raise additional capital, comply with the Board Resolution or regain compliance under the MOU, then we could become subject to additional, heightened enforcement actions and orders, possibly including cease and desist or consent orders, written agreements and/or other regulatory enforcement actions. If our regulators were to take such additional enforcement actions, then we could, among other things, become subject to significant restrictions on our ability to develop any new business, as well as restrictions on our existing business, and we could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. The terms of any such enforcement action could have a material negative effect on our business, operations, financial condition, results of operations or the value of our common stock.

As a financial services company, adverse conditions in the general business or economic environment could have a material adverse effect on our financial condition and results of operations.

Continued weakness or adverse changes in business and economic conditions generally or specifically in the markets in which we operate could adversely impact our business, including causing one or more of the following negative developments:

- a decrease in the demand for loans and other products and services offered by us;
- a decrease in the value of our loans secured by consumer or commercial real estate;
- an impairment of our assets, such as our deferred tax assets; or
- an increase in the number of customers or other counterparties who default on their loans or other obligations to us, which could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

For example, if we are unable to continue to generate, or demonstrate that we can continue to generate, sufficient taxable income in the near future, then we may not be able to fully realize the benefits of our deferred tax assets and may be required to recognize a valuation allowance, similar to an impairment of those assets, if it is more-likely-than-not that some portion of our deferred tax assets will not be realized. Such a development or one or more other negative developments resulting from adverse conditions in the general business or economic environment, some of which are described above, could have a material adverse effect on our financial condition and results of operations.

We have incurred significant operating losses and the timing of profitability is uncertain.

We incurred a net operating loss from continuing operations of $143 million, or $1.62 per share, for the year ended December 31, 2010; $139 million, or $2.47 per share, for the year ended December 31, 2009; and $63.9 million, or $1.36 per share, for the year ended December 31, 2008, in each case due primarily to credit losses and associated costs, including significant provisions for loan losses. Although we have taken a significant number of steps to reduce our credit exposure, we will likely continue to have a higher than normal level of nonperforming assets and substantial charge-offs in 2011, which would continue to adversely impact our overall financial condition and results of operations.

The results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy were to continue to deteriorate.

We regularly perform an internal analysis of our capital position. Our analysis is based on the tests that were administered to the nation’s nineteen largest banks by Treasury in connection with its Supervisory Capital Assessment Program (“SCAP”). Under the stress test, we apply many of the same methodologies but less severe loss assumptions than Treasury applies in its program to estimate our loan losses (loan charge-offs), resources available to absorb those losses and any necessary additions to capital that would be required under the “more adverse” stress test scenario. As a result, our estimates for loan losses are lower than those suggested by the SCAP assumptions.

We have also calculated our loss estimates based on the SCAP test, and while we believe we have appropriately applied Treasury’s assumptions in performing this internal stress test, results of this test may not be comparable to the results of stress tests performed and publicly released by Treasury, and the results of this test may not be the same as if the test had been performed by Treasury.

The results of these stress tests involve many assumptions about the economy and future loan losses and default rates, and may not accurately reflect the impact on our financial condition if the economy does not improve or continues to deteriorate. Any continued deterioration of the economy could result in credit losses significantly higher, with a corresponding impact on our financial condition and capital, than those predicted by our internal stress test.

Our industry and business have been adversely affected by conditions in the financial markets and economic conditions generally and recent efforts to address difficult market and economic conditions may not be effective.

Since mid-2007, the financial markets and economic conditions generally have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all residential construction, particularly in metro Atlanta and north and coastal Georgia, and residential mortgages as property prices declined rapidly and affected nearly all asset classes. The effect of the market and economic downturn also spread to other areas of the credit markets and in the availability of liquidity. The magnitude of these declines led to a crisis of confidence in the financial sector as a result of concerns about the capital base and viability of certain financial institutions. These declines have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with other financial institutions and, in some cases, to fail. In addition, customer delinquencies, foreclosures and unemployment have also increased significantly.

The current economic pressure on consumers and businesses and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations and may continue to result in credit losses and write-downs in the future. The failure of government programs and other efforts to help stabilize the banking system and financial markets and a continuation or worsening of current economic conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

Our ability to raise additional capital could be limited and could affect our liquidity and could be dilutive to existing shareholders.

Whether or not we close the Private Placement, we may be required or choose to raise additional capital, including for strategic, regulatory or other reasons. Current conditions in the capital markets are such that traditional sources of capital may not be available to us on reasonable terms if we needed to raise additional capital. In such case, there is no guarantee that we will be able to successfully raise additional capital at all or on terms that are favorable or otherwise not dilutive to existing shareholders.

Capital resources and liquidity are essential to our businesses and could be negatively impacted by disruptions in our ability to access other sources of funding.

Capital resources and liquidity are essential to our businesses. We depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include traditional and brokered deposits, inter-bank borrowings, Federal Funds purchased and Federal Home Loan Bank advances. We also raise funds from time to time in the form of either short-or long-term borrowings or equity issuances.

Our capital resources and liquidity could be negatively impacted by disruptions in our ability to access these sources of funding. With increased concerns about bank failures, traditional deposit customers are increasingly concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits from our subsidiary bank in an effort to ensure that the amount that they have on deposit is fully insured. In addition, the cost of brokered and other out-of-market deposits and potential future regulatory limits on the interest rate we pay for brokered deposits could make them unattractive sources of funding. Further, factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to access other sources of funds. Other financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy generally and, given recent downturns in the economy, there may not be a viable market for raising short or long-term debt or equity capital. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could be developed if we are downgraded or put on (or remain on) negative watch by the rating agencies, we suffer a decline in the level of our business activity or regulatory authorities take significant action against us, among other reasons.

Among other things, if we fail to remain “well-capitalized” for bank regulatory purposes, because we do not qualify under the minimum capital standards or the FDIC otherwise downgrades our capital category, it could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common stock, and our ability to make acquisitions, and we would not be able to accept brokered deposits without prior FDIC approval. To be “well-capitalized,” a bank must generally maintain a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. In addition, our regulators require us to maintain higher capital levels. For example, regulators frequently require financial institutions with high levels of classified assets to maintain a leverage ratio of at least 8% and our MOU currently requires us to maintain an

8% leverage ratio. Our failure to remain “well-capitalized” or to maintain any higher capital requirements imposed on us could negatively affect our business, results of operations and financial condition, generally.

If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations and financial condition.

Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which we are perceived in such markets, may adversely affect financial condition or results of operations.

In general, the amount, type and cost of our funding, including from other financial institutions, the capital markets and deposits, directly impacts our operating costs and our assets growth and therefore, can positively or negatively affect our financial condition or results of operations. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, our operating losses, our ability to remain “well capitalized,” events that adversely impact our reputation, enforcement actions, disruptions in the capital markets, events that adversely impact the financial services industry, changes affecting our assets, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments. Also, we compete for funding with other financial institutions, many of which are substantially larger, and have more capital and other resources than we do. In addition, as some of these competitors consolidate with other financial institutions, their competitive advantages may increase. Competition from these institutions may also increase the cost of funds.

Our business is subject to the success of the local economies and real estate markets in which we operate.

Our success significantly depends on the growth in population, income levels, loans and deposits and on stability in real estate values in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally do not improve significantly, our business may be adversely affected. Since mid-2007, the financial markets and economic conditions generally have experienced a variety of difficulties. In particular, the residential construction and commercial development real estate markets in the Atlanta market have experienced substantial deterioration. If market and economic conditions continue to deteriorate or remain at their current level of deterioration for a sustained period of time, such conditions may lead to additional valuation adjustments as we continue to reassess the market value of our loan portfolio, greater losses on defaulted loans and on the sale of other real estate owned. Additionally, such adverse economic conditions in our market areas, specifically decreases in real estate property values due to the nature of our loan portfolio, more than 85% of which is secured by real estate, could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of more diverse economies.

Our concentration of residential construction and development loans is subject to unique risks that could adversely affect our results of operations and financial condition.

Our residential construction and development loan portfolio was $695 million at December 31, 2010, comprising 15% of total loans. Residential construction and development loans are often riskier than home equity loans or residential mortgage loans to individuals. Poor economic conditions have resulted in decreased demand for residential housing, which, in turn, has adversely affected the development and construction efforts of residential real estate developer borrowers. Consequently, economic downturns like the current one impacting our market areas adversely affect the ability of residential real estate developer borrowers to repay these loans and the value of property used as collateral for such loans. A sustained weak economy could also result in higher levels of nonperforming loans in other categories, such as commercial and industrial loans, which may result in additional losses. Because of the general economic slowdown we are currently experiencing, these loans represent higher risk due to slower sales and reduced cash flow that affect the borrowers' ability to repay on a timely basis and could result in a sharp increase in our total net-charge offs and could require us to significantly increase our allowance for loan losses, which could have a material adverse effect on our financial condition or results of operations.

Our concentration of commercial real estate loans is subject to risks that could adversely affect our results of operations and financial condition.

Our commercial real estate loan portfolio was $1.76 billion at December 31, 2010, comprising 38% of total loans. Commercial real estate loans typically involve larger loan balances than compared to residential mortgage loans, but are still granular in nature with the average loan size of $447,000. The repayment of loans secured by commercial real estate is dependent upon both the successful operation of the commercial project and the business operated out of that commercial real estate site, as over half of the commercial real estate loans are for borrower-owned sites. If the cash flows from the project are reduced or if the borrower's business is not successful, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may be subject to adverse conditions in the real estate market or economy. In addition, many economists believe that deterioration in income producing commercial real estate is likely to worsen as vacancy rates continue to rise and absorption rates of existing square footage and/or units continue to decline. Because of the general economic slowdown we are currently experiencing, these loans represent higher risk and could result in an increase in our total net-charge offs and could require us to increase our allowance for loan losses.

Changes in prevailing interest rates may negatively affect net income and the value of our assets.

Changes in prevailing interest rates may negatively affect the level of net interest revenue, the primary component of our net income. Federal Reserve Board policies, including interest rate policies, determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which affect our net interest revenue. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. Changes in the interest rates may negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

United's reported financial results depend on the accounting and reporting policies of United, the application of which requires significant assumptions, estimates and judgments.

United's accounting and reporting policies are fundamental to the methods by which it records and reports its financial condition and results of operations. United's management must make significant assumptions and estimates and exercise significant judgment in selecting and applying many of these accounting and reporting policies so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report United's financial condition and results. In some cases, management must select a policy from two or more alternatives, any of which may be reasonable under the circumstances, which may result in United reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting United's financial condition and results. They require management to make difficult, subjective and complex assumptions, estimates judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies relate to the allowance for loan losses; fair value measurement, intangible assets and income taxes. Because of the uncertainty of assumptions and estimates involved in these matters, United may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the reserve provided; significantly decrease the carrying value of loans, foreclosed property or other assets or liabilities to reflect a reduction in their fair value; recognize significant impairment on intangible asset balances; or significantly increase our accrued taxes liability or decrease the value of our deferred tax assets.

If our allowance for loan losses is not sufficient to cover actual loan losses, earnings would decrease.

Our loan customers may not repay their loans according to their terms and the collateral securing the payment of these loans may be insufficient to assure repayment. We may experience significant loan losses which would have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. We maintain an allowance for loan losses in an attempt to cover any loan losses inherent in the loan portfolio. In determining the size of the allowance, our management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and real estate values, trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. As a result of these considerations, we have from time to time increased our allowance for loan losses. For the year ended December 31, 2010, we recorded an operating provision for loan losses of $235 million compared to $310 million and $184 million for the years ended December 31, 2009 and 2008, respectively. If those assumptions are incorrect, the allowance may not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in the loan portfolio.

We may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers and employees.

When we make loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and the borrower's net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our financial condition or results of operations.

Competition from financial institutions and other financial service providers may adversely affect our profitability.

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with banks, credit unions, savings and loan associations, mortgage banking firms, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as community, super-regional, national and international financial institutions that operate offices in our market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. Many of our competitors are well-established, larger financial institutions that are able to operate profitably with a narrower net interest margin and have a more diverse revenue base. We may face a competitive disadvantage as a result of our smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although we compete by concentrating marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, customer loyalty can be easily influenced by a competitor's new products and our strategy may or may not continue to be successful.

The terms governing the issuance of the preferred stock to Treasury may be changed, the effect of which may have an adverse effect on our operations.

The terms of the Purchase Agreement provide that Treasury may unilaterally amend any provision of the Purchase Agreement to the extent required to comply with any changes in applicable federal law that may occur in the future. We have no control over any change in the terms of the transaction that may occur in the future. Such changes may place restrictions on our business or results of operation, which may adversely affect the market price of our common stock.

We may face risks with respect to future expansion and acquisitions.

We may engage in de novo branch expansion and, if the appropriate business opportunity becomes available, we may seek to acquire other financial institutions or parts of those institutions, including in FDIC-assisted transactions. These involve a number of risks, including:

the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to an acquired branch or institution, a new branch office or a new market;
the time and costs of evaluating new markets, hiring or retaining experienced local management and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on results of operations;
the loss of key employees and customers of an acquired branch or institution;
the difficulty or failure to successfully integrate the acquired financial institution or portion of the institution; and
the temporary disruption of our business or the business of the acquired institution.

Changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our financial condition and results of operations.

We and our subsidiary bank are heavily regulated by federal and state authorities. This regulation is designed primarily to protect depositors, federal deposit insurance funds and the banking system as a whole, but not shareholders. Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. While we cannot predict the regulatory changes that may be borne out of the current economic crisis, and we cannot predict whether we will become subject to increased regulatory scrutiny by any of these regulatory agencies, any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

Federal and state regulators have the ability to impose substantial sanctions, restrictions and requirements on our banking and nonbanking subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors' resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. In particular, institutions that are not sufficiently capitalized in accordance with regulatory standards may also face capital directives or prompt corrective action. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. The imposition of regulatory sanctions, including monetary penalties, may have a material impact on our financial condition or results of operations, and damage to our reputation, and loss of our holding company status. In addition, compliance with any such action could distract management's attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital. A bank closure would result in a total loss of your investment.

The failure of other financial institutions could adversely affect us.

Our ability to engage in routine transactions, including for example funding transactions, could be adversely affected by the actions and potential failures of other financial institutions. We have exposure to many different industries and counterparties, and we routinely execute transactions with a variety of counterparties in the financial services industry. As a result, defaults by, or even rumors or concerns about, one or more financial institutions with which we do business, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral we hold cannot be sold at prices that are sufficient for us to recover the full amount of our exposure. Any such losses could materially and adversely affect our financial condition or results of operations.

The FDIC has imposed a special assessment on all FDIC-insured institutions, which decreased our earnings in 2009, and future special assessments could adversely affect our earnings in future periods.

In May 2009, the FDIC announced that it had voted to levy a special assessment on insured institutions in order to facilitate the rebuilding of the Deposit Insurance Fund. The assessment was equal to five basis points of our subsidiary bank's total assets minus Tier 1 capital as of June 30, 2009. This additional charge of $3.8 million increased operating expenses during the second quarter of 2009. The FDIC has indicated that future special assessments are possible, although it has not determined the magnitude or timing of any future assessments. Any such future assessments will decrease our earnings.

The Dodd-Frank Act and related regulations may adversely affect our business, financial condition, liquidity or results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted on July 21, 2010. The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with the power to promulgate and enforce consumer protection laws. Smaller depository institutions, those with $10 billion or less in assets, will be subject to the Consumer Financial Protection Bureau's rule-writing authority, and existing depository institution regulatory agencies will retain examination and enforcement authority for such institutions. The Dodd-Frank Act also establishes a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk, makes permanent the $250,000 limit for federal deposit insurance, provides unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions and repeals the federal prohibitions on the payment of interest on demand deposits. Among other things, the Dodd-Frank Act includes provisions affecting (1) corporate governance and executive compensation of all companies whose securities are registered with the SEC, (2) FDIC insurance assessments, (3) interchange fees for debit cards, which would be set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard, (4) minimum capital levels for bank holding companies, subject to a grandfather clause for financial institutions with less than $15 billion in assets, (5) derivative and proprietary trading by financial institutions, and (6) the resolution of large financial institutions.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations may adversely impact us. However, compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations and increase our capital requirements and constraints, any of which may have a material adverse impact on our business, financial condition, liquidity or results of operations.

Our ability to fully utilize deferred tax assets could be impaired under Section 382 of the Internal Revenue Code.

As of December 31, 2010, our net deferred tax asset was approximately $167 million, which includes approximately $124 million of deferred tax benefits related to federal and state operating loss carryforwards. The carrying value of our net deferred tax assets and our ability to use such assets to offset future tax liabilities could be impaired if cumulative common stock transactions over a rolling three-year period resulted in an ownership change under Section 382 of the Internal Revenue Code.

There is no guarantee that the Tax Benefits Preservation Plan will prevent United from experiencing an ownership change under Section 382. Our inability to utilize these tax benefits would have a material adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

There are no unresolved comments from the Securities and Exchange Commission staff regarding United's periodic or current reports under the Exchange Act.

ITEM 2. PROPERTIES.

The executive offices of United are located at 125 Highway 515 East, Blairsville, Georgia. United owns this property. The Bank conducts business from facilities primarily owned by the Bank or its subsidiaries, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Bank and Brintech provide services or perform operational functions at 121 locations, of which 108 are owned and 13 are leased under operating leases. Note 8 to United's consolidated financial statements includes additional information regarding amounts invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings incidental to its business. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision will result in a material adverse change in the consolidated financial condition or results of operations of United. No material proceedings terminated in the fourth quarter of 2010.

ITEM 4. (REMOVED AND RESERVED).
PART II

ITEM 5. MARKET FOR UNITED'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Stock. United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI". The closing price for the period ended December 31, 2010 was $1.95. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2010 and 2009.

Stock Price Information

	2010				2009			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$5.00	$3.21	$4.41	882,923	$13.87	$2.28	$4.16	524,492
Second quarter	6.20	3.86	3.95	849,987	9.30	4.01	5.99	244,037
Third quarter	4.10	2.04	2.24	810,161	8.00	4.80	5.00	525,369
Fourth quarter	2.60	1.10	1.95	1,084,578	5.33	3.07	3.39	1,041,113

At January 31, 2011, there were approximately 6,850 record shareholders and 18,000 beneficial shareholders of United's common stock.

Dividends. United declared cash dividends on its common stock of $.18 in 2008. United also declared stock dividends on its common stock of one new share for every 130 shares owned in the third and fourth quarters of 2008 and in each of the first three quarters of 2009. No cash or stock dividends were declared on United's common stock during 2010. Federal and state laws and regulations impose restrictions on the ability of United and the Bank to pay dividends, and the Board Resolution provides that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior approval of the Federal Reserve. We were not given permission to pay interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. As a result of such deferrals, United may not pay dividends on any of common or preferred stock or trust preferred securities until all accrued and unpaid amounts under the deferred securities have been paid.

In addition, pursuant to the terms of the Purchase Agreement entered into with Treasury under the CPP, the ability of United to declare or pay dividends or distributions on its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share ($.09) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions. In addition, as long as Series B Preferred Stock is outstanding, dividend payments are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. This restriction will terminate on December 5, 2011, or earlier, if Treasury has transferred all of the Series B Preferred Stock to third parties. Additional information regarding this item is included in Note 18 to the consolidated financial statements, under the heading of "Supervision and Regulation" in Part I of this report and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Dividends."

