UNITED COMMUNITY BANKS INC
Form 10-K
March 14, 2012
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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, 2011

Commission File Number 001-35095

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 ¨ 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 ¨ 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 ¨

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ 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: $594,196,291 (based on shares held by non-affiliates at $10.56 per share, the closing stock price on the Nasdaq stock market on June 30, 2011).

As of February 29, 2012, 57,591,469 shares of common stock were issued and outstanding including 41,677,260 voting shares and 15,914,209 non-voting shares. Also outstanding were presently exercisable options to acquire 508,218 shares, presently exercisable warrants to acquire 1,761,344 shares and 88,762 shares issuable under United Community Banks, Inc. s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the 2012 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, 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, 2011, operated at 106 locations throughout 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.

The Bank, through its full-service retail mortgage lending division, United Community Mortgage Services (UCMS), is approved as a seller/servicer for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and provides fixed and adjustable-rate home mortgages. During 2011, the Bank originated $261 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 breaches of warranties.

Acquired in 2000, Brintech, Inc. (Brintech), a former subsidiary of the Bank, was a consulting firm for the financial services industry. United sold Brintech on March 31, 2010 and has excluded its results of operations from loss 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.

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 in June 2009, 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.

Recent Developments

On February 10, 2012, United filed an amended Annual Report on Form 10-K/A for the year ended December 31, 2010, which was originally filed with the Securities and Exchange Commission on March 16, 2011. Concurrently with such filing, United also filed amended Quarterly Reports on Form 10-Q/A for the periods ended March 31, 2011, June 30, 2011 and September 30, 2011, which were originally filed with the Securities and Exchange Commission on May 4, 2011, August 9, 2011 and November 8, 2011, respectively. The amended Annual Report on Form 10-K/A and amended Quarterly Reports on Form 10-Q/A are referred to herein collectively as the Restatements.

The Restatements were filed to reflect United s establishment of a full deferred tax asset valuation allowance as of December 31, 2010 and the effects thereof on certain related disclosures contained in the original filings, including (i) United s previously reported income tax expense, other comprehensive income in shareholders equity and net income and loss, tangible book value, tangible equity and tangible common equity to asset ratios, and regulatory capital ratios, (ii) United s disclosure in its Annual Report on Form 10-K/A with respect to Item 1A Risk Factors, Management s Report on Internal Control Over Financial Reporting included in Item 8 Financial Statements and Supplementary Data, and Item 9A Controls and Procedures, and (iii) United s disclosure in its Quarterly Reports on Form 10-Q/A with respect to Item 4 Controls and Procedures.

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During the first quarter of 2011, United closed a private placement (the Private Placement) pursuant to which institutional investors purchased $33.0 million of United s existing common stock, consisting of 3,467,699 shares, for $9.50 per share, and $347 million in preferred stock consisting of $196 million of Series F Preferred Stock, and $151 million of Series G Preferred Stock. Under the terms of the Private Placement Agreement and following receipt of required shareholder approvals, which were received on June 16, 2011 at United s annual shareholders meeting, the Series F Preferred Stock converted into 20,618,156 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. Following such conversion, the investors owned an aggregate of 24,085,855 shares of common stock and 15,914,209 shares of non-voting common stock. The Private Placement resulted in an increase to shareholders equity of $362 million, net of transaction costs.

On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United s common stock was reclassified into one share of common stock, and each 5 shares of United s non-voting common stock was reclassified into one share of non-voting common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

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). 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, (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (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 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:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carry-forwards;
- the condition of the banking system and financial markets;

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;

our ability to raise capital as may be necessary;

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;
- competition from financial institutions and other financial service providers;
- the United States Department of the Treasury (Treasury) may change the terms of our Series B Preferred Stock;
- risks with respect to future expansion and acquisitions;
- if the 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; and
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

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 Board of Governors of the Federal Reserve System (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 five 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 of each year. The following information only shows market share in deposit gathering, which may not be indicative of market presence in other areas.

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

	Market Share					Rank in Market				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
Atlanta, Georgia MSA										
Bartow	12%	9%	8%	7%	7%	3	4	5	7	6
Carroll	6	5	4	3	3	6	7	7	9	9
Cherokee	4	4	4	4	4	9	9	9	9	9
Cobb	3	3	3	4	4	10	10	7	8	8
Coweta	2	2	3	1	1	10	10	10	12	12
Dawson	36	30	29	33	36	1	1	1	1	1
DeKalb	1	1	1	1	1	21	21	18	16	18
Douglas	2	1	1	2	2	11	13	13	10	11
Fayette	8	9	11	2	1	5	4	4	12	12
Forsyth	3	2	3	2	3	11	13	11	13	11
Fulton	1	1	1	1	1	20	18	20	17	17
Gwinnett	3	3	3	4	4	7	8	7	7	5
Henry	4	4	4	3	3	7	9	8	10	12
Newton	3	3	3	4	4	8	8	9	7	6
Paulding	5	3	2	2	2	7	8	12	11	8
Pickens	3	2	2	3	2	7	7	7	7	7
Rockdale	12	12	12	11	12	4	4	3	5	4
Walton	2	1	1	1	1	10	10	10	11	13
Gainesville, Georgia MSA										
Hall	14	14	13	12	9	3	3	4	4	5
North Georgia										
Chattooga	40	39	40	41	42	1	1	1	1	1
Fannin	52	49	50	52	50	1	1	1	1	1
Floyd	16	14	13	13	15	1	3	3	4	3
Gilmer	25	15	14	14	15	2	2	2	2	2
Habersham	20	16	14	14	14	2	3	3