Share Repurchases. United had in place a board approved repurchase authorization for up to 3,000,000 shares of United's common stock, which expired in 2008. No shares were purchased in 2008.

United's Amended and Restated 2000 Key Employee Stock Option Plan allows option holders to exercise stock options by delivering previously acquired shares having a fair market value equal to the exercise price provided that the shares delivered must have been held by the option holder for at least six months. During 2008, optionees delivered 33,759 shares to exercise stock options. No shares were delivered to exercise stock options in 2010 or 2009.

Sales of Unregistered Securities. On February 22, 2011, United entered into a share exchange agreement (the "Share Exchange Agreement") with Elm Ridge Offshore Master Fund, Ltd. (the "Master Fund") and Elm Ridge Value Partners, L.P. ("Value Partners" and, together with the Master Fund, collectively, the "Elm Ridge Parties"). Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 7,755,631 shares of United's common stock, in exchange for (i) 16,613 shares of the Company's Cumulative Perpetual Preferred Stock, Series D, par value $1.00 per share and liquidation value $1,000 per share (the "Series D Preferred Shares") and (ii) warrants to purchase 7,755,631 shares of common stock. The warrants are exercisable at a price of $2.50 per share and may not be exercised until October 1, 2012 and expire on August 22, 2013. The closing of the Share Exchange occurred on February 22, 2011. Prior to entering into the Share Exchange Agreement, collectively, the Elm Ridge Parties were United's largest shareholder. By exchanging the Elm Ridge Parties' common stock for the Series D Preferred Shares and warrants, United eliminated its only "5-percent shareholder" and, as a result, obtained further protection against an ownership change under Section 382. For additional information on the Share Exchange, see United's Current Reports on Form 8-K, filed on February 24, 2011.

On December 5, 2008, United participated in Treasury's CPP by issuing 180,000 shares of Series B Preferred Stock and the Warrant to purchase 2,132,701 shares (1,099,542 shares, as adjusted for subsequent stock dividends and a 50% reduction following United's recent stock offering) of United Community Banks, Inc.'s common stock at a price of $12.66 per share ($12.28 per share, as adjusted for subsequent stock dividends) for an aggregate purchase price of $180 million. The Series B Preferred Stock qualifies as Tier 1 capital under risk-based capital guidelines and will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Series B Preferred Stock may be redeemed at the stated amount of $1,000 per share plus any accrued and unpaid dividends without penalty and without the need to raise new capital, subject to Treasury's consultation with the recipient's appropriate regulatory agency. The Series B Preferred Stock is non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B Preferred Stock.

On October 31, 2008, United formed United Community Statutory Trust II and United Community Statutory Trust III for the purpose of issuing Trust Preferred Securities in private placement offerings. United Community Statutory Trust II issued $11,767,000 of 9% fixed rate Trust Preferred Securities and United Community Statutory Trust II issued $1.2 million of variable rate Trust Preferred Securities that pay interest at a rate of prime plus 3%. The Trust Preferred Securities issued by both trusts mature on October 31, 2038 and are callable at par anytime after October 31,

2013. The Trust Preferred Securities were issued with warrants that make them convertible into United Community Banks, Inc.'s common stock at the conversion price of $20 per share. The warrants may be exercised anytime prior to October 31, 2013, on which date the unexercised warrants expire. The Trust Preferred Securities qualify as Tier 1 Capital under applicable Risk-Based Capital guidelines.

Performance Graph. Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United's common stock against the cumulative total return on the Nasdaq Stock Market (U.S. Companies) Index and the Nasdaq Bank Stocks Index for the five-year period commencing December 31, 2005 and ending on December 31, 2010.

FIVE YEAR CUMULATIVE TOTAL RETURNS*
COMPARISON OF UNITED COMMUNITY BANKS, INC.,
NASDAQ STOCK MARKET (U.S.) INDEX
AND NASDAQ BANK INDEX
As of December 31

	Cumulative Total Returns *					
	2005	2006	2007	2008	2009	2010
United Community Banks, Inc.	$ 100	$ 123	$ 61	$ 54	$ 14	$ 8
Nasdaq Stock Market (U.S.) Index	100	110	119	57	83	98
Nasdaq Bank Index	100	112	89	65	54	64

* Assumes $100 invested on December 31, 2005 in United's common stock and above noted indexes. Total return includes reinvestment of dividends at the closing stock price of the common stock on the dividend payment date and the closing values of stock and indexes as of December 31 of each year.

ITEM 6. SELECTED FINANCIAL DATA.
For the Years Ended December 31,

(in thousands, except per share data; taxable equivalent)	2010	2009	2008	2007
INCOME SUMMARY				
Net interest revenue	$243,052	$245,227	$238,704	$274,48
Operating provision for loan losses (1)	234,750	310,000	184,000	37,600
Operating fee revenue (2)	48,548	50,964	46,081	53,701
Total operating revenue (1)(2)	56,850	(13,809)	100,785	290,58
Operating expenses (3)	242,952	217,050	200,335	181,73
Loss on sale of nonperforming assets	45,349	-	-	-
Operating (loss) income from continuing operations before taxes	(231,451)	(230,859)	(99,550)	108,85
Operating income taxes	(88,062)	(91,754)	(35,651)	40,266
Net operating (loss) income from continuing operations (1)(2)(3)	(143,389)	(139,105)	(63,899)	68,588
Gain from acquisition, net of tax	-	7,062	-	-
Noncash goodwill impairment charges	(210,590)	(95,000)	-	-
Severance cost, net of tax benefit	-	(1,797)	-	-
Fraud loss provision and subsequent recovery, net of tax benefit	7,179	-	-	(10,99
Net (loss) income from discontinued operations	(101)	513	449	403
Gain from sale of subsidiary, net of income taxes and selling costs	1,266	-	-	-
Net (loss) income	(345,635)	(228,327)	(63,450)	57,993
Preferred dividends and discount accretion	10,316	10,242	724	18
Net (loss) income available to common shareholders	$(355,951)	$(238,569)	$(64,174)	$57,975
PERFORMANCE MEASURES				
Per common share:				
Diluted operating (loss) earnings from continuing operations (1)(2)(3)	$(1.62)	$(2.47)	$(1.36)	$1.47
Diluted (loss) earnings from continuing operations	(3.77)	(3.96)	(1.36)	1.24
Diluted (loss) earnings	(3.76)	(3.95)	(1.35)	1.24
Cash dividends declared (rounded)	-	-	.18	.36
Stock dividends declared (6)	-	3 for 130	2 for 130	-
Book value	4.84	8.36	16.95	17.73
Tangible book value (5)	4.76	6.02	10.39	10.94
Key performance ratios:				
Return on equity (4)	(57.08)%	(34.40)%	(7.82)%	7.79
Return on assets	(4.53)	(2.76)	(.76)	.75
Net interest margin	3.56	3.29	3.18	3.88
Operating efficiency ratio from continuing operations (2)(3)	98.98	73.97	70.00	55.53
Equity to assets	11.01	11.12	10.22	9.61
Tangible equity to assets (5)	9.15	8.33	6.67	6.63
Tangible common equity to assets (5)	6.80	6.15	6.57	6.63
Tangible common equity to risk-weighted assets (5)	9.05	10.39	8.34	8.21
ASSET QUALITY *				
Non-performing loans	$179,094	$264,092	$190,723	$28,219
Foreclosed properties	142,208	120,770	59,768	18,039
Total non-performing assets (NPAs)	321,302	384,862	250,491	46,258

Allowance for loan losses	174,695	155,602	122,271	89,423
Operating net charge-offs (1)	215,657	276,669	151,152	21,834
Allowance for loan losses to loans	3.79 %	3.02 %	2.14 %	1.51
Operating net charge-offs to average loans (1)	4.42	5.03	2.57	.38
NPAs to loans and foreclosed properties	6.77	7.30	4.35	.78
NPAs to total assets	4.32	4.81	2.92	.56
AVERAGE BALANCES ($ in millions)				
Loans	$4,961	$5,548	$5,891	$5,735
Investment securities	1,453	1,656	1,489	1,278
Earning assets	6,822	7,465	7,504	7,071
Total assets	7,626	8,269	8,319	7,731
Deposits	6,373	6,713	6,524	6,029
Shareholders’ equity	840	920	850	743
Common shares - Basic (thousands)	94,624	60,374	47,369	45,948
Common shares - Diluted (thousands)	94,624	60,374	47,369	46,593
AT YEAR END ($ in millions)				
Loans *	$4,604	$5,151	$5,705	$5,929
Investment securities	1,490	1,530	1,617	1,357
Total assets	7,443	8,000	8,592	8,207
Deposits	6,469	6,628	7,004	6,076
Shareholders’ equity	636	962	989	832
Common shares outstanding (thousands)	94,685	94,046	48,009	46,903

(1) Excludes pre-tax provision for fraud-related loan losses and related charge-offs of $18 million, net of income tax benefit of $7 million in 2007 and subsequent recovery of $11.7 million, net of tax expense of $4.6 million in 2010. (2) Excludes the gain from acquisition of $11.4 million, net of income tax expense of $4.3 million in 2009. (3) Excludes the goodwill impairment charges of $211 million and $95 million in 2010 and 2009, respectively, and severance costs of $2.9 million, net of income tax benefit of $1.1 million in 2009. (4) Net (loss) income available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (5) Excludes effect of acquisition related intangibles and associated amortization. (6) Number of new shares issued for shares currently held.

* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Selected Financial Data (Continued)

	2010				2009	
(in thousands, except per share data; taxable equivalent)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
INCOME SUMMARY						
Interest revenue	$81,215	$84,360	$87,699	$89,849	$97,481	$101,181
Interest expense	21,083	24,346	26,072	28,570	33,552	38,177
Net interest revenue	60,132	60,014	61,627	61,279	63,929	63,004
Operating provision for loan losses (1)	47,750	50,500	61,500	75,000	90,000	95,000
Operating fee revenue (2)	12,442	12,861	11,579	11,666	14,447	13,389
Total operating revenue (1)(2)	24,824	22,375	11,706	(2,055)	(11,624)	(18,607)
Operating expenses (3)	64,918	64,906	58,308	54,820	60,126	51,426
Loss on sale of nonperforming assets	-	-	45,349	-	-	-
Operating loss from continuing operations before taxes	(40,094)	(42,531)	(91,951)	(56,875)	(71,750)	(70,033)
Operating income tax benefit	(16,520)	(16,706)	(32,419)	(22,417)	(31,687)	(26,252)
Net operating loss from continuing operations (1)(2)(3)	(23,574)	(25,825)	(59,532)	(34,458)	(40,063)	(43,781)
Gain from acquisition, net of tax expense	-	-	-	-	-	-
Noncash goodwill impairment charges	-	(210,590)	-	-	-	(25,000)
Severance costs, net of tax benefit	-	-	-	-	-	-
Partial reversal of fraud loss provision, net of tax expense	7,179	-	-	-	-	-
(Loss) income from discontinued operations	-	-	-	(101)	228	63
Gain from sale of subsidiary, net of income taxes and selling costs	-	-	-	1,266	-	-
Net loss	(16,395)	(236,415)	(59,532)	(33,293)	(39,835)	(68,718)
Preferred dividends and discount accretion	2,586	2,581	2,577	2,572	2,567	2,562
Net loss available to common shareholders	$(18,981)	$(238,996)	$(62,109)	$(35,865)	$(42,402)	$(71,280)
PERFORMANCE MEASURES						
Per common share:						
Diluted operating loss from continuing operations (1)(2)(3)	$(.28)	$(.30)	$(.66)	$(.39)	$(.45)	$(.93)
Diluted loss from continuing operations	(.20)	(2.52)	(.66)	(.39)	(.45)	(1.43)
Diluted loss	(.20)	(2.52)	(.66)	(.38)	(.45)	(1.43)
Stock dividends declared (7)	-	-	-	-	-	1 for 130
Book value	4.84	5.14	7.71	7.95	8.36	8.85
Tangible book value (5)	4.76	5.05	5.39	5.62	6.02	6.50
Key performance ratios:						
Return on equity (4)(6)	(17.16)%	(148.04)%	(35.89)%	(20.10)%	(22.08)%	(45.52)%
Return on assets (6)	(.89)	(12.47)	(3.10)	(1.70)	(1.91)	(3.32)
Net interest margin (6)	3.58	3.57	3.60	3.49	3.40	3.39

Operating efficiency ratio from continuing operations (2)(3)	89.45	89.38	141.60	75.22	78.74	68.35	
Equity to assets	8.85	11.37	11.84	11.90	11.94	10.27	
Tangible equity to assets (5)	8.75	9.19	9.26	9.39	9.53	7.55	
Tangible common equity to assets (5)	6.35	6.78	6.91	7.13	7.37	5.36	
Tangible common equity to risk-weighted assets (5)	9.05	9.60	9.97	10.03	10.39	10.67	
ASSET QUALITY *							
Non-performing loans	$179,094	$217,766	$224,335	$280,802	$264,092	$304,381	$
Foreclosed properties	142,208	129,964	123,910	136,275	120,770	110,610	
Total non-performing assets (NPAs)	321,302	347,730	348,245	417,077	384,862	414,991	
Allowance for loan losses	174,695	174,613	174,111	173,934	155,602	150,187	
Operating net charge-offs (1)	47,668	49,998	61,323	56,668	84,585	90,491	
Allowance for loan losses to loans	3.79 %	3.67 %	3.57 %	3.48 %	3.02 %	2.80 %	
Operating net charge-offs to average loans (1)(6)	4.03	4.12	4.98	4.51	6.37	6.57	
NPAs to loans and foreclosed properties	6.77	7.11	6.97	8.13	7.30	7.58	
NPAs to total assets	4.32	4.96	4.55	5.32	4.81	4.91	
AVERAGE BALANCES ($ in millions)							
Loans	$4,768	$4,896	$5,011	$5,173	$5,357	$5,565	$
Investment securities	1,354	1,411	1,532	1,518	1,529	1,615	
Earning assets	6,680	6,676	6,854	7,085	7,487	7,401	
Total assets	7,338	7,522	7,704	7,946	8,287	8,208	
Deposits	6,294	6,257	6,375	6,570	6,835	6,690	
Shareholders’ equity	649	855	912	945	989	843	
Common shares - basic (thousands)	94,918	94,679	94,524	94,390	94,219	49,771	
Common shares - diluted (thousands)	94,918	94,679	94,524	94,390	94,219	49,771	
AT PERIOD END ($ in millions)							
Loans *	$4,604	$4,760	$4,873	$4,992	$5,151	$5,363	$
Investment securities	1,490	1,310	1,488	1,527	1,530	1,533	
Total assets	7,443	7,013	7,652	7,837	8,000	8,444	
Deposits	6,469	5,999	6,330	6,488	6,628	6,821	
Shareholders’ equity	636	662	904	926	962	1,007	
Common shares outstanding (thousands)	94,685	94,433	94,281	94,176	94,046	93,901	

(1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of $11.8 million, net of tax expense of $4.6 million in 2010. Operating charge-offs also exclude the $11.8 million related partial recovery of the previously charged off amount. (2) Excludes the gain from acquisition of $11.4 million, (income tax expense of $4.3 million) in the second quarter of 2009 and revenue generated by discontinued operations in all periods presented. (3) Excludes goodwill impairment charges of $211 million in the third quarter of 2010 and $25 million and $70 million in the third and first quarters of 2009, respectively, severance costs of $2.9 million, (income tax benefit of $1.1 million) in the first quarter of 2009 and expenses relating to discontinued operations for all periods presented. (4) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (5) Excludes effect of acquisition related intangibles and associated amortization. (6) Annualized. (7) Number of new shares issued for shares currently held.

* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

The following discussion is intended to provide insight into the financial condition and results of operations of United and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

Operating loss and operating loss per diluted share are non-GAAP performance measures. United's management believes that operating performance is useful in analyzing the company's financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on pages 32 and 33.

United's markets have been severely disrupted by the weak housing market which resulted in the buildup of surplus housing and finished lot inventory, which has put considerable stress on the residential construction portion of United's loan portfolio. The weak economic conditions spread beyond the housing market, pushing unemployment to levels not seen in decades, which negatively impacted the rest of United's loan portfolio. As a result, United reported a net loss of $346 million in 2010, which included non-cash charges of $211 million for goodwill impairment, a $7.18 million partial fraud loss recovery, net of tax, as well as a $30.0 million after-tax loss from the transaction with Fletcher, which is described on page 34. This compared to a net loss of $228 million in 2009, which included non-cash charges of $95 million for goodwill impairment, a $1.8 million charge for a reduction in workforce, net of tax, and an after-tax gain of $7.06 million for the acquisition of Southern Community Bank ("SCB"). United's net operating loss from continuing operations for 2010 was $143 million, which excludes goodwill impairment and the partial fraud loss recovery, compared to a net operating loss from continuing operations of $139 million for the twelve months ended December 31, 2009, which excludes goodwill impairment, severance costs and the gain on acquisition. Diluted operating loss from continuing operations per common share was $1.62 for the year ended December 31, 2010, compared with a diluted operating loss per common share of $2.47 for 2009. The goodwill impairment charge represented $2.23 of loss per share. In addition, the partial loss recovery resulted in a gain of $.08 per share bringing the total loss to $3.76 per share. In 2009, the gain on acquisition, goodwill impairment charges and severance costs represented $.12 per share, $1.58 per share and $.03 per share, respectively, for the year, bringing the diluted loss per share to $3.95. The increased loss from 2009 reflected higher foreclosed property costs and the additional goodwill impairment charges.

United's approach to managing through the challenging economic cycle has been to aggressively deal with credit problems and dispose of troubled assets quickly, taking losses as necessary. As a result, United's provision for loan losses was $223 million in 2010 compared with $310 million in 2009. Net charge-offs for 2010 were $204 million compared with $277 million in 2009. Operating provision for loan losses and operating net charge-offs for 2010 of $235 million and $216 million, respectively, excluded the partial recovery of $11.8 million from a fraud loss incurred in 2007 related to two failed real estate developments in western North Carolina. At the end of 2010, United's allowance for loan losses of $175 million was 3.79% of loans compared with $155 million or 3.02% of loans at the end of 2009. Nonperforming assets of $321 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 4.32% of total assets at December 31, 2010, compared to 4.81% as of December 31, 2009. The sale of approximately $70 million in nonperforming loans and $33 million in foreclosed properties to Fletcher in the second quarter of 2010 contributed to the decrease.

Taxable equivalent net interest revenue was $243 million for 2010, compared to $245 million for the same period in 2009. The 1% decrease in net interest revenue was primarily due to lower levels of earning assets. Average loans and securities for 2010 declined $587 million and $203 million, respectively, from the year ended December 31, 2009. Net interest margin improved 27 basis points from 3.29% in 2009 to 3.56% in 2010. The margin improvement resulted from management's ongoing efforts to manage loan pricing, while lowering the cost of deposits.

Operating fee revenue of $48.5 million was down $2.4 million or 5% from 2009. The decrease was primarily attributable to balance sheet management activities that resulted in gains from the sale of securities of $2.55 million in 2010 and $2.76 million in 2009 offset by losses of $2.23 million in 2010 on the prepayment of Federal Home Loan Bank advances. Mortgage loan and related fees decreased $1.94 million compared to the prior year, due to the significant refinancing activity that took place in 2009, as mortgage rates fell to historical lows. In 2009, United also recognized a gain of $11.4 million related to the FDIC assisted acquisition of SCB which is not included in operating fee revenue. The gain resulted from the bargain purchase since the purchase price was less than the value of the net assets and liabilities received.

For the year ended December 31, 2010, operating expenses of $243 million, excluding the loss from the sale of nonperforming assets to Fletcher, were up $25.9 million, or 12% from the same period in the prior year. Also excluded from operating expenses for 2010 was the $211 million goodwill impairment charge. Operating expenses for 2009 excluded $95 million in goodwill impairment charges and $2.90 million in severance costs. Although United's expense saving initiatives were successful in lowering controllable expenses, foreclosed property costs were up $33.3 million from 2009. Higher foreclosed property expenses were partially offset by a $4.95 million decrease in salaries and benefits expense, reflecting the 10% staff reduction that began at the end of the first quarter of 2009.

At the end of 2010, United held $442 million in commercial paper and short-term investments as part of its continued emphasis on liquidity. Loans at December 31, 2010 were $4.60 billion, down $547 million from the end of 2009, due to United's efforts to reduce exposure to residential construction loans. Totaling $695 million, residential construction loans at December 31, 2010 represented 15% of outstanding loans, down from 20% at the end of 2009, a decrease of $355 million. Deposits were down $159 million to $6.47 billion, as United focused on reducing interest expense by allowing attrition in higher rate certificates of deposit by not aggressively competing with rates. United's focus was to increase low cost core transaction deposits which grew $291 million in 2010. At the end of 2010, total equity capital was $636 million, down $327 million from December 31, 2009 reflecting the net loss of 2010, offset by the $40 million issuance of equity instruments to Fletcher. The 2010 loss includes a non-cash charge of $211 million for goodwill impairment, which reduced shareholders' equity but had no impact on regulatory capital. At December 31, 2010, all of United's regulatory capital ratios were above well capitalized levels.

Critical Accounting Policies

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for the allowance for loan losses, fair value measurements, intangible assets and income taxes. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon future events. Carrying assets and liabilities at fair value results in more financial statement volatility. The fair values and the information used to record the valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies for United are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant effect on the financial statements.

Management considers the following accounting policies to be critical accounting policies:

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on non-impaired loans based on historical loss experience, management's evaluation of the current loan portfolio, and consideration of current economic trends and conditions. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimate. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all non–accrual loans over $500,000, which are considered impaired loans. These analyses involve judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loss element is determined using the weighted average of actual losses incurred over the prior eight quarters for each type of loan, updated quarterly. The weighted average is weighted toward the most recent quarters' loss experience. The historical loss experience is adjusted for known changes in economic conditions and credit quality trends such as changes in the amount of past due and nonperforming loans. The resulting loss allocation factors are applied to the balance of each type of loan after removing the balance of impaired loans and other specifically allocated loans from each category. The loss allocation factors are updated annually. The allocated component of the allowance for loan losses also includes consideration of concentrations of credit and changes in portfolio mix.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetectable losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that accounts for the inherent imprecision in loan loss estimation based on historical loss experience as a result of United's growth through acquisitions, which have expanded the geographic footprint in which it operates, and changed its portfolio mix in recent years. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical losses used in developing loss allocation factors may not be representative of actual unrealized losses inherent in the portfolio.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. Although management believes its processes for determining the allowance adequately consider all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect earnings or financial position in future periods.

Additional information on United's loan portfolio and allowance for loan losses can be found in the sections of Management's Discussion and Analysis titled "Asset Quality and Risk Elements" and "Nonperforming Assets" and in the sections of Part I, Item 1 titled "Lending Policy" and "Loan Review and Nonperforming Assets". Note 1 to the consolidated financial statements includes additional information on United's accounting policies related to the allowance for loan losses.

Fair Value Measurements

United's impaired loans and foreclosed assets may be measured and carried at "fair value", the determination of which requires management to make assumptions, estimates and judgments. At December 31, 2010, the percentage of total assets measured at fair value was 16%. See Note 22 "Fair Value" in the consolidated financial statements herein for additional disclosures regarding the fair value of our assets and liabilities.

When a loan is considered impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost or "fair value", less cost to sell, following foreclosure. "Fair value" is defined by GAAP "as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets it is not a forced transaction (for example, a forced liquidation or distress sale)." Recently in the Bank's markets there have been very few transactions in the type of assets which represent the vast majority of the Bank's impaired loans and foreclosed properties which reflect "orderly transactions" as so defined. Instead, most transactions in comparable assets have been distressed sales not indicative of "fair value." Accordingly, the determination of fair value in the current environment is difficult and more subjective than it would be in a stable real estate environment. Although management believes its processes for determining the value of these assets are appropriate factors and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. In addition, because of this increased subjectivity in fair value determinations, there is greater than usual grounds for differences in opinions, which may result in increased disagreements between management and the Bank's regulators, disagreements which could impair the relationship between the Bank and its regulators.

Intangible Assets

United’s intangible assets have historically consisted of goodwill, representing the excess of cost over the fair value of net assets of acquired businesses, and core deposit intangibles. United’s goodwill is tested for impairment annually, or more often if events or circumstances indicate impairment may exist. Adverse changes in the economic environment, declining operations of acquired business units, or other factors could result in a decline of the implied fair value of goodwill. If the implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount of goodwill. These changes or factors, if they occur, could be material to United’s operating results for any particular reporting period; the potential effect cannot be reasonably estimated.

During the third quarter of 2010, United conducted an interim goodwill impairment assessment as a result of a significant decline in its stock price. The impairment assessment results indicated that United’s goodwill was completely impaired and the remaining balance of $211 million was charged to earnings during the third quarter. The third quarter impairment charge followed two other impairment charges in the first and third quarters of 2009 of $70 million and $25 million, respectively.

Other identifiable intangible assets, primarily core deposit intangibles, are reviewed at least annually for events or circumstances which could affect the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an “other identifiable intangible asset” is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount of the intangible assets. These events or circumstances, if they occur, could be material to United’s operating results for any particular reporting period; the potential effect cannot be reasonably estimated.

Income Tax Accounting

Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management’s current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings. United believes its tax assets and liabilities are properly recorded for the respective periods in the consolidated financial statements.

At December 31, 2010, United had net deferred tax assets of $167 million, including a valuation allowance of $4.54 million related to state tax credits that are expected to expire unused. Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. United’s management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. At December 31, 2010, United’s management believes that it is more likely than not that, with the exception of those state tax credits that are expected to expire unused due to a relatively short carryforward period of three years, it will be able to realize its deferred tax benefits through its ability to carry losses forward to future profitable years. Despite recent losses and the challenging economic environment, United has a history of strong earnings, is well-capitalized, and has cautiously optimistic expectations regarding future taxable income. The deferred tax assets are analyzed quarterly for changes affecting their ability to be realized, and there can be no guarantee that a valuation allowance will not be necessary in future periods.

Regulatory risk-based capital rules limit the amount of deferred tax assets that a bank or bank holding company can include in Tier 1 capital. Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the bank expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the bank’s Tier 1 capital. In 2009 United had fully utilized its ability to carry losses back to open tax years. Therefore United’s realization of its deferred tax assets is dependent upon future taxable income. Accordingly, United has excluded the entire balance of its net deferred tax asset from Tier 1 capital in calculating its risk-based capital ratios.

In February of 2009, the American Recovery and Reinvestment Act amended the Internal Revenue Code to allow eligible small businesses to carry back 2008 net operating losses (“NOL’s”) for a period of three, four or five years, instead of the usual two-year limit. In November of 2009, the Worker, Homeownership, and Business Assistance Act expanded this treatment to include NOL’s incurred in 2009 and allowed all businesses, not just eligible small businesses, to make the election. However the election was not available to participants in the U.S. Treasury’s Capital Purchase Program, therefore United was not able to utilize this treatment.

Mergers and Acquisitions

United selectively engages in the evaluation of strategic partnerships. Mergers and acquisitions present opportunities to enter new markets with an established presence and a capable management team already in place. United employs certain criteria to ensure that any merger or acquisition candidate meets strategic growth and earnings objectives that will build future franchise value for shareholders. Additionally, the criteria include ensuring that management of a potential partner shares United's community banking philosophy of premium service quality and operates in attractive markets with excellent opportunities for further organic growth. As part of this strategy, United completed one federally assisted acquisition in 2009. United will continue to evaluate potential transactions as they are presented, including acquisitions of failed banks to the extent we are permitted to bid on them.

On June 19, 2009, UCB purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank ("SCB") from the Federal Deposit Insurance Corporation as Receiver of SCB. SCB operated five commercial banking branches on the south side of Atlanta in Fayetteville, Peachtree City, Locust Grove and Newnan, Georgia. The FDIC took SCB under receivership upon SCB's closure by the Georgia Department of Banking and Finance at the close of business on June 19, 2009. The transaction resulted in a cash payment of $31 million from the FDIC to UCB. Further, UCB and the FDIC entered into loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share 80 percent of loss recoveries on the first $109 million of losses, and absorb 95 percent of losses and share in 95 percent of loss recoveries exceeding $109 million. The term for loss sharing on 1 to 4 family loans is ten years, while the term for loss sharing on all other loans is five years. As a result of the acquisition, United recorded a gain totaling $11.4 million as a component of fee revenue in the consolidated statement of operations. The amount of gain is equal to the amount by which the fair value of the assets purchased exceeded the fair value of liabilities assumed. The results of operations of SCB are included in the consolidated statement of operations from the acquisition date of June 19, 2009.

GAAP Reconciliation and Explanation

This Form 10-K contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others, the following: operating revenue, operating expense, operating (loss) income, operating earnings (loss) per share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes it is useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included on the tables on pages 32 and 33.

In 2010, United recorded a non-cash goodwill impairment charge of $211 million in the third quarter. Also in 2010, United received a partial recovery of $11.8 million, net of recovery costs, in the fourth quarter resulting from fraud losses incurred in 2007 relating to two failed real estate developments near Spruce Pine, North Carolina. In 2009, United recorded non-cash goodwill impairment charges of $25 million and $70 million during the third and first quarters, respectively. In addition, United recorded severance costs of $2.9 million during the first quarter of 2009 and a gain on the acquisition of SCB in the amount of $11.4 million during the second quarter of 2009.

Net operating income (loss) excludes the effect of the goodwill impairment charge of $211 million and the $11.8 million fraud loss partial recovery in 2010 and the goodwill impairment charges of $95 million, the $11.4 million gain on acquisition, and the $2.9 million in severance costs in 2009, because management believes that the circumstances leading to those items were isolated, non-recurring events and do not reflect overall trends in United’s earnings and financial performance. Management believes this non-GAAP net operating income (loss) provides users of United’s financial information with a meaningful measure for assessing United’s financial results and credit trends, as well as comparison to financial results for prior periods.

The following pages contain a reconciliation of net operating income to GAAP net income.

Table 1 - Operating Earnings to GAAP Earnings Reconciliation - Annual
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2010	2009	2008	2007	2006
Interest revenue reconciliation					
Interest revenue - taxable equivalent	$343,123	$404,961	$466,969	$550,917	$446,695
Taxable equivalent adjustment	(2,001)	(2,132)	(2,261)	(1,881)	(1,868)
Interest revenue (GAAP)	$341,122	$402,829	$464,708	$549,036	$444,827
Net interest revenue reconciliation					
Net interest revenue - taxable equivalent	$243,052	$245,227	$238,704	$274,483	$237,880
Taxable equivalent adjustment	(2,001)	(2,132)	(2,261)	(1,881)	(1,868)
Net interest revenue (GAAP)	$241,051	$243,095	$236,443	$272,602	$236,012
Provision for loan losses reconciliation					
Operating provision for loan losses	$234,750	$310,000	$184,000	$37,600	$14,600
Special fraud-related provision for loan losses and subsequent partial reversal	(11,750)	-	-	18,000	-
Provision for loan losses (GAAP)	$223,000	$310,000	$184,000	$55,600	$14,600
Fee revenue reconciliation					
Operating fee revenue	$48,548	$50,964	$46,081	$53,701	$41,671
Gain from acquisition	-	11,390	-	-	-
Fee revenue (GAAP)	$48,548	$62,354	$46,081	$53,701	$41,671
Total revenue reconciliation					
Total operating revenue	$56,850	$(13,809)	$100,785	$290,584	$264,951
Taxable equivalent adjustment	(2,001)	(2,132)	(2,261)	(1,881)	(1,868)
Gain from acquisition	-	11,390	-	-	-
Special fraud-related provision for loan losses and subsequent partial reversal	11,750	-	-	(18,000)	-
Total revenue (GAAP)	$66,599	$(4,551)	$98,524	$270,703	$263,083
Expense reconciliation					
Operating expense	$288,301	$217,050	$200,335	$181,730	$155,306
Noncash goodwill impairment charge	210,590	95,000	-	-	-
Severance costs	-	2,898	-	-	-
Operating expense (GAAP)	$498,891	$314,948	$200,335	$181,730	$155,306
(Loss) income from continuing operations before taxes reconciliation					
Operating (loss) income from continuing operations before taxes	$(231,451)	$(230,859)	$(99,550)	$108,854	$109,645
Taxable equivalent adjustment	(2,001)	(2,132)	(2,261)	(1,881)	(1,868)
Gain from acquisition	-	11,390	-	-	-
Noncash goodwill impairment charge	(210,590)	(95,000)	-	-	-
Severance costs	-	(2,898)	-	-	-
Special fraud-related provision for loan losses and subsequent partial reversal	11,750	-	-	(18,000)	-
(Loss) income from continuing operations before taxes (GAAP)	$(432,292)	$(319,499)	$(101,811)	$88,973	$107,777
Income tax (benefit) expense reconciliation					
Operating income tax (benefit) expense	$(88,062)	$(91,754)	$(35,651)	$40,266	$41,249
Taxable equivalent adjustment	(2,001)	(2,132)	(2,261)	(1,881)	(1,868)

Gain from acquisition, tax expense	-	4,328	-	-	-
Severance costs, tax benefit	-	(1,101)	-	-	-
Special fraud-related provision for loan losses and subsequent partial reversal	4,571	-	-	(7,002)	-
Income tax (benefit) expense (GAAP)	$(85,492)	$(90,659)	$(37,912)	$31,383	$39,381
Diluted (loss) earnings from continuing operations per common share reconciliation					
Operating (loss) earnings from continuing operations per common share	$(1.62)	$(2.47)	$1.36	$1.47	$1.65
Gain from acquisition	-	.12	-	-	-
Noncash goodwill impairment charge	(2.23)	(1.58)	-	-	-
Severance costs	-	(.03)	-	-	-
Special fraud-related provision for loan losses and subsequent partial reversal	.08	-	-	(.23)	-
(Loss) earnings from continuing operations per common share (GAAP)	$(3.77)	$(3.96)	$1.36	$1.24	$1.65
Book value reconciliation					
Tangible book value	$4.76	$6.02	$10.39	$10.94	$10.57
Effect of goodwill and other intangibles	0.08	2.34	6.56	6.79	3.80
Book value (GAAP)	$4.84	$8.36	$16.95	$17.73	$14.37
Efficiency ratio from continuing operations reconciliation					
Operating efficiency ratio from continuing operations	98.98%	73.97%	70.00%	55.53%	55.30%
Gain from acquisition	-	(2.77)	-	-	-
Noncash goodwill impairment charge	72.29	31.17	-	-	-
Severance costs	-	.95	-	-	-
Efficiency ratio from continuing operations (GAAP)	171.27%	103.32%	70.00%	55.53%	55.30%
Average equity to assets reconciliation					
Tangible common equity to assets	6.80%	6.15%	6.57%	6.63%	6.32%
Effect of preferred equity	2.35	2.18	.10	-	-
Tangible equity to assets	9.15	8.33	6.67	6.63	6.32
Effect of goodwill and other intangibles	1.86	2.79	3.55	2.98	1.74
Equity to assets (GAAP)	11.01%	11.12%	10.22%	9.61%	8.06%
Actual tangible common equity to risk-weighted assets reconciliation					
Tangible common equity to risk-weighted assets	9.05%	10.39%	8.34%	8.21%	8.09%
Effect of other comprehensive income	(.62)	(.87)	(.91)	(.23)	.07
Effect of deferred tax limitation	(3.34)	(1.27)	-	-	-
Effect of trust preferred	1.06	.97	.88	.65	.81
Effect of preferred equity	3.52	3.19	2.90	-	.01
Tier I capital ratio (Regulatory)	9.67%	12.41%	11.21%	8.63%	8.98%
Net charge-offs reconciliation					
Operating net charge-offs	$215,657	$276,669	$151,152	$21,834	$5,524
Fraud related charge-offs and subsequent partial recovery	(11,750)	-	-	18,000	-
Net charge-offs (GAAP)	$203,907	$276,669	$151,152	$39,834	$5,524

Net charge-offs to average loans reconciliation					
Operating net charge-offs to average loans	4.42 %	5.03 %	2.57 %	.38 %	.12 %
Effect of fraud related charge offs and subsequent partial recovery	(.25)	-	-	.31	-
Net charge-offs to average loans (GAAP)	4.17 %	5.03 %	2.57 %	.69 %	.12 %

Table 1 (Continued) - Operating Earnings to GAAP Earnings Reconciliation - Quarterly
Selected Financial Information

	2010				2009			
(in thousands, except per share data; taxable equivalent)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenue reconciliation								
Interest revenue - taxable equivalent	$81,215	$84,360	$87,699	$89,849	$97,481	$101,181	$102,737	$103,562
Taxable equivalent adjustment	(497)	(511)	(500)	(493)	(601)	(580)	(463)	(488)
Interest revenue (GAAP)	$80,718	$83,849	$87,199	$89,356	$96,880	$100,601	$102,274	$103,074
Net interest revenue reconciliation								
Net interest revenue - taxable equivalent	$60,132	$60,014	$61,627	$61,279	$63,929	$63,004	$60,882	$57,412
Taxable equivalent adjustment	(497)	(511)	(500)	(493)	(601)	(580)	(463)	(488)
Net interest revenue (GAAP)	$59,635	$59,503	$61,127	$60,786	$63,328	$62,424	$60,419	$56,924
Provision for loan losses reconciliation								
Operating provision for loan losses	$47,750	$50,500	$61,500	$75,000	$90,000	$95,000	$60,000	$65,000
Partial reversal of special fraud-related	(11,750)	-	-	-	-	-	-	-

provision for loan losses								
Provision for loan losses (GAAP)	$36,000	$50,500	$61,500	$75,000	$90,000	$95,000	$60,000	$65,000
Fee revenue reconciliation								
Operating fee revenue	$12,442	$12,861	$11,579	$11,666	$14,447	$13,389	$11,305	$11,823
Gain from acquisition	-	-	-	-	-	-	11,390	-
Fee revenue (GAAP)	$12,442	$12,861	$11,579	$11,666	$14,447	$13,389	$22,695	$11,823
Total revenue reconciliation								
Total operating revenue	$24,824	$22,375	$11,706	$(2,055)	$(11,624)	$(18,607)	$12,187	$4,235
Taxable equivalent adjustment	(497)	(511)	(500)	(493)	(601)	(580)	(463)	(488)
Gain from acquisition	-	-	-	-	-	-	11,390	-
Partial reversal of special fraud-related provision for loan losses	11,750	-	-	-	-	-	-	-
Total revenue (GAAP)	$36,077	$21,864	$11,206	$(2,548)	$(12,225)	$(19,187)	$23,114	$3,747
Expense reconciliation								
Operating expense	$64,918	$64,906	$103,657	$54,820	$60,126	$51,426	$53,710	$51,788
Noncash goodwill impairment charge	-	210,590	-	-	-	25,000	-	70,000
Severance costs	-	-	-	-	-	-	-	2,898
Operating expense (GAAP)	$64,918	$275,496	$103,657	$54,820	$60,126	$76,426	$53,710	$124,686
Loss from continuing operations before taxes reconciliation								
	$(40,094)	$(42,531)	$(91,951)	$(56,875)	$(71,750)	$(70,033)	$(41,523)	$(47,553)

Operating loss from continuing operations before taxes								
Taxable equivalent adjustment	(497)	(511)	(500)	(493)	(601)	(580)	(463)	(488)
Gain from acquisition	-	-	-	-	-	-	11,390	-
Noncash goodwill impairment charge	-	(210,590)	-	-	-	(25,000)	-	(70,000)
Severance costs	-	-	-	-	-	-	-	(2,898)
Partial reversal of special fraud-related provision for loan losses	11,750	-	-	-	-	-	-	-
Loss from continuing operations before taxes (GAAP)	$(28,841)	$(253,632)	$(92,451)	$(57,368)	$(72,351)	$(95,613)	$(30,596)	$(120,939)
Income tax benefit reconciliation								
Operating income tax benefit	$(16,520)	$(16,706)	$(32,419)	$(22,417)	$(31,687)	$(26,252)	$(18,394)	$(15,421)
Taxable equivalent adjustment	(497)	(511)	(500)	(493)	(601)	(580)	(463)	(488)
Gain from acquisition, tax expense	-	-	-	-	-	-	4,328	-
Severance costs, tax benefit	-	-	-	-	-	-	-	(1,101)
Partial reversal of special fraud-related provision for loan losses, tax expense	4,571	-	-	-	-	-	-	-
Income tax benefit (GAAP)	$(12,446)	$(17,217)	$(32,919)	$(22,910)	$(32,288)	$(26,832)	$(14,529)	$(17,010)

Diluted loss from continuing operations per common share reconciliation								
Diluted operating loss from continuing operations per common share	$(.28)	$(.30)	$(.66)	$(.39)	$(.45)	$(.93)	$(.53)	$(.72)
Gain from acquisition	-	-	-	-	-	-	.15	-
Noncash goodwill impairment charge	-	(2.22)	-	-	-	(.50)	-	(1.45)
Severance costs	-	-	-	-	-	-	-	(.03)
Partial reversal of special fraud-related provision for loan losses	.08	-	-	-	-	-	-	-
Diluted loss from continuing operations per common share (GAAP)	$(.20)	$(2.52)	$(.66)	$(.39)	$(.45)	$(1.43)	$(.38)	$(2.20)
Book value reconciliation								
Tangible book value	$4.76	$5.05	$5.39	$5.62	$6.02	$6.50	$8.85	$9.65
Effect of goodwill and other intangibles	.08	.09	2.32	2.33	2.34	2.35	5.02	5.05
Book value (GAAP)	$4.84	$5.14	$7.71	$7.95	$8.36	$8.85	$13.87	$14.70
Efficiency ratio from continuing operations reconciliation								
Operating efficiency ratio from continuing	89.45 %	89.38 %	141.60 %	75.22 %	78.74 %	68.35 %	73.68 %	75.13 %

operations																
Gain from acquisition	-		-		-		-		-		-		(9.96	)	-	
Noncash goodwill impairment charge	-		290.00		-		-		-		33.22		-		101.55	
Severance costs	-		-		-		-		-		-		-		4.20	
Efficiency ratio from continuing operations (GAAP)	89.45	%	379.38	%	141.60	%	75.22	%	78.74	%	101.57	%	63.72	%	180.88	%
Average equity to assets reconciliation																
Tangible common equity to assets	6.35	%	6.78	%	6.91	%	7.13	%	7.37	%	5.36	%	5.77	%	6.09	%
Effect of preferred equity	2.40		2.41		2.35		2.26		2.16		2.19		2.19		2.15	
Tangible equity to assets	8.75		9.19		9.26		9.39		9.53		7.55		7.96		8.24	
Effect of goodwill and other intangibles	.10		2.18		2.58		2.51		2.41		2.72		2.75		3.32	
Equity to assets (GAAP)	8.85	%	11.37	%	11.84	%	11.90	%	11.94	%	10.27	%	10.71	%	11.56	%
Actual tangible common equity to risk-weighted assets reconciliation																
Tangible common equity to risk-weighted assets	9.05	%	9.60	%	9.97	%	10.03	%	10.39	%	10.67	%	7.49	%	8.03	%
Effect of other comprehensive income	(.62	)	(.81	)	(.87	)	(.85	)	(.87	)	(.90	)	(.72	)	(1.00	)
Effect of deferred tax limitation	(3.34	)	(2.94	)	(2.47	)	(1.75	)	(1.27	)	(.58	)	(.22	)	-	
Effect of trust preferred	1.06		1.06		1.03		1.00		.97		.92		.90		.89	

Effect of preferred equity	3.52	3.51	3.41	3.29	3.19	3.04	2.99	2.96
Tier I capital ratio (Regulatory)	9.67 %	10.42 %	11.07 %	11.72 %	12.41 %	13.15 %	10.44 %	10.88 %
Net charge-offs reconciliation								
Operating net charge-offs	$47,668	$49,998	$61,323	$56,668	$84,585	$90,491	$58,312	$43,281
Fraud related charge-offs and subsequent partial recovery	(11,750)	-	-	-	-	-	-	-
Net charge-offs (GAAP)	$35,918	$49,998	$61,323	$56,668	$84,585	$90,491	$58,312	$43,281
Net charge-offs to average loans reconciliation								
Operating net charge-offs to average loans	4.03 %	4.12 %	4.98 %	4.51 %	6.37 %	6.57 %	4.18 %	3.09 %
Effect of fraud related charge offs and subsequent partial recovery	(1.00)	-	-	-	-	-	-	-
Net charge-offs to average loans (GAAP)	3.03 %	4.12 %	4.98 %	4.51 %	6.37 %	6.57 %	4.18 %	3.09 %

Discontinued Operations

Effective March 31, 2010, United sold its Brintech subsidiary. As a result, the operations of Brintech are being accounted for as a discontinued operation. All revenue, including the gain from the sale, expenses and income taxes relating to Brintech have been deconsolidated from the consolidated statement of operations and are presented on one line titled "(Loss) income from discontinued operations" for all periods presented. Because Brintech's assets, liabilities and cash flows were not material to the consolidated balance sheet and statement of cash flows, no such adjustments have been made to those financial statements.

Transaction with Fletcher International

The current banking environment, particularly within the Southeast and United's footprint, has left many financial institutions with a surplus of foreclosed real estate and nonperforming loans, particularly residential construction. Disposing of these nonperforming assets has become increasingly challenging in this environment as those involved in the business of buying, developing and selling real estate – the typical purchasers of foreclosed properties – have themselves been negatively impacted by the housing market and therefore lack the ability to purchase surplus real estate. The build-up of residential construction inventory and lack of buyers, especially in the non-Atlanta markets, has created an imbalance between supply and demand that has sent prices spiraling downward. As a result, most dispositions of problem assets have occurred only by pricing properties at substantial discounts and incurring significant losses which results in a reduction of capital.

The challenge in this environment is to find ways to sell a large quantity of nonperforming assets without significantly reducing capital. The transaction with Fletcher International Inc. ("Fletcher Inc.") and Fletcher International Ltd ("Fletcher Ltd", together with Fletcher Inc. and their affiliates, "Fletcher") accomplished that objective by combining the sale of nonperforming assets with the issuance of equity instruments. Although the transaction with Fletcher is described in more detail below, in essence, Fletcher agreed to acquire certain of United's more illiquid nonperforming assets and received equity instruments that include a warrant to purchase common stock and the right to purchase convertible preferred stock with an additional warrant to purchase common stock. All of the assets and equity instruments transferred in the transaction were transferred at fair value, which resulted in the recognition of a loss in the consolidated financial statements. The transaction had a slight positive impact on total capital, since the equity instruments exchanged in the transaction increased shareholders' equity which more than offset the after-tax loss on the transaction.

Description of Transaction

On April 1, 2010, the Bank entered into an asset purchase and sale agreement (the "Asset Purchase Agreement") with Fletcher Inc. and five affiliated limited liability companies ("LLCs") formed by Fletcher Inc. for the purpose of acquiring nonperforming assets under the Asset Purchase Agreement. United has no ownership interest in the LLCs. The asset sale transaction was completed on April 30, 2010 with the Bank transferring nonperforming commercial and residential construction loans and foreclosed properties having a carrying value of $103 million in exchange for cash of $20.6 million and notes receivable for $82.5 million. The loans accrue interest at a fixed rate of 3.5% and mature in five years. Principal and interest payments will be made quarterly based on a 30-year amortization schedule. Fletcher Inc. also contributed cash and securities to the LLCs equal to 17.5% of the purchase price to pre-fund the estimated carrying costs of the assets for approximately three years. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher without United's consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties.

Also on April 1, 2010, United and Fletcher Ltd. entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United's Series C convertible preferred stock, par value $1.00 per share (the "Convertible Preferred Stock"), at a purchase price of $1,000 per share, for an aggregate purchase price of $65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd.'s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. has not purchased all of the Convertible Preferred Stock by May 26, 2011, it must pay United 5% of the commitment amount not purchased by that date, and it must also pay United an additional 5% of any commitment amount not purchased by May 26, 2012.

The Convertible Preferred Stock is redeemable by Fletcher Ltd. at any time into common stock or non-voting Common Stock Equivalent Junior Preferred Stock ("Junior Preferred Stock") of United, at an equivalent price of $5.25 per share of common stock (equal to 12,380,952 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United's common stock is above $12.04, United has the right to require conversion and it is United's intent to convert all of the then outstanding Convertible Preferred Stock into an equivalent amount of common stock or Junior Preferred Stock.

The Securities Purchase Agreement provides that United shall not effect any conversion or redemption of the Convertible Preferred Stock, and Fletcher Ltd. shall not have the right to convert or redeem any portion of the Convertible Preferred Stock, into common stock to the extent such conversion or redemption would result in aggregate issuances to Fletcher Ltd. in excess of 9.75% of the number of shares of common stock that would be outstanding after giving effect to such conversion or redemption. In the event that United cannot effect a conversion or redemption of the Convertible Preferred Stock into common stock due to this limit, the conversion or redemption shall be effected into an equal number of shares of Junior Preferred Stock.

Concurrently with the payment of the $10 million deposit under the Asset Purchase Agreement by Fletcher, United granted a warrant to Fletcher to purchase Junior Preferred Stock. The warrant was initially equal to $15 million and was increased to $30 million upon the completion of the asset sale pursuant to the Asset Purchase Agreement. An additional $35 million warrant will be issued on a dollar for dollar basis by the aggregate dollar amount of the Convertible Preferred Stock purchased under the Securities Purchase Agreement in excess of $30 million. The $30 million warrant price is equivalent to $4.25 per common share (cash exercise equal to 7,058,824 shares of common stock). The $35 million warrant price is equivalent to $6.02 per common share (cash exercise equal to 5,813,953 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from April 1, 2010, subject to limited extension upon certain events specified in the warrant agreement. All of the warrants settle on a cashless basis and the net shares to be issued to Fletcher Ltd. upon exercise of the warrants will be less than the total shares that would have been issuable if the warrants had been exercised for cash payments.

Also, as part of the transaction, United and Fletcher entered into a servicing agreement whereby United will act as servicer of the nonperforming assets for Fletcher in exchange for a servicing fee of 20 basis points. The LLCs will pay all direct costs associated with the nonperforming loans and foreclosed properties. Because the servicing arrangement is considered a normal servicing arrangement and the fee is appropriate for the services provided, United did not recognize a servicing asset or liability related to the servicing agreement. Also as part of the servicing agreement, Fletcher maintains decision making authority with regard to the nonperforming loans and foreclosed properties except for minor, routine matters.

Accounting Treatment

Although the Asset Purchase Agreement and the Securities Purchase Agreement are two separate agreements, they were accounted for as part of one transaction because they were entered into simultaneously and the Securities Purchase Agreement was dependent upon the sale of nonperforming assets. United evaluated this transaction to determine whether the transfer should be accounted for as a sale or a secured borrowing and whether the Fletcher LLCs should be consolidated with United. When evaluating whether the transfer should be accounted for as a sale, United primarily evaluated whether control had been surrendered, the rights of Fletcher to exchange and pledge the assets, and whether United retains effective control, which included evaluating any continuing involvement in the assets. Based on the evaluation, the transfer of assets under the Asset Purchase Agreement meets the definition as a sale under current accounting standards and was accounted for as such. United further evaluated whether the Fletcher LLCs should be consolidated which included evaluating whether United has a controlling financial interest and is therefore the primary beneficiary. This evaluation principally included determining whether United directs the activities that have the most significant impact on the LLCs economic performance and whether United has an obligation to absorb losses or the right to receive benefits that could be significant to the LLCs. Based on that evaluation, the LLCs have not been included as part of the consolidated group of subsidiaries in United’s consolidated financial statements.

In addition to evaluating the accounting for the transfer of assets, United considered whether the warrant and the option to purchase convertible preferred stock with an additional warrant should be accounted for as liabilities or equity instruments. In making this evaluation, United considered whether Fletcher or any subsequent holders of the instruments could require settlement of the instruments in cash or other assets rather than common or preferred stock. Because the transaction was structured so that the warrants and option to purchase convertible preferred stock and the additional warrant can only be settled through the issuance of common or preferred stock, United concluded that the warrant and option to purchase convertible preferred stock with an additional warrant should be accounted for as equity instruments.

All of the components of the transaction, including all equity instruments issued under the Securities Purchase Agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of $45.3 million on the transaction with Fletcher.

The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values ($ in thousands, except per share amounts).

	Valuation Approach	Fair Value Heirarchy		Fair Value	
Warrants Issued / Assets Transferred to Fletcher at Fair Value:					
Warrant to purchase $30 million in common stock at $4.25 per share	Black-Scholes	Level 3	$	17,577	(1)
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3		22,236	(2)
Fair value of equity instruments recognized in capital surplus				39,813	
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2		33,434	(3)
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2		69,655	(3)
Total nonperforming assets transferred				103,089	
Total value of assets and equity instruments transferred				142,902	
Cash and Notes Receivable Received in Exchange at Fair Value:					
Cash down payment received from asset sale	NA	NA		20,618	
Notes receivable (par value $82,471, net of $4,531 discount)	Discounted Cash Flows	Level 3		77,940	(4)
Total value of cash and notes receivable received				98,558	
Fair value of assets and equity instruments transferred in excess of cash and notes received				44,344	
Transaction fees				1,005	
Loss recognized on Fletcher transaction				45,349	
Tax benefit				(15,367)	
After tax loss			$	29,982	

Notes

(1) The $17.6 million value of the $30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield - 0%; risk-free interest rate - 3.89%; current stock price - $4.77; term - 9 years; and volatility - 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

(2) The $22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

(3) The $103 million of nonperforming assets sold were transferred at United's carrying value which had been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

(4) The $82.5 million of notes receivable were recorded at their estimated fair value of $77.9 million, net of a $4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing times for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

Results of Operations

The remainder of this financial discussion focuses on operating earnings, which excludes the goodwill impairment charge and partial fraud loss recovery in 2010, the goodwill impairment charges, gain on acquisition and severance costs in 2009, and the fraud-related provision in 2007, except for the discussion of income taxes. Operating and GAAP earnings were the same in 2008 and 2006. For additional information on operating earnings measures, refer to the preceding section on "Non-GAAP Financial Measures."

United reported a net operating loss from continuing operations of $143 million for the twelve months ended December 31, 2010, which included the $30.0 million after-tax loss related to the Fletcher transaction and excluded the $211 million goodwill impairment charge as well as the partial fraud loss recovery of $7.18 million, after tax. This compared to a net operating loss from continuing operations of $139 million for the same period in 2009, which excluded the $7.06 million gain on acquisition, net of tax; non-cash goodwill impairment charges of $95 million; and non-recurring severance costs of $1.8 million. The net loss for the year ended 2010, which included discontinued operations, goodwill impairment and the partial loss recovery was $346 million. Including discontinued operations, the gain on acquisition, goodwill impairment charges and severance costs, net loss was $228 million for the year ended December 31, 2009. Diluted operating loss from continuing operations per share for the twelve months ended December 31, 2010 was $1.62, of which the loss on the sale of nonperforming assets to Fletcher represented $.32. This compared to diluted operating loss per share from continuing operations of $2.47 for the same period in 2009. The diluted operating loss per share from continuing operations for the year ended December 31, 2010 excluded $2.23 in loss related to the third quarter goodwill impairment charge and $.08 in gain related to the partial recovery. The diluted operating loss per share for the year ended December 31, 2009 excluded $.12 in earnings per share related to the gain on acquisition and $1.58 and $.03 in loss per share related to the goodwill impairment charges and severance costs, respectively. The 2010 and 2009 net operating loss from continuing operations reflect elevated foreclosed property costs related to the continuing effect of the challenging economic environment and the weak residential construction and housing markets.

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and other liabilities) is the single largest component of United's revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit, and liquidity risks. Taxable equivalent net interest revenue totaled $243 million in 2010, a decrease of $2.18 million, or less than 1%, from the level recorded in 2009. Taxable equivalent net interest revenue for 2009 increased $6.52 million, or 3%, from the 2008 level. The decrease in net interest revenue for 2010 compared to 2009 was due primarily to lower levels of interest earning assets. United continued its focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue, despite continuing attrition in the loan portfolio and few attractive investment opportunities in the securities portfolio.

The average yield on loans decreased 20 basis points reflecting the continuing effect of the low interest rate environment and the higher level of nonperforming loans. Average loans decreased $587 million in 2010, or 11%, from 2009. The decrease in the loan portfolio was throughout United's footprint and was a result of the slowdown in the housing market. At December 31, 2010, period end loan balances in the Atlanta MSA, north Georgia, coastal Georgia, the Gainesville MSA and western North Carolina, were down $125 million, $195 million, $71 million, $78 million and $70 million, respectively, compared to December 31, 2009. Loan charge-offs, foreclosure activity and management's efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have all contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During 2010, United made $320 million in new loans, excluding loans made to Fletcher International to finance the sale of nonperforming assets in the second quarter of 2010, primarily commercial and small business loans in the Atlanta MSA and north Georgia.

Average interest-earning assets for the year decreased $642 million, or 9%, from 2009. Decreases of $587 million in average loans and $203 million in the investment securities portfolio were partially offset by a $148 million increase in other interest earning assets. Loan demand has been weak due to the poor economy and management's efforts to reduce United's exposure to residential construction loans. The increase in other interest earning assets was due to purchases of short-term commercial paper and bank certificates of deposit, in an effort to invest funds raised through deposit gathering activities while maintaining higher than normal levels of liquidity. Average interest bearing liabilities in 2010 decreased $620 million, or 9%, from the prior year due to the rolling off of higher-cost certificates of deposit and the maturity / prepayment of Federal Home Loan Bank advances, as funding needs decreased. The average yield on interest-earning assets for 2010 was 5.03% down 40 basis points from 5.43% in 2009, primarily due to lower interest rates on United's loans and investments and the shift in interest-earning asset mix to low yielding short-term commercial paper. Partially offsetting the trend of higher nonperforming loan levels, the transaction with Fletcher in the second quarter of 2010, replaced approximately $70 million of nonperforming loans from United's portfolio with a performing loan to Fletcher.

The average cost of interest bearing liabilities for the year ended December 31, 2010, was 1.68% compared to 2.43% for the same period in 2009, reflecting United's concerted efforts to reduce deposit pricing. Also contributing to the overall lower rate on interest bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United's shrinking balance sheet also permitted the reduction of more expensive wholesale borrowings.

The banking industry uses two key ratios to measure relative profitability of net interest revenue - the net interest spread and the net interest margin. The net interest spread measures the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and other non-interest bearing funding sources and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's overall balance sheet management activities and is defined as net interest revenue as a percentage of total average interest earning assets, which includes the positive effect of funding a portion of interest earning assets with customers' non-interest bearing deposits and with shareholders' equity.

For 2010, 2009 and 2008, United's net interest spread was 3.35%, 3.00%, and 2.81%, respectively, while the net interest margin was 3.56%, 3.29%, and 3.18%, respectively. The improving net interest margin reflected management's efforts to maximize earnings by focusing on loan and deposit pricing. United intensified its focus on loan pricing to ensure it was being adequately compensated for the credit risk it was taking. Both the net interest margin and net interest spread expanded in 2009 and 2010 after falling in 2008. The 2008 decline in both measures was due to aggressive competitive pricing for deposits as banks, including United, struggled to build and maintain liquidity. Also contributing to the decline were the impacts of the prime interest rate decreasing 400 basis points throughout the year on United's asset-sensitive balance sheet and the higher levels of nonperforming assets. Competition for liquidity via deposits kept retail certificate of deposit rates relatively high while short-term market rates were falling. Competition for liquidity sources eased in the fourth quarter of 2008 allowing United the ability to reduce deposit pricing while maintaining sufficient liquidity. This trend continued through 2010, allowing United to maintain higher than normal levels of liquidity while continuing to improve the net interest margin. The combined effect of lower deposit pricing and wider credit spreads and floors on loans resulted in a 27 basis point increase in the net interest margin from 2009 to 2010 and an 11 basis point increase from 2008 to 2009.

The following table shows the relationship between interest revenue and interest expense and the average balances of interest-earning assets and interest-bearing liabilities.

Table 2 - Average Consolidated Balance Sheet and Net Interest Margin Analysis
For the Years Ended December 31,
(In thousands, taxable equivalent)

	2010			2009			2008		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans (1)(2)	$4,960,805	$278,149	5.61%	$5,547,915	$322,284	5.81%	$5,890,889	$386,132	6.55%
Taxable securities (3)	1,425,322	58,821	4.13	1,626,032	76,048	4.68	1,455,206	74,405	5.11
Tax-exempt securities (1)(3)	27,827	1,860	6.68	30,460	2,164	7.10	33,830	2,406	7.11
Federal funds sold and other interest-earning assets	408,359	4,293	1.05	260,232	4,465	1.72	124,261	4,026	3.24
Total interest-earning assets	6,822,313	343,123	5.03	7,464,639	404,961	5.43	7,504,186	466,969	6.22
Non-interest-earning assets:									
Allowance for loan losses	(190,227)			(146,535)			(97,385)		
Cash and due from banks	106,582			105,127			131,778		
Premises and equipment	180,379			180,381			180,857		
Other assets (3)	706,586			665,775			579,894		
Total assets	$7,625,633			$8,269,387			$8,299,330		
Liabilities and Shareholders’ Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW	$1,360,729	$6,966	.51	$1,297,139	$11,023	.85	$1,491,419	$28,626	1.92
Money market	780,982	7,552	.97	589,389	9,545	1.62	426,988	10,643	2.49
Savings deposits	184,479	331	.18	177,410	483	.27	182,067	764	.42
Time deposits less than $100,000	1,581,750	30,260	1.91	1,891,774	56,811	3.00	1,724,036	71,844	4.17
	1,084,967	23,114	2.13	1,306,302	42,518	3.25	1,457,397	62,888	4.32

Time deposits greater than $100,000									
Brokered deposits	610,483	13,509	2.21	756,122	20,997	2.78	565,111	23,536	4.16
Total interest-bearing deposits	5,603,390	81,732	1.46	6,018,136	141,377	2.35	5,847,018	198,301	3.39
Federal funds purchased, repurchase agreeements, & other short-term borrowings	103,479	4,235	4.09	177,589	2,842	1.60	324,634	7,699	2.37
Federal Home Loan Bank advances	90,137	3,355	3.72	220,468	4,622	2.10	410,605	13,026	3.17
Long-term debt	150,107	10,749	7.16	150,604	10,893	7.23	120,442	9,239	7.67
Total borrowed funds	343,723	18,339	5.34	548,661	18,357	3.35	855,681	29,964	3.50
Total interest-bearing liabilities	5,947,113	100,071	1.68	6,566,797	159,734	2.43	6,702,699	228,265	3.41
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	769,395			694,469			677,439		
Other liabilities	69,367			88,490			68,766		
Total liabilities	6,785,875			7,349,756			7,448,904		
Shareholders' equity	839,758			919,631			850,426		
Total liabilities and shareholders' equity	$7,625,633			$8,269,387			$8,299,330		
Net interest revenue		$243,052			$245,227			$238,704	
Net interest-rate spread			3.35%			3.00%			2.81%
Net interest margin (4)			3.56%			3.29%			3.18%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $43.2 million, $15.3 million and $3.3 million in 2010, 2009 and 2008, resepectively are included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

The following table shows the relative effect on net interest revenue of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities.

Table 3 - Change in Interest Revenue and Interest Expense
(in thousands, taxable equivalent)

	2010 Compared to 2009 Increase (decrease) due to changes in			2009 Compared to 2008 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	$ (33,213)	$ (10,922)	$ (44,135)	$ (21,615)	$ (42,233)	$ (63,848)
Taxable securities	(8,822)	(8,405)	(17,227)	8,303	(6,660)	1,643
Tax-exempt securities	(180)	(124)	(304)	(239)	(3)	(242)
Federal funds sold and other interest-earning assets	1,956	(2,128)	(172)	2,956	(2,517)	439
Total interest-earning assets	(40,259)	(21,579)	(61,838)	(10,595)	(51,413)	(62,008)
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	517	(4,574)	(4,057)	(3,335)	(14,268)	(17,603)
Money Market	2,545	(4,538)	(1,993)	3,310	(4,408)	(1,098)
Savings deposits	19	(171)	(152)	(19)	(262)	(281)
Time deposits less than $100,000	(8,259)	(18,292)	(26,551)	6,486	(21,519)	(15,033)
Time deposits greater than $100,000	(6,385)	(13,019)	(19,404)	(6,045)	(14,325)	(20,370)
Brokered deposits	(3,644)	(3,844)	(7,488)	6,620	(9,159)	(2,539)
Total interest-bearing deposits	(15,207)	(44,438)	(59,645)	7,017	(63,941)	(56,924)
Federal funds purchased, repurchase agreements & other short-term borrowings	(1,576)	2,969	1,393	(2,827)	(2,030)	(4,857)
Federal Home Loan Bank advances	(3,649)	2,382	(1,267)	(4,851)	(3,553)	(8,404)
Long-term debt	(36)	(108)	(144)	2,206	(552)	1,654
Total borrowed funds	(5,261)	5,243	(18)	(5,472)	(6,135)	(11,607)
Total interest-bearing liabilities	(20,468)	(39,195)	(59,663)	1,545	(70,076)	(68,531)
Increase in net interest revenue	$ (19,791)	$ 17,616	$ (2,175)	$ (12,140)	$ 18,663	$ 6,523

Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Provision for Loan Losses

The provision for loan losses is based on management's evaluation of losses inherent in the loan portfolio and corresponding analysis of the allowance for loan losses at quarter-end. The operating provision for loan losses was $235 million in 2010, compared with $310 million in 2009, and $184 million in 2008. The 2010 operating provision is $11.8 million higher than the GAAP provision for loan losses which includes the partial recovery of the fraud loss provision recorded in 2007. As an annualized percentage of average outstanding loans, the operating provision was 4.81%, 5.64% and 3.12%, respectively, in 2010, 2009 and 2008. The amount of provision recorded in each year was the amount required such that the total allowance for loan losses reflected, in the estimation of management, the appropriate balance, and was appropriate to cover inherent losses in the loan portfolio. In 2010, the level of the allowance leveled off as charge-off levels began to decline from the high level in 2009. This resulted in a lower operating provision for loan losses in 2010 than 2009. While nonperforming assets remained well above historical levels throughout 2010 reflecting the ongoing weakness in the economy in general and the weak housing market in particular, improving trends began to emerge with net charge-offs and nonperforming assets both falling below the level in 2009. The operating ratio of net loan charge-offs to average outstanding loans for 2010 was 4.42%, excluding the $11.8 million partial recovery, compared with 5.03% for 2009, and 2.57% for 2008.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to obtain cash flow from selling lots and houses needed to service debt. This deterioration of the residential construction and housing market was the primary factor that resulted in higher credit losses and an increase in nonperforming assets over the last two years. Although a majority of the loan charge-offs have been within the residential construction and development portion of the portfolio, credit quality deterioration has migrated to other loan categories as unemployment levels have remained high throughout United's markets. Additional discussion on credit quality and the allowance for loan losses is included in the "Asset Quality and Risk Elements" and "Critical Accounting Polices" sections of this report, as well as Note 1 to the consolidated financial statements.

Fee Revenue

Operating fee revenue from continuing operations was $48.5 million in 2010, compared with $51.0 million in 2009 and $46.1 million in 2008. Operating fee revenue excludes the $11.4 million bargain purchase gain from the acquisition of SCB in 2009. Including the gain on acquisition in 2009, fee revenue from continuing operations was $62.4 million for the year ended December 31, 2009. Fee revenue from continuing operations excludes consulting fees earned by United's Brintech subsidiary which was sold on March 31, 2010. All periods are presented on a continuing operations basis.

The following table presents the components of fee revenue.

Table 4 - Fee Revenue From Continuing Operations
For the Years Ended December 31,

(in thousands)	2010	2009	2008	Change 2010-2009
Service charges and fees	$ 30,127	$ 30,986	$ 31,683	(3)%
Mortgage loan and related fees	7,019	8,959	7,103	(22)
Brokerage fees	2,662	2,085	3,457	28
Securities gains, net	2,552	2,756	1,315	
Losses on prepayment of borrowings	(2,233)	-	(2,714)	
Other	8,421	6,178	5,237	36
Total fee revenue before gain from acquisition	48,548	50,964	46,081	(5)
Gain from acquisition	-	11,390	-	
Total fee revenue	$ 48,548	$ 62,354	$ 46,081	(22)

Service charges and fees of $30.1 million were down $859,000, or 3%, from 2009. The decrease was primarily due to lower overdraft fees resulting from decreased utilization of our courtesy overdraft services. Overdraft fees fell in the third and fourth quarters of 2010 with the recent changes to Regulation E, requiring customers to opt in to such services. Overdraft and non-sufficient funds charges decreased $1.83 million from 2009. This decrease was partially offset by an increase in ATM and debit card fees of $1.04 million from 2009.

Mortgage loan and related fees of $7.02 million were down $1.94 million, or 22%, from 2009. In 2009, refinancing activity reached record levels due to historically low mortgage interest rates. In 2010, United closed 2,033 mortgage loans totaling $325 million compared with 3,166 loans totaling $524 million in 2009. Substantially all these originated residential mortgages were sold into the secondary market, including the right to service the loans.

Brokerage fees of $2.66 million increased $577,000, or 28%, from 2009. The increase in brokerage fees was due to improving market conditions from those in 2009. Additionally, a portion of United's brokerage fee revenue is derived from the value of assets under management which increased with the overall improvement in the market, further contributing to the increased revenue.

United incurred net securities gains of $2.55 million and $2.76 million during 2010 and 2009, respectively. The 2010 net gain included $950,000 in impairment charges in the first quarter of 2010, on trust preferred securities of a bank whose financial condition had deteriorated. The impairment charges were more than offset by gains from securities sales. In 2010, the net securities gains were also offset by losses resulting from the prepayment of FHLB advances, which were part of the same balance sheet management activities. The net securities gains in 2009 included $1.24 million in impairment charges on equity and trust preferred securities investments in banks that failed during the year. In 2009, United sold mortgage-backed securities in an effort to reposition the securities portfolio in anticipation of rising interest rates. The proceeds from the sales were reinvested in U.S. Government Agency bonds to avoid extension risk when interest rates rise.

Other fee revenue of $8.42 million increased $2.24 million, or 36%, from 2009. The increase was primarily due to ineffectiveness of United's cash flow and fair value hedges. During 2010, United recognized $1.59 million in income from hedge ineffectiveness compared with $172,000 in 2009. Most of the hedge ineffectiveness in 2010 was due to the acceleration of deferred gains from terminated cash flow hedging positions due to missed forecasted transactions.

The $11.4 million gain from the SCB acquisition in 2009 was accounted for as a bargain purchase. In this bargain purchase, the fair values of the net assets and liabilities received from the acquisition exceeded the purchase price of those assets and liabilities. With the SCB acquisition, United received assets, including a cash payment from the FDIC, with an estimated fair value of $378 million and liabilities with an estimated fair value of $367 million. The difference between the fair values of the assets received and liabilities assumed of $11.4 million was recorded as a gain from the acquisition.

Operating Expense

The following table presents the components of operating expenses. This table is presented to reflect Brintech as a discontinued operation, and accordingly, operating expenses associated with Brintech have been excluded from the table for all periods presented.

Table 5 - Operating Expenses From Continuing Operations
For the Years Ended December 31,
(in thousands)

		2010		2009		2008	Change 2010-2009
Salaries and employee benefits	$	96,618	$	101,568	$	104,056	(5)%
Communications and equipment		13,781		14,676		15,139	(6)
Occupancy		15,394		15,653		14,862	(2)
Advertising and public relations		4,625		3,950		5,695	17
Postage, printing and supplies		4,072		5,040		6,243	(19)
Professional fees		9,254		11,480		9,191	(19)
Foreclosed property - foreclosure and carrying costs		16,381		14,484		6,693	13
Foreclosed property - writedowns and losses from sales		49,325		17,881		12,417	176
FDIC assessments and other regulatory charges		13,747		16,004		6,020	(14)
Amortization of intangibles		3,160		3,104		3,009	2
Other		16,594		13,210		17,010	26
		242,952		217,050		200,335	12
Loss on sale of nonperforming assets		45,349		-		-	
Operating expenses, before nonrecurring items		288,301		217,050		200,335	
Goodwill impairment charges		210,590		95,000		-	
Severance cost		-		2,898		-	
Total operating expenses	$	498,891	$	314,948	$	200,335	58

Operating expenses excluding non-operating items and the loss from the sale of nonperforming assets to Fletcher International were $243 million in 2010 as compared to $217 million in 2009 and $200 million in 2008. Non-recurring charges in 2010 include $211 million for goodwill impairment. Non-recurring charges in 2009 include $95 million for goodwill impairment and $2.90 million in severance costs relating to a reduction in force. The $45.3 million loss on the sale of nonperforming assets to Fletcher was incurred during the second quarter of 2010. Although the loss from the bulk sale of nonperforming assets resulted from an isolated event, because disposition of nonperforming assets is considered an operating activity, it is not excluded from operating expenses as a non-recurring item, but has been separated to make trend comparisons more meaningful. Including the loss on sale of nonperforming assets and those non-recurring charges, operating expenses for 2010 and 2009 were $499 million and $315 million, respectively.

Salaries and employee benefits expense for 2010 was $96.6 million, a decrease of $4.95 million, or 5%, from 2009. The decrease was due to a number of factors including lower equity compensation expense as United did not grant annual equity compensation awards in 2010 and lower salaries and benefits resulting from a decrease in headcount. Headcount totaled 1,817 at December 31, 2010 compared to 1,818 at December 31, 2009, which excludes 40 employees of Brintech, Inc. Although headcount at the end of 2010 was nearly identical to the end of 2009, United began 2009 with 1,956 employees, excluding 38 employees of Brintech, prior to the reduction in force, most of which occurred in the first quarter of 2009.

Communication and equipment expense for 2010 was $13.8 million, which was down $895,000, or 6%, from 2009. United was able to keep expenses flat despite the additional expenses associated with the acquisition of SCB in 2009 due to upgrades in technology in previous years.

Advertising and public relations expense for 2010 was $4.63 million, an increase of $675,000, or 17%, from 2009. The increase was primarily related to advertising campaigns and promotions aimed at increasing core transaction deposits through United's "Strong Bank, Strong Service" and "Number One in Customer Satisfaction" marketing initiatives, which have been successful in adding $291 million in core transaction deposits in the past twelve months.

Postage, printing and supplies expense for 2010 was $4.07 million, a decrease of $968,000, or 19%, from 2009. Much of the decrease was due to lower courier expense due to the use of remote deposit capture technology in branch locations to eliminate the need to courier items to be processed between branch locations and item processing centers. United also continues to promote the use of electronic statements which has resulted in decreasing postage charges.

Professional fees were $9.25 million for 2010, a decrease of $2.23 million, or 19%, from 2009. During the first quarter of 2009, United was engaged in a project to improve operational efficiency and to reduce operating expenses. Consulting services related to that project were performed by Brintech, a wholly-owned subsidiary at the time. Since the table above is presented with Brintech as a discontinued operation, the fees charged by Brintech for those services are no longer eliminated in this table and our consolidated statement of operations and are therefore reflected in professional fees for the year ended December 31, 2009. Lower legal fees in 2010 for credit-related work also contributed to the decrease in professional fees.

Total foreclosed property expense for 2010 was $65.7 million, an increase of $33.3 million from 2009. Foreclosed property expenses have remained elevated throughout the weak economic cycle. The foreclosure and carrying costs category includes legal fees, property taxes, marketing costs, utility services, maintenance and repair charges, while the write downs and losses from sales includes realized losses and write-downs resulting from decreases in property values. Realized losses and write-downs totaled $49.3 million for the year ended December 31, 2010, compared to $17.9 million for 2009. Expenses related to foreclosed properties have risen with the increase in the number of foreclosed properties.

FDIC assessments and other regulatory charges expense for 2010 was $13.7 million, a decrease of $2.26 million from 2009, reflecting a $3.8 million special assessment charged to all depository institutions in 2009. Absent the one time assessment in 2009, FDIC premiums increased in 2010 due to an increase in United's assessment rate. In the fourth quarter of 2009, the FDIC announced that banks were required to prepay deposit insurance premiums for the years 2010 through 2012. While this resulted in a $37.8 million premium cash outlay in the fourth quarter of 2009, the expense is recognized ratably over the three year period in the consolidated statement of operations.

Other expenses totaled $16.6 million for 2010, an increase of $3.38 million, or 26%, from 2009, primarily due to an increase in appraisals and collection costs as well as short sale losses. Also contributing to the increase was the reversal of a $2.4 million accrual in the second quarter of 2009, related to a disputed charge from the transfer of BOLI investments. The disputed charge was settled in United's favor during the second quarter of 2009, and reduced other expenses for that period.

Income Taxes

Income tax benefit from continuing operations was $85.5 million in 2010, compared to income tax benefits of $90.7 million and $37.9 million in 2009 and 2008, respectively. The effective tax rates (as a percentage of pre-tax net income) were 19.8%, 28.4%, and 37.2% for 2010, 2009 and 2008, respectively. Excluding the goodwill impairment charges in 2010 and 2009, which had a very limited tax impact, the effective tax rates for those periods were 38.6% and 40.4%, respectively. The effective tax rates were different from the statutory tax rates primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes, tax exempt fee revenue, tax credits received on affordable housing investments, goodwill impairment charges and the change in valuation allowance on deferred tax assets as discussed below.

The effective tax rate for 2010 reflects the tax treatment of the loss on the sale of nonperforming assets to Fletcher and an increase in the valuation allowance on deferred tax assets related to state tax credits with short carryforward periods that are expected to expire unused.

The effective tax rate for 2009 reflects a decision made by management to reinstate certain BOLI policies which United had surrendered in the third quarter of 2008. United notified the carrier of its intent to surrender the policies in the fourth quarter of 2008 due to a dispute with the carrier. The policies required a six-month waiting period before the surrender became effective. Prior to the expiration of the six-month waiting period, United and the carrier were able to reach an acceptable settlement of the dispute and the surrender transaction was terminated. The tax charge recorded in 2008 was reversed during the second quarter of 2009.

The effective tax rates for 2010 and 2009 also reflect the tax treatment of the goodwill impairment charges totaling $211 million and $95 million, respectively. Since the majority of United's goodwill originated from acquisitions that were treated as tax-free exchanges, a very small amount of goodwill was recognized for tax reporting purposes, and therefore the resulting tax benefit for the impairment charges was minimal. Likewise, no tax benefit was recognized in the financial statements relating to the goodwill impairment charges.

The effective tax rates for 2010 and 2009 also reflect valuation allowances established for deferred tax assets. At December 31, 2010 and 2009, management determined that it was more likely than not that approximately $4.54 million and $3.87 million, net of Federal benefit, of state low income housing and business tax credits will expire unused due to a relatively short three and five year carry forward periods, respectively.

In the fourth quarter of 2009, United resolved a tax dispute with a state taxing authority relative to an issue identified during a routine audit. United had fully reserved for the issue as an uncertain tax position. The resolution resulted in the release of the reserve which increased the fourth quarter 2009 tax benefit by approximately $3 million. Absent the goodwill impairment charges, the tax treatment of the loss on sale of nonperforming assets and adjustments to the valuation allowance on deferred tax assets, United's effective tax rate for the year ended December 31, 2010 would have been approximately 40%. Absent the goodwill impairment charges, the BOLI transactions, the settlement of the uncertain tax position and the valuation allowance on deferred tax assets, United's effective tax rate for the year ended December 31, 2009, would have been approximately 38%.

At December 31, 2010, United had net deferred tax assets of $167 million, including a valuation allowance of $4.54 million related to state tax credits that are expected to expire unused. Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. United's management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. At December 31, 2010, United's management believes that it is more likely than not that, with the exception of the state tax credits that are expected to expire unused due to relatively short carry forward periods of three to five years, it will be able to realize its deferred tax benefits through its ability to carry losses forward to future profitable years. Despite recent losses and the challenging economic environment, United has a history of strong earnings, is well capitalized, continues to grow its core customer deposit base while maintaining very high customer satisfaction scores, and has cautiously optimistic expectations regarding future taxable income. The deferred tax assets are analyzed quarterly for changes affecting realizabilty. United's most recent analysis, which management believes is based on conservative assumptions, indicated that the deferred tax assets resulting from net operating loss carryforwards will be fully utilized well in advance of the twenty-year carryforward period allowed for net operating losses; however there can be no guarantee that a valuation allowance will not be necessary in future periods.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 15 to the consolidated financial statements.

Fourth Quarter Discussion

Taxable equivalent net interest revenue for the fourth quarter of 2010 decreased $3.80 million, or 6%, to $60.1 million from the same period a year ago, primarily due to lower levels of interest earning assets. Average loans were down $589 million during the fourth quarter of 2010 compared to 2009. The net interest margin increased 18 basis points from the fourth quarter of 2009 to 3.58% for the fourth quarter of 2010. Several factors led to the margin improvement despite continued attrition in the loan portfolio, including United's intensified focus on loan and deposit pricing.

The fourth quarter of 2010 operating provision for loan losses was $47.8 million, which excluded a partial fraud recovery of $11.8 million. This compared to a provision of $90 million for the fourth quarter of 2009. Nonperforming assets totaled $321 million, down $63.6 million from a year ago. Nonperforming assets as a percentage of total assets were 4.32% at December 31, 2010, compared with 4.81% at December 31, 2009.

The following table presents the components of fee revenue from continuing operations for the fourth quarters of 2010 and 2009.

Table 6 - Quarterly Fee Revenue From Continuing Operations
(in thousands)

	Three Months Ended December 31,		
	2010	2009	Change
Service charges and fees	$ 7,039	$ 8,257	(15)%
Mortgage loan and related fees	1,868	1,651	13
Brokerage fees	778	443	76
Securities gains, net	-	2,015	
Other	2,757	2,081	32

Total operating fee revenue	$	12,442	$	14,447	(14)

Operating fee revenue for the fourth quarter of 2010 of $12.4 million decreased $2.01 million, or 14%, from $14.4 million for the fourth quarter of 2009. Service charges and fees on deposit accounts decreased $1.22 million, or 15%, to $7.04 million, primarily due to lower overdraft fees resulting from regulatory changes that require customers to give consent prior to using United’s overdraft services. Mortgage fees increased $217,000, or 13%, to $1.87 million due to an increase in refinancing activity as mortgage rates remained at attractive low levels. United closed $91 million in mortgage loans in the fourth quarter of 2010, compared to $86 million in the fourth quarter of 2009. United did not recognize any net securities gains in the fourth quarter of 2010, down $2.02 million from the fourth quarter of 2009.

The following table presents operating expenses from continuing operations for the fourth quarters of 2010 and 2009.

Table 7 - Quarterly Operating Expenses From Continuing Operations
(in thousands)

	Three Months Ended December 31,		
	2010	2009	Change
Salaries and employee benefits	$ 23,777	$ 24,061	(1)%
Communications and equipment	3,377	3,819	(12)
Occupancy	4,024	4,003	1
Advertising and public relations	1,102	958	15
Postage, printing and supplies	1,063	1,307	(19)
Professional fees	3,016	2,646	14
Foreclosed property - foreclosure and carrying costs	4,753	4,815	(1)
Foreclosed property - writedowns and losses from sales	15,849	9,576	66
FDIC assessments and other regulatory charges	3,299	3,711	(11)
Amortization of intangibles	771	813	(5)
Other	3,887	4,417	(12)
Total operating expenses	$ 64,918	$ 60,126	8

Operating expenses increased $4.79 million to $64.9 million, an 8% increase from the fourth quarter of 2009. Salaries and employee benefit costs of $23.8 million decreased $284,000, or 1%, from the fourth quarter of 2009 mostly due to lower stock-based compensation expense as United did not have an annual grant of equity compensation awards in 2010. Communications and equipment expenses were down 442,000, or 12%, to $3.38 million for the three months ended December 31, 2010 compared to the same period in 2009 due to lower depreciation and maintenance charges. Occupancy expense was relatively flat at $4.0 million for the fourth quarters of 2010 and 2009. Professional fees increased $370,000 to $3.02 million reflecting higher loan review charges. Postage, printing and supplies expense decreased $244,000 to $1.06 million due to increased use of electronic statements and branch capture devices that reduced the need for couriers. For the fourth quarter of 2010, advertising and public relations expense increased $144,000, or 15%, mostly reflecting the rollout of United's "Number One in Customer Satisfaction" campaign. Total foreclosed property expense of $20.6 million increased $6.21 million from $14.4 million for the fourth quarter of 2009, due to additional losses on sales and write-downs taken to accelerate the disposition of properties. FDIC assessments and other regulatory charges decreased from $3.71 million during the fourth quarter of 2009 to $3.30 million for the same period in 2010 due to a lower level of average insured deposits upon which the assessment was based. Other operating expense decreased $530,000 to $3.89 million primarily due to lower ATM network costs.

Balance Sheet Review

Total assets at December 31, 2010 were $7.44 billion, a decrease of $557 million, or 7%, from December 31, 2009. On an average basis, total assets decreased $644 million, or 8%, from 2009 to 2010. Average interest earning assets for 2010 and 2009 were $6.82 billion and $7.46 billion, respectively.

Loans

Substantially all loans are to customers (including customers who have a seasonal residence in United's market areas) located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee, and more than 85% of the loans are secured by real estate. Total loans averaged $4.96 billion in 2010, compared with $5.55 billion in 2009, a decrease of 11%. The decrease results from weak loan demand within United's market and management's efforts to reduce United's residential construction concentration. At December 31, 2010, total loans were $4.60 billion, a decrease of $547 million, or 11%, from December 31, 2009. The rate of loan growth began to decline in the first quarter of 2007, and the balances have continued to decline through 2008, 2009 and 2010. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. This deterioration resulted in part from an oversupply of lot inventory, houses and land within United's markets, which further slowed construction activities and acquisition and development projects. The resulting recession that began in the housing market led to high rates of unemployment that resulted in stress in the other segments of United's loan portfolio. Despite the weak economy and lack of loan demand, United continued to pursue lending opportunities which resulted in $320 million in new loans during 2010.

The following table presents the composition of United's loan portfolio for the last five years.

Table 8 - Loans Outstanding
As of December 31,
(in thousands)

Loans by Category	2010	2009	2008	2007	2006
Commercial (secured by real estate)	$ 1,761,424	$ 1,779,398	$ 1,626,966	$ 1,475,930	$ 1,229,910
Commercial (commercial and industrial)	441,518	390,520	410,529	417,715	295,698
Commercial construction	296,582	362,566	499,663	527,123	469,432
Total commercial	2,499,524	2,532,484	2,537,158	2,420,768	1,995,040
Residential construction	695,166	1,050,065	1,478,679	1,829,506	1,864,153
Residential mortgage	1,278,780	1,427,198	1,526,388	1,501,916	1,337,728
Installment	130,656	141,729	162,636	177,073	179,617
Total loans	$ 4,604,126	$ 5,151,476	$ 5,704,861	$ 5,929,263	$ 5,376,538

Loans by Market	2010	2009	2008	2007	2006
Atlanta MSA	$ 1,310,222	$ 1,435,223	$ 1,705,561	$ 2,002,089	$ 1,651,465
Gainesville MSA	312,049	389,766	420,169	399,560	353,559
North Georgia	1,688,586	1,883,880	2,040,082	2,060,224	2,033,553
North Carolina	701,798	771,709	809,863	805,999	773,301
East Tennessee	256,451	265,209	265,544	245,769	207,001
Coastal Georgia	335,020	405,689	463,642	415,622	357,659
Total loans	$ 4,604,126	$ 5,151,476	$ 5,704,861	$ 5,929,263	$ 5,376,538

As of December 31, 2010, United's 25 largest credit relationships consisted of loans and loan commitments ranging from $10.9 million to $77.8 million, with an aggregate total credit exposure of $441 million, including $24.7 million in unfunded commitments, and $416 million in balances outstanding, excluding participations sold. United had only five lending relationships whose total credit exposure exceeded $20 million.

The following table sets forth the maturity distribution of commercial and construction loans, including the interest rate sensitivity for loans maturing after one year.

Table 9 - Loan Portfolio Maturity
As of December 31, 2010
(in thousands)

	Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial (commercial and industrial)	$145,354	$ 178,587	$117,577	$441,518	$232,826	$63,338
Construction (commercial and residential)	570,526	322,103	99,118	991,747	260,637	160,584

Total	$715,880	$ 500,690	$216,695	$1,433,265	$493,463	$223,922

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit administration function is responsible for monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures at among all of the community banks. Additional information on United's loan administration function is included in Item 1 under the heading "Loan Review and Nonperforming Assets."

United classifies loans as substandard loans when there is a well-defined weakness or weaknesses that jeopardize the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected.

The table below presents performing substandard loans for the last five quarters.

Table 10 - Performing Substandard Loans
(dollars in thousands)

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
By Category					
Commercial (sec. by RE)	$ 156,765	$ 157,245	$140,805	$151,573	$ 123,740
Commercial construction	90,745	102,592	78,436	75,304	51,696
Commercial & industrial	16,767	22,251	22,052	35,474	33,974
Total commercial	264,277	282,088	241,293	262,351	209,410
Residential construction	158,770	177,381	149,305	153,799	196,908
Residential mortgage	86,143	86,239	79,484	80,812	79,741
Installment	2,957	4,218	4,364	3,922	3,553
Total	$ 512,147	$ 549,926	$474,446	$500,884	$ 489,612
By Market					
Atlanta MSA	$ 185,327	$ 214,676	$183,612	$191,009	$ 141,205
Gainesville MSA	33,962	27,097	22,602	27,879	26,969
North Georgia	212,992	229,845	199,498	222,037	256,178
North Carolina	42,335	37,085	34,742	25,749	17,524
East Tennessee	8,308	8,882	8,663	7,105	6,806
Coastal Georgia	29,223	32,341	25,329	27,105	40,930
Total loans	$ 512,147	$ 549,926	$474,446	$500,884	$ 489,612

At December 31, 2010, performing substandard loans totaled $512 million and increased $22.5 million from December 31, 2009. Most of the increase occurred in United's Atlanta and North Carolina markets which were offset by decreases in United's north Georgia and coastal Georgia markets. Residential construction loans have represented the largest proportion of both performing substandard and nonperforming loans. The increase in substandard residential mortgages is primarily related to rising unemployment rates. The increase in substandard commercial loans reflects the recessionary economic environment.

Reviews of substandard performing and nonperforming loans, past due loans and larger credits, are conducted on a regular basis with management and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are performed by the lending officers and the loan review department, and also consider such factors as the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, prevailing economic conditions and other factors. United also uses external loan review in addition to United's internal loan review to ensure the independence of the loan review process.

The allocation of the allowance for loan losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. Due to the imprecise nature of the loan loss estimation process and the effects of changing conditions, these risk attributes may not be adequately captured in the data related to the formula-based loan loss components used to determine allocations in United's analysis of the adequacy of the allowance for loan losses. Consequently, management believes that the unallocated allowance appropriately reflects probable inherent but undetected losses in the loan portfolio.

The following table summarizes the allocation of the allowance for loan losses for each of the past five years.

Table 11 - Allocation of Allowance for Loan Losses
As of December 31,
(in thousands)

	2010		2009		2008		2007		2006	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Commercial (commercial and industrial)	$ 7,580	10	$ 6,892	8	$ 8,512	7	$ 7,902	7	$ 5,758	6
Commercial (secured by real estate)	31,191	38	19,208	34	8,948	28	9,520	25	14,716	23
Total commercial	38,771	48	26,100	42	17,460	35	17,422	32	20,474	29
Construction	99,351	21	99,446	27	71,573	35	38,183	40	25,181	43
Residential mortgage	22,305	28	17,266	28	18,364	27	19,611	25	11,323	25
Installment	3,030	3	2,545	3	3,756	3	3,823	3	3,245	3
Unallocated	11,238		10,245		11,118		10,384		6,343	
Total allowance for loan losses	$ 174,695	100	$ 155,602	100	$ 122,271	100	$ 89,423	100	$ 66,566	100

* Loan balance in each category, expressed as a percentage of total loans.

The following table presents a summary of changes in the allowance for loan losses for each of the past five years.

Table 12 - Allowance for Loan Losses
Years Ended December 31,
(in thousands)

	2010	2009	2008	2007	2006
Balance beginning of period	$ 155,602	$ 122,271	$ 89,423	$ 66,566	$ 53,595
Provision for loan losses	223,000	310,000	184,000	55,600	14,600
Allowance for loan losses acquired from subsidiaries at merger date	-	-	-	7,091	3,895
Charge-offs:					
Commercial (commercial and industrial)	10,837	11,322	5,197	1,188	1,157
Commercial (secured by real estate)	33,593	21,796	5,843	688	1,138
Commercial construction	9,993	9,908	1,796	245	11
Residential construction	136,666	219,168	123,771	30,351	179
Residential mortgage	28,806	18,997	12,995	7,022	2,111
Installment	4,828	5,115	3,275	2,200	3,027
Total loans charged-off	224,723	286,306	152,877	41,694	7,623
Recoveries:					
Commercial (commercial and industrial)	1,762	5,397	61	187	177
Commercial (secured by real estate)	1,167	520	72	97	123
Commercial construction	431	12	4	1	-
Residential construction	15,370	2,253	653	117	949
Residential mortgage	867	411	224	486	113
Installment	1,219	1,044	711	972	737
Total recoveries	20,816	9,637	1,725	1,860	2,099
Net charge-offs	203,907	276,669	151,152	39,834	5,524
Balance end of period	$ 174,695	$ 155,602	$ 122,271	$ 89,423	$ 66,566
Total loans *:					
At year-end	$ 4,604,126	$ 5,151,476	$ 5,704,861	$ 5,929,263	$ 5,376,538
Average	4,884,330	5,501,165	5,890,889	5,734,608	4,800,981
Allowance as a percentage of year-end loans	3.79%	3.02%	2.14%	1.51%	1.24%
As a percentage of average loans:					
Net charge-offs	4.17	5.03	2.57	.69	.12
Provision for loan losses	4.57	5.64	3.12	.97	.30
Allowance as a percentage of nonperforming loans					
As reported	98	59	64	317	534
Excluding impaired loans with no allocated reserve	274	190	125	NM	NM

* -

Excludes loans acquired through the FDIC assisted acquisition of Southern Community Bank that are covered by loss sharing agreements.

NM - Not meaningful.

The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance for loan losses at a level appropriate to absorb losses inherent in the loan portfolio at the balance sheet date. The amount each year is dependent upon many factors including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the provision and the stabilization of the level of the allowance for loan losses compared to a year ago reflect stabilizing trends in substandard loans, leading to an expectation that charge-off levels will continue to decline. In addition, the $11.8 million partial recovery in the fourth quarter of 2010 of a previously charged off loan increased the total allowance for loan losses by that amount, thereby reducing the level of loan loss provision needed in 2010.

Management believes that the allowance for loan losses at December 31, 2010 reflects the losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions. See the "Critical Accounting Policies" section for additional information on the allowance for loan losses.

Nonperforming Assets

Nonperforming loans, which include non-accrual loans and accruing loans past due over 90 days, totaled $179 million at December 31 2010, compared with $264 million at December 31, 2009. At December 31, 2010 and 2009, the ratio of nonperforming loans to total loans was 3.89% and 5.13%, respectively. The sale of approximately $70 million nonperforming loans to Fletcher in the second quarter of 2010 contributed to the decrease. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled $321 million at December 31, 2010, compared with $385 million at December 31, 2009. The sale of approximately $168 million of foreclosed properties during 2010, including the sale of $33 million to Fletcher in the second quarter of 2010, was offset by the addition of approximately $238 million of new foreclosed properties. United's position throughout the current economic environment has been to actively and aggressively work to dispose of problem assets quickly.

United's policy is to place loans on non-accrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not both well secured and in the process of collection. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on non-accrual loans are applied as a reduction of principal.

There were no commitments to lend additional funds to customers whose loans were on non-accrual status at December 31, 2010, although in certain isolated cases, United executed forbearance agreements whereby United will continue to fund construction loans to completion as long as the borrower meets the conditions of the forbearance agreement. The table below summarizes nonperforming assets at year-end for the last five years. It excludes assets acquired through the acquisition of SCB in 2009 that are covered by the loss-sharing agreement with the FDIC. These assets have been excluded from the review of nonperforming assets, as the loss-sharing agreement with the FDIC and purchase price adjustments to reflect credit losses, effectively eliminate the likelihood of recognizing any losses on the covered assets.

Table 13 - Nonperforming Assets
As of December 31,
(in thousands)

	2010		2009		2008		2007		2006	
Nonaccrual loans (NPLs)	$179,094		$264,092		$190,723		$28,219		$12,458	
Loans past due 90 days or more and still accruing	-		-		-		-		-	
Total nonperforming loans	179,094		264,092		190,723		28,219		12,458	
Foreclosed properties	142,208		120,770		59,768		18,039		1,196	
Total nonperforming assets (NPAs)	$321,302		$384,862		$250,491		$46,258		$13,654	
NPLs as a percentage of total loans	3.89	%	5.13	%	3.34	%	.48	%	.23	%
NPAs as a percentage of loans and foreclosed properties	6.77		7.30		4.35		.78		.25	
NPAs as a percentage of total assets	4.32		4.81		2.92		.56		.19	

At December 31, 2010 and 2009 United had $101 million and $60.4 million, respectively, in loans with terms that have been modified in a troubled debt restructuring ("TDR"). Included therein were $17.3 million and $7.0 million, respectively, of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $84.1 million and $53.4 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets. There were no TDRs reported for any of the prior reporting periods presented above.

At December 31, 2010 and 2009, there were $123 million and $198 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification. Included in impaired loans at December 31, 2010 and 2009 were $115 million and $182 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at December 31, 2010 of $7.64 million had specific reserves that totaled $1.05 million and the balance of impaired loans at December 31, 2009 of $16.1 million had specific reserves that totaled $2.98 million. The average recorded investment in impaired loans for the years ended December 31, 2010, 2009 and 2008 was $170 million, $229 million and $97.1 million, respectively. During 2010, 2009 and 2008, there was no interest revenue recognized on loans while they were impaired. United’s policy is to discontinue the recognition of interest revenue for loans classified as impaired under the Financial Accounting Standards Board’s Accounting Standards Codification (“ASC”) Topic 310-10-35, Receivables, when the loan meets the criteria for nonaccrual status.

The following table summarizes nonperforming assets by category and market by quarter. Assets covered by the loss-sharing agreement with the FDIC related to the acquisition of SCB are not included in this table.

Table 14 - Nonperforming Assets by Quarter
(in thousands)

	December 31, 2010 (1)			September 30, 2010 (1)			June 30, 2010 (1)			Mar
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Non Loa
BY CATEGORY										
Commercial (sec. by RE)	$44,927	$23,659	$68,586	$53,646	$14,838	$68,484	$56,013	$13,297	$69,310	$45.
Commercial construction	21,374	17,808	39,182	17,279	15,125	32,404	17,872	11,339	29,211	23.
Commercial & industrial	5,611	-	5,611	7,670	-	7,670	7,245	-	7,245	3,6
Total commercial	71,912	41,467	113,379	78,595	29,963	108,558	81,130	24,636	105,766	73.
Residential construction	54,505	78,231	132,736	79,321	73,206	152,527	88,375	74,444	162,819	14
Residential mortgage	51,083	22,510	73,593	58,107	26,795	84,902	53,175	24,830	78,005	57.
Consumer / installment	1,594	-	1,594	1,743	-	1,743	1,655	-	1,655	2,4
Total NPAs	$179,094	$142,208	$321,302	$217,766	$129,964	$347,730	$224,335	$123,910	$348,245	$28
BY MARKET										
Atlanta MSA	$48,289	$41,154	$89,443	$65,304	$32,785	$98,089	$74,031	$30,605	$104,636	$81.
Gainesville MSA	5,171	9,273	14,444	11,905	5,685	17,590	10,730	2,750	13,480	17.
North Georgia	83,551	66,211	149,762	92,295	67,439	159,734	102,198	60,597	162,795	10
Western North Carolina	25,832	11,553	37,385	31,545	11,559	43,104	22,776	11,473	34,249	31.
Coastal Georgia	11,145	11,901	23,046	10,611	10,951	21,562	8,341	16,548	24,889	33.
East Tennessee	5,106	2,116	7,222	6,106	1,545	7,651	6,259	1,937	8,196	7,7
Total NPAs	$179,094	$142,208	$321,302	$217,766	$129,964	$347,730	$224,335	$123,910	$348,245	$28

	December 31, 2009 (1)			September 30, 2009 (1)			June 30, 2009 (1)			Mar
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Non Loa
BY CATEGORY										
Commercial (sec. by RE)	$37,040	$15,842	$52,882	$38,379	$12,566	$50,945	$37,755	$5,395	$43,150	$18.
Commercial construction	19,976	9,761	29,737	38,505	5,543	44,048	15,717	5,847	21,564	6,4
Commercial & industrial	3,946	-	3,946	3,794	-	3,794	11,378	-	11,378	12.
Total commercial	60,962	25,603	86,565	80,678	18,109	98,787	64,850	11,242	76,092	36.
Residential construction	142,332	76,519	218,851	171,027	79,045	250,072	176,400	81,648	258,048	18
Residential mortgage	58,767	18,648	77,415	50,626	13,456	64,082	44,256	11,864	56,120	33.

Consumer / installment	2,031	-	2,031	2,050	-	2,050	2,342	-	2,342	1,6
Total NPAs	$264,092	$120,770	$384,862	$304,381	$110,610	$414,991	$287,848	$104,754	$392,602	$25
BY MARKET										
Atlanta MSA	$106,536	$41,125	$147,661	$120,599	$54,670	$175,269	$148,155	$50,450	$198,605	$13
Gainesville MSA	5,074	2,614	7,688	12,916	8,429	21,345	9,745	3,511	13,256	17,
North Georgia	87,598	53,072	140,670	96,373	36,718	133,091	72,174	37,454	109,628	66,
Western North Carolina	29,610	5,096	34,706	25,775	5,918	31,693	21,814	7,245	29,059	21,
Coastal Georgia	26,871	17,150	44,021	38,414	3,045	41,459	30,311	3,904	34,215	15,
East Tennessee	8,403	1,713	10,116	10,304	1,830	12,134	5,649	2,190	7,839	6,8
Total NPAs	$264,092	$120,770	$384,862	$304,381	$110,610	$414,991	$287,848	$104,754	$392,602	$25

(1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of Southern Community Bank.

Nonperforming assets in the residential construction category were $133 million at December 31, 2010, compared to $219 million at December 31, 2009, a decrease of $86.1 million, or 39%. While residential construction nonperforming assets have begun to decrease, commercial nonperforming assets of $113 million, at December 31, 2010, were up $26.8 million from the prior year. Residential mortgage nonperforming assets of $73.6 million, decreased $3.82 million from December 31, 2009. In 2009, nonperforming assets had been concentrated in the Atlanta MSA, however Atlanta nonperforming assets have been steadily declining throughout 2010 after peaking in the third quarter of 2009. At December 31, 2010, Atlanta nonperforming assets were down $58.2 million from December 31, 2009. United’s north Georgia market has seen an increase in nonperforming assets with the balance increasing from $141 million at December 31, 2009 to $150 million at December 31, 2010.

The following table summarizes activity in nonperforming assets by quarter. Assets covered by the loss-sharing agreement with the FDIC related to the acquisition of SCB are not included in this table.

Table 15 - Activity in Nonperforming Assets by Quarter
(in thousands)

	Fourth Quarter 2010 (1)			Third Quarter 2010 (1)			Second Quarter 2010 (1)			F
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonacc Loan
Beginning Balance	$217,766	$129,964	$347,730	$224,335	$123,910	$348,245	$280,802	$136,275	$417,077	$264,0
Loans placed on non-accrual	81,023	-	81,023	119,783	-	119,783	155,007	-	155,007	139,0
Payments received	(7,250)	-	(7,250)	(11,469)	-	(11,469)	(12,189)	-	(12,189)	(5,73
Loan charge-offs	(47,913)	-	(47,913)	(52,647)	-	(52,647)	(62,693)	-	(62,693)	(58,8
Foreclosures	(61,432)	61,432	-	(59,844)	59,844	-	(66,994)	66,994	-	(49,2
Capitalized costs	-	170	170	-	601	601	-	305	305	-
Note / property sales	(3,100)	(33,509)	(36,609)	(2,392)	(40,203)	(42,595)	(69,598)	(68,472)	(138,070)	(8,45
Write downs	-	(8,031)	(8,031)	-	(7,051)	(7,051)	-	(6,094)	(6,094)	-
Net gains (losses) on sales	-	(7,818)	(7,818)	-	(7,137)	(7,137)	-	(5,098)	(5,098)	-
Ending Balance	$179,094	$142,208	$321,302	$217,766	$129,964	$347,730	$224,335	$123,910	$348,245	$280,8

	Fourth Quarter 2009 (1)			Third Quarter 2009 (1)			Second Quarter 2009 (1)			
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonacc Loan
Beginning Balance	$304,381	$110,610	$414,991	$287,848	$104,754	$392,602	$259,155	$75,383	$334,538	$190,7
Loans placed on non-accrual	174,898	-	174,898	190,164	-	190,164	169,351	-	169,351	175,7
Payments received	(26,935)	-	(26,935)	(16,597)	-	(16,597)	(15,597)	-	(15,597)	(24,7
Loan charge-offs	(88,427)	-	(88,427)	(92,359)	-	(92,359)	(60,644)	-	(60,644)	(43,8
Foreclosures	(79,983)	79,983	-	(56,624)	56,624	-	(64,417)	64,417	-	(38,7
Capitalized costs	-	981	981	-	579	579	-	1,324	1,324	-

Note / property sales	(19,842)	(61,228)	(81,070)	(8,051)	(47,240)	(55,291)	-	(33,752)	(33,752)	-
Write downs	-	(2,209)	(2,209)	-	(1,906)	(1,906)	-	(2,738)	(2,738)	-
Net gains (losses) on sales	-	(7,367)	(7,367)	-	(2,201)	(2,201)	-	120	120	-
Ending Balance	$264,092	$120,770	$384,862	$304,381	$110,610	$414,991	$287,848	$104,754	$392,602	$259,1

(1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of Southern Community Bank.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less estimated costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property costs. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with ASC 360-20, Real Estate Sales. For the twelve months ended December 31, 2010, 2009 and 2008, United transferred $238 million, $240 million and $132 million, respectively, of loans into foreclosed property. During 2010 and 2009, proceeds from sales of foreclosed properties were $168 million and $165 million, respectively, which includes $56.9 million and $10.8 million, respectively, of sales that were financed by United. During the second quarter of 2010, United sold approximately $33 million in foreclosed properties to Fletcher of which United financed 80% of the sales price.

Investment Securities

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet, while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits. Total investment securities at December 31, 2010 decreased $39.8 million from a year ago. During the second quarter of 2010, United transferred securities available for sale with a fair value of $315 million to held to maturity. The transferred securities are those that United has the ability and positive intent to hold until maturity. Generally, the transferred securities had longer durations and were more susceptible to market price volatility due to changes in interest rates. At December 31, 2010, United had securities held to maturity with a carrying value of $266 million and securities available for sale totaling $1.22 billion. At December 31, 2010 and 2009, the securities portfolio represented approximately 20% and 19% of total assets, respectively. At December 31, 2010, the effective duration of the investment portfolio based on expected maturities was 3.02 years compared with 2.67 years at December 31, 2009.

The following table shows the carrying value of United's securities.

Table 16 - Carrying Value of Investment Securities
As of December 31,
(in thousands)

	December 31, 2010		
	Available for Sale	Held to Maturity	Total Securities
U.S. Government agencies	$ 98,480	$ 11,939	$ 110,419
State and political subdivisions	28,442	47,007	75,449
Mortgage-backed securities	991,008	206,861	1,197,869
Other	106,487	-	106,487
Total securities available for sale	$ 1,224,417	$ 265,807	$ 1,490,224

	December 31, 2009		
	Available for Sale	Held to Maturity	Total Securities
U.S. Government agencies	$ 246,466	$ -	$ 246,466
State and political subdivisions	63,293	-	63,293
Mortgage-backed securities	1,197,222	-	1,197,222
Other	23,066	-	23,066
Total securities available for sale	$ 1,530,047	$ -	$ 1,530,047

The investment securities portfolio primarily consists of U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, U.S. Government agency securities, corporate bonds and municipal securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because the loans underlying the security can prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs. Prepayments tend to slow and the weighted average life extends. This is referred to as extension risk, which can lead to lower levels of liquidity due to the delay of cash receipts, and can result in the holding of a below market yielding asset for a longer period of time.

At December 31, 2010, United had 80% of its total investment securities portfolio in mortgage backed securities, compared with 78% at December 31, 2009. Due to a lack of loan demand, United continued to purchase additional mortgage-backed securities in order to obtain a favorable yield with low risk. In late 2009, United began to shift away from mortgage-backed securities to avoid extension risk in the event that rates begin to rise. In 2010, United reinvested the proceeds of maturing fixed-rate mortgage-backed securities in floating-rate collateralized mortgage obligations in order to reinvest additional liquidity without exposure to significant extension risk. United did not have securities of any issuer in excess of 10% of equity at year-end 2010 or 2009, excluding U.S. Government issues. Less than 1% of the securities portfolio is rated below "A" or unrated and 86% is rated "Aaa". See Note 5 to the consolidated financial statements for further discussion of investment portfolio and related fair value and maturity information.

Goodwill and Other Intangible Assets

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. United evaluates its goodwill annually, or more frequently if necessary, to determine if any impairment exists. As a result of the significant drop in United's stock price during the third quarter of 2010, United conducted an interim goodwill impairment test to determine if the stock price decline might indicate goodwill was impaired. United's third quarter interim impairment test indicated that goodwill was in fact impaired and United recorded a charge to earnings for the entire remaining balance of $211 million. In performing the interim impairment test, United engaged the services of a national third party valuation expert who employed commonly used valuation techniques including an earnings approach that considered discounted future expected cash earnings and three market approaches. The third quarter 2010 impairment charge followed two earlier impairment charges in the first and third quarters of 2009.

United performed its annual goodwill impairment test as of December 31, 2009 with no impairment indicated. Conditions through the first two quarters of 2010 did not lead management to believe that further impairment was present and interim tests were therefore not performed. In the third quarter of 2010, United's stock price dropped significantly from $3.95 at the end of the second quarter to a low of $2.04 during the third quarter. This led management to conclude that impairment might be present and an interim impairment test was conducted.

In performing the annual and interim impairment assessments, United engaged the same third party valuation firm who employed a consistent approach to each impairment test. The first step (Step 1) of the goodwill impairment analysis was to determine whether the fair value of United exceeded the book value of equity, which would imply that goodwill was not impaired. The Step 1 analysis included three commonly used valuation techniques, including an earnings approach that considered discounted expected future cash earnings and two market approaches. The first market approach was the guideline public companies method that considered United's implied value by comparing United to a select peer group of public companies and their current market valuation. The second market approach was the merger and acquisition method that considered the amount an acquiring company might be willing to pay to gain control of United, based on recent merger and acquisition activity. In the third quarter 2010 assessment, the third party valuation firm included a third market approach valuation technique that considered the value of United's stock referred to as the public market price method. This valuation technique had not been considered in earlier impairment tests as the stock price decline was considered temporary and therefore not considered in the Step 1 valuation process. Due to the extended period over which United's stock price had traded at a significant discount to tangible book value, the assertion that the stock price decline was temporary was no longer valid and United's stock price was included in the third quarter 2010 impairment test. Inclusion of this valuation technique had a significant impact on the Step 1 valuation process and the overall conclusion that goodwill was fully impaired.

In each of the impairment assessments performed in 2009 and 2010, the Step 1 analysis indicated that the estimated fair value of United had fallen below its book value. The declining valuation determined in Step 1 led to Step 2 of the goodwill impairment assessment, which required United to determine the fair value of all its assets and liabilities, including separately identifiable intangible assets, and to determine the implied value of goodwill as the difference between the value of United determined in Step 1 and the value of the underlying assets and liabilities determined in Step 2.

There are a number of valuation assumptions required to determine the value of United's assets and liabilities. The most significant assumption in determining the estimated fair value of United as a whole and the amount of any resulting impairment was the discount rate used in the discounted cash flows valuation method. Other significant assumptions relate to the value of the loan portfolio. Those assumptions included estimates of cash flows on nonperforming loans, probability of default rates and loss on default rates for performing loans. Changes in those assumptions, or any other significant assumptions, could have a significant impact on the results of the goodwill impairment assessment.

Because goodwill is an intangible asset that cannot be sold separately or otherwise disposed of, it is not recognized in determining capital adequacy for regulatory purposes. Therefore, the goodwill impairment charges taken during 2010 and 2009 had no effect on United's regulatory capital ratios.

Other intangible assets, primarily core deposit intangibles representing the value of United's acquired deposit base, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that lead management to believe that any impairment exists in United's other intangible assets.

Deposits

United initiated several programs in early 2009 to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit accounts to improve its net interest margin and to increase net interest revenue. The programs were successful in increasing core transaction deposit accounts and reducing more costly time deposit balances, as United's funding needs decreased due to lower loan demand.

Total average deposits for 2010 were $6.37 billion, a decrease of $340 million, or 5%, from 2009. Average non-interest bearing demand deposit accounts increased $74.9 million, or 11%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of $2.33 billion on average for 2010, which increased $262 million, or 13%, from 2009.

Average time deposits for 2010 were $3.28 billion, down from $3.95 billion in 2009. At December 31, 2010, total deposits were $6.47 billion compared with $6.63 billion at the end of 2009, a decrease of $159 million, or 2%. United lowered its rates on certificates of deposit during 2010 and 2009, allowing the balances to decline due to weak loan demand. Additional liquidity also allowed United to reduce brokered deposits, which totaled $677 million at December 31, 2010, compared with $759 million at December 31, 2009.

The following table sets forth the scheduled maturities of time deposits of $100,000 and greater and brokered time deposits.

Table 17 - Maturities of Time Deposits of $100,000 and Greater and Brokered Deposits
As of December 31, 2010
(in thousands)

$100,000 and greater:		
Three months or less	$	227,358
Three to six months		175,870
Six to twelve months		361,580
Over one year		237,551
Total	$	1,002,359
Brokered deposits:		
Three months or less	$	17,314
Three to six months		154,367
Six to twelve months		137,348
Over one year		367,743
Total	$	676,772

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank ("FHLB") of Atlanta. Through this affiliation, secured advances totaling $55.1 million remained outstanding at December 31, 2010. United anticipates continued use of this short and long-term source of funds. The FHLB advances outstanding at December 31, 2010 had fixed interest rates ranging up to 4.49%. During the third quarter of 2010, United prepaid $50 million in fixed-rate advances and incurred prepayment charges of $2.23 million. United will prepay advances from time to time as funding needs change. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 11 to the consolidated financial statements.

At December 31, 2010, United had $101 million in repurchase agreements reported as Federal funds purchased, repurchase agreements, and other short-term borrowings in the consolidated balance sheet, compared to $101 million outstanding at December 31, 2009. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

Liquidity Management

Liquidity is defined as the ability of a bank to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the daily cash flow requirements of the Bank's customers, both depositors and borrowers. The primary objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending on a number of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments.

United is a separate entity apart from the Bank and must provide for its own liquidity. United is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities. Because substantially all of United's liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law and the MOU, United currently has limited capital resources to meet these obligations. United has not received a dividend from the Bank since 2008 and does not anticipate receiving dividends from the Bank until 2012, at the earliest. United deferred the payment of interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. As a result of such deferrals, United may not pay dividends on any of common or preferred stock or trust preferred securities until all accrued and unpaid amounts under the deferred securities have been paid. However, assuming the Private Placement is completed, United will retain a portion of the proceeds to fund its ongoing obligations. While we expect these transactions to close in March 2011, there is no assurance that we will be able to satisfy all of the remaining closing requirements on a timely basis.

The primary objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities, to optimize interest revenue. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both objectives.

The asset portion of the balance sheet provides liquidity primarily through loan sales and repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled $35.9 million at December 31, 2010, and typically turn over every 45 days as closed loans are sold to investors in the secondary market. Construction and commercial loans that mature in one year or less amounted to $716 million, or 16%, of the loan portfolio at December 31, 2010. In addition, at December 31, 2010, United had $442 million in commercial paper investments that mature within 30 days.

The liability section of the balance sheet provides liquidity primarily through the stability of deposit accounts. Federal funds purchased, FHLB advances, brokered deposits, Federal Reserve discount window borrowings and securities sold under agreements to repurchase are additional wholesale sources of liquidity and represent United's additional borrowing capacity. These sources of liquidity are used as necessary to fund asset growth and meet other short-term liquidity needs.

The table below presents a summary of United's short-term borrowings over the last three years.

Table 18 - Short-Term Borrowings
As of December 31,
(in thousands)

	Period-end balance	Period end weighted-average interest rate	Maximum outstanding at any month-end	Average amounts outstanding during the year	Weighted-average rate for the year
December 31, 2010					
Federal funds purchased	$ -	- %	$ -	$ 489	.36 %
Repurchase agreements	101,067	4.12	104,127	102,990	4.11
	$ 101,067			$ 103,479	
December 31, 2009					
Federal funds purchased	$ -	- %	$ 58,000	$ 33,439	.29 %
Repurchase agreements	101,389	4.12	102,665	101,725	2.59
Other	-	-	175,000	42,425	.25
	$ 101,389			$ 177,589	
December 31, 2008					
Federal funds purchased	8,197	.27	294,205	147,459	2.78
Line of credit	-	-	-	3,350	5.75
Repurchase agreements	100,214	2.00	150,960	114,516	1.43
Other	-	-	215,000	59,309	2.98
	$ 108,411			$ 324,634	

At December 31, 2010, United had sufficient qualifying collateral to increase FHLB advances by $804 million and Federal Reserve discount window capacity of $233 million. United's internal policy limits brokered deposits to 25% of total assets. At December 31, 2010, United had the capacity to increase brokered deposits by $1.18 billion and still remain within this limit. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing. The following table shows United's contractual obligations and other commitments.

Table 19 - Contractual Obligations and Other Commitments
As of December 31, 2010
(in thousands)

		Maturity By Years			
	Total	1 or Less	1 to 3	3 to 5	Over 5
Contractual Cash Obligations					
FHLB advances	$ 55,125	$ -	$ 25,000	$ 30,000	$ 125
Long-term debt	150,146	-	30,500	65,000	54,646
Operating leases	11,048	2,847	4,890	1,127	2,184
Total contractual cash obligations	$ 216,319	$ 2,847	$ 60,390	$ 96,127	$ 56,955
Other Commitments					
Lines of credit	$ 482,860	$ 242,795	$ 63,301	$ 14,234	$ 162,530
Commercial letters of credit	18,813	14,656	4,157	-	-
Uncertain tax positions	12,710	3,997	4,732	1,707	2,274
Total other commitments	$ 514,383	$ 261,448	$ 72,190	$ 15,941	$ 164,804

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was $151 million for the year ended December 31, 2010. The net loss of $346 million for the year included non-cash expenses for provision for loan losses of $223 million, and a goodwill impairment charge of $211 million. Net cash provided by operating activities also included the loss on sale of nonperforming assets totaling $45.3 million and losses and write downs on foreclosed properties totaling $49.3 million. Net cash provided by investing activities of $346 million consisted primarily of proceeds from sales of securities of $75.5 million, maturities and calls of investment securities of $883 million, proceeds from sales of other real estate of $111 million, a net decrease in loans of $188 million and cash received from Fletcher of $20.6 million offset by purchases of securities of $928 million and purchases of premises and equipment of $7.13 million. The $224 million of net cash used in financing activities consisted primarily of a net decrease in deposits of $155 million and a $61.2 million repayment of FHLB advances. In the opinion of management, United's liquidity position at December 31, 2010 was sufficient to meet its expected cash flow requirements.

The following table presents the contractual maturity of investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis). The composition and maturity/repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

Table 20 - Expected Maturity of Available for Sale and Held to Maturity Investment Securities
As of December 31,
2010
(in thousands)

	Maturity By Years				
	1 or Less	1 to 5	5 to 10	Over 10	Total
Available for Sale					
U.S. Government agencies	$ -	$ 10,044	$ 75,673	$ 12,763	$ 98,480
State and political subdivisions	2,658	15,279	9,175	1,330	28,442
Other securities (1)	24,092	786,475	280,301	6,627	1,097,495
Total securities available for sale	$ 26,750	$ 811,798	$ 365,149	$ 20,720	$ 1,224,417
Weighted average yield (2)	5.33 %	3.84 %	3.63 %	3.44 %	3.82 %
Held to Maturity					
U.S. Government agencies	$ -	$ -	$ 11,939	$ -	$ 11,939
State and political subdivisions	-	1,002	21,500	24,505	47,007
Other securities (1)	-	164,400	36,222	6,239	206,861
Total securities available for sale	$ -	$ 165,402	$ 69,661	$ 30,744	$ 265,807
Weighted average yield (2)	0.00 %	3.54 %	4.07 %	4.99 %	3.85 %
Combined Portfolio					

U.S. Government agencies	$ -	$ 10,044	$ 87,612	$ 12,763	$ 110,419
State and political subdivisions	2,658	16,281	30,675	25,835	75,449
Other securities (1)	24,092	950,875	316,523	12,866	1,304,356
Total securities available for sale	$ 26,750	$ 977,200	$ 434,810	$ 51,464	$ 1,490,224
Weighted average yield (2)	5.33 %	3.80 %	3.71 %	4.39 %	3.82 %

(1) Includes mortgage-backed securities

(2) Based on amortized cost, taxable equivalent basis

Off-Balance Sheet Arrangements

United is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers. These financial instruments include commitments to extend credit, letters of credit and financial guarantees.

A commitment to extend credit is an agreement 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. Letters of credit and financial guarantees are conditional commitments issued to guarantee a customer’s performance to a third party and have essentially the same credit risk as extending loan facilities to customers. Those commitments are primarily issued to local businesses.

The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, letters of credit and financial guarantees is represented by the contractual amount of these instruments. United uses the same credit underwriting procedures for making commitments, letters of credit and financial guarantees as for underwriting on-balance sheet instruments. United evaluates each customer's creditworthiness on a case-by-case basis and the amount of the collateral, if deemed necessary, is based on the credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used.

United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 19 to the consolidated financial statements for additional information on off-balance sheet arrangements.

Capital Resources and Dividends

Shareholders' equity at December 31, 2010 was $636 million, a decrease of $327 million from December 31, 2009, of which $211 million was due to the third quarter 2010 goodwill impairment charge which had no impact on tangible equity. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available for sale and the unrealized gains and losses on derivatives qualifying as cash flow hedges, is excluded in the calculation of regulatory capital ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity decreased $310 million, or 34%, from December 31, 2009. During the second quarter of 2010, United recorded a $39.8 million increase to capital surplus as the result of the issuance of equity instruments to Fletcher International in conjunction with the sale of nonperforming assets. In order to preserve capital, United suspended its cash dividend in the third quarter of 2008 and declared a stock dividend of 1 new share for every 130 shares held in the third and fourth quarters of 2008 and each of the first three quarters of 2009. United accrued $10.3 million in dividends, including discount accretion, on Series A and Series B preferred stock, for the year ended December 31, 2010 compared to $10.2 million for 2009. United recognizes that cash dividends are an important component of shareholder value, and therefore, we intend to provide for cash dividends on common stock when earnings, capital levels and other factors permit.

The Board of Governors of the Federal Reserve has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off balance sheet. Under the guidelines, capital strength is measured in two tiers which are used in conjunction with risk-weighted assets to determine the risk-based capital ratios. The guidelines require an 8% Total risk-based capital ratio, of which 4% must be Tier 1 capital. However, to be considered well-capitalized under the guidelines, a 10% Total risk-based capital ratio is required, of which 6% must be Tier 1 capital.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the company's total risk weighted assets. Risk-weighted assets for purposes of United's capital ratios are calculated under these guidelines.

Tier 1 Capital consists of shareholders' equity, excluding accumulated other comprehensive income, intangible assets (goodwill and deposit-based intangibles), and disallowed deferred tax assets, plus qualifying capital securities. United's Tier 1 capital totaled $483 million at December 31, 2010. Tier 2 capital components include supplemental capital such as the qualifying portion of the allowance for loan losses and qualifying subordinated debt. Tier 1 capital plus Tier 2 capital is referred to as Total risk-based capital and was $605 million at December 31, 2010. The ratios, as calculated under the guidelines, were 9.67% and 12.11% for Tier 1 and Total risk-based capital, respectively, at December 31, 2010.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier 1 capital divided by average assets adjusted for goodwill and deposit based intangibles. Although a minimum leverage ratio of 3% is required, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio of greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

The Board Resolution provides that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior approval of the Federal Reserve. We were not given permission to pay interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. As a result of such deferrals, United may not pay dividends on any of common or preferred stock or trust preferred securities until all accrued and unpaid amounts under the deferred securities have been paid. In addition, the Bank is currently subject to the MOU which requires, among other things, that the Bank maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the MOU. As of December 31, 2010, the Bank's Tier 1 leverage ratio was below the target level of 8% and management has agreed with the regulators to submit a capital plan to take corrective action in the near future. Additionally, the MOU requires that, prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators.

On December 5, 2008, United participated in Treasury's CPP by selling 180,000 shares of Series B Preferred Stock and a Warrant to purchase 2,132,701 shares (1,099,542 shares, as adjusted for subsequent stock dividends and a 50% reduction following United's 2009 stock offering) of United's common stock to Treasury. The proceeds of $180 million were allocated between the Series B Preferred Stock and the Warrant based on their relative fair values at the time of the sale. Of the $180 million in proceeds, $173.1 million was allocated to the Series B Preferred Stock and $6.9 million was allocated to the Warrant. The discount recorded on the Series B Preferred Stock that resulted from allocating a portion of the proceeds to the Warrant is being accreted directly to into retained earnings over a five-year period applying a level yield. The exercise price of the Warrant is $12.66 per share ($12.28 per share, as adjusted for subsequent stock dividends) and is exercisable at any time on or before December 5, 2018.

The Series B Preferred Stock qualifies as Tier 1 capital under risk-based capital guidelines and will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Series B Preferred Stock may be redeemed after December 5, 2011 at the stated amount of $1,000 per share plus any accrued and unpaid dividends. Prior to December 5, 2011, the Series B Preferred Stock may be redeemed only with proceeds from the sale of qualifying equity securities. The Series B Preferred Stock is non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B Preferred Stock.

United has outstanding junior subordinated debentures related to trust preferred securities totaling $54.6 million at December 31, 2010. The related trust preferred securities of $53.2 million (excluding common securities) qualify as Tier 1 capital under risk-based capital guidelines provided that total trust preferred securities do not exceed certain quantitative limits. At December 31, 2010, all of United's trust preferred securities qualified as Tier 1 capital. Further information on United's trust preferred securities is provided in Note 13 to the consolidated financial statements.

United has subordinated debentures outstanding that qualify as Tier 2 capital under the risk based capital guidelines. The securities begin to lose their Tier 2 capital treatment as they approach maturity, losing 20% per year in each of the five years prior to maturity. Of the $95.5 million in subordinated debt that United had outstanding at December 31, 2010, $58.1 million qualified as Tier 2 capital under risk based capital guidelines.

Late in the third quarter of 2009, United issued 44,505,000 shares of common stock at a price of $5.00 per share. This increased shareholders' equity by $211 million, after payment of issuance costs. The proceeds from the stock issuance were immediately invested in the Bank.

The following table shows United's capital ratios, as calculated under regulatory guidelines, at December 31, 2010 and 2009:

Table 21 - Capital Ratios
(dollars in thousands)

	Regulatory Guidelines		United Community Banks, Inc. (Consolidated)		United Community Bank	
		Well	As of December 31,		As of December 31,	
	Minimum	Capitalized	2010	2009	2010	2009
Risk-based ratios:						
Tier 1 capital	4.0 %	6.0 %	9.67 %	12.41 %	10.72 %	13.19 %
Total capital	8.0	10.0	12.11	15.09	12.48	15.01
Leverage ratio	3.0	5.0	6.75	8.50	7.45	8.81

Tier 1 capital	$ 483,257	$ 679,552	$ 534,161	$ 720,075
Total capital	605,204	826,251	621,807	819,415

United monitors these capital ratios to ensure that United and the Bank remain within regulatory guidelines. In addition, pursuant to the Bank's MOU, the Bank must maintain its Tier I leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the MOU. As indicated above, as of December 31, 2010, the Bank's Tier I leverage ratio was below the target level of 8%. Further information regarding the actual and required capital ratios of United and the Bank is provided in Note 18 to the consolidated financial statements.

Effect of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of a general business corporation in that primarily all assets and liabilities of a bank are monetary in nature, with relatively little investment in fixed assets or inventories. Inflation has an important effect on the growth of total assets and the resulting need to increase equity capital at higher than nominal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the effect of inflation on financial results depends on United's ability to react to changes in interest rates and, by such reaction, reduce the inflationary effect on performance. United has an asset/liability management program to monitor and manage United's interest rate sensitivity position. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Sensitivity Management

The absolute level and volatility of interest rates can have a significant effect on United's profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve United's overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

United's net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by the ALCO. The ALCO meets periodically and has responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings and reviewing United's interest rate sensitivity.

One of the tools management uses to estimate the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit repricing characteristics and the rate of prepayments. The ALCO regularly reviews the assumptions for accuracy based on historical data and future expectations, however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared to in order to measure the change in net interest revenue. Policy limits are based on gradually rising and falling rate scenarios, which are compared to this base scenario. Another commonly analyzed scenario is a most likely scenario that projects the most likely change in rates based on the slope of the yield curve. Other scenarios analyzed may include rate shocks, narrowing or widening spreads, and yield curve steepening or flattening. While policy scenarios focus on a twelve month time frame, longer time horizons are also modeled.

United's policy is based on the 12-month impact on net interest revenue of interest rate ramps that increase 200 basis points and decrease 200 basis points from the base scenario. In the ramp scenarios, rates change 25 basis points per month over the initial eight months. The policy limits the change in net interest revenue over the next 12 months to a 10% decrease in either scenario. The policy ramp and base scenarios assume a static balance sheet. Historically low rates on December 31, 2010 and 2009 made use of the down 200 basis point scenario problematic. At December 31, 2010 United's simulation model indicated that a 200 basis point increase in rates would cause an approximate .08% increase in net interest revenue over the next twelve months and a 25 basis point decrease in rates would cause an approximate .29% increase in net interest revenue over the next twelve months. At December 31, 2009, United's simulation model indicated that a 200 basis point increase in rates over the next twelve months would cause an approximate 1.81% increase in net interest revenue and a 25 basis point decrease in rates over the next twelve months would cause an approximate .65% increase in net interest revenue.

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

United may have some discretion in the extent and timing of deposit repricing depending upon the competitive pressures in the markets in which it operates. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices.

Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in an interest rate sensitivity gap analysis. These prepayments may have significant effect on the net interest margin. Because of these limitations, an interest sensitivity gap analysis alone generally does not provide an accurate assessment of exposure to changes in interest rates.

In order to manage its interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate and receives a fixed rate and interest rate floor contracts where United pays a premium up front to a counterparty to the right to be compensated if a specified rate index falls below a pre-determined floor rate.

United’s derivative financial instruments are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize currently in earnings both the effect of the change in the fair value of the derivative financial instrument and the offsetting effect of the change in fair value of the hedged asset or liability associated with the particular risk of that asset or liability being hedged. At December 31, 2010, United did not have any active derivative contracts outstanding.

From time to time, United will terminate swap or floor positions when conditions change and the position is no longer necessary to manage United’s overall sensitivity to changes in interest rates. In those situations where the terminated swap or floor was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the swap or floor, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. For floor contracts, the gain or loss is amortized over the remaining original contract term based on the original floorlet schedule. At December 31, 2010, United had $19.7 million in gains from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. Approximately $11.7 million is expected to be reclassified into interest revenue over the next twelve months.

United’s policy requires all derivative financial instruments be used only for asset/liability management through the hedging of specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate risk sensitivity is minimal and should not have any material unintended effect on our financial condition or results of operations. In order to mitigate potential credit risk, from time to time United may require the counterparties to derivative contracts to pledge securities as collateral to cover the net exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the registrant and report of independent registered public accounting firm are included herein as follows:

MANAGEMENT’S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The management of United Community Banks, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of the company’s principal executive and principal financial officers and affected by the company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, we believe that as of December 31, 2010, United Community Banks, Inc.’s internal control over financial reporting is effective based on those criteria.

Our independent registered public accountants have issued an audit report on the company’s internal control over financial reporting. This report appears on page 62.

/s/ Jimmy C. Tallent	/s/ Rex S. Schuette
Jimmy C. Tallent President and Chief Executive Officer	Rex S. Schuette Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and shareholders
United Community Banks, Inc.
Blairsville, Georgia

We have audited the accompanying consolidated balance sheets of United Community Banks, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. We have also audited the Company's internal controls over financial reporting as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective control over financial reporting and for its assessment of the effectiveness internal control over financial reporting included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Certified Public Accountants

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Community Banks, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, United Community Banks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Porter Keadle Moore, LLP

Atlanta, Georgia
March 16, 2011

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Operations
For the Years Ended December 31, 2010, 2009 and 2008
(in thousands, except per share data)

	2010	2009	2008
Interest revenue:			
Loans, including fees	$277,904	$322,509	$385,959
Investment securities:			
Taxable	58,821	76,048	74,405
Tax exempt	1,137	1,322	1,464
Federal funds sold, commercial paper and deposits in banks	3,260	2,950	2,880
Total interest revenue	341,122	402,829	464,708
Interest expense:			
Deposits:			
NOW	6,966	11,023	28,626
Money market	7,552	9,545	10,643
Savings	331	483	764
Time	66,883	120,326	158,268
Total deposit interest expense	81,732	141,377	198,301
Federal funds purchased, repurchase agreements and other short-term borrowings	4,235	2,842	7,699
Federal Home Loan Bank advances	3,355	4,622	13,026
Long-term debt	10,749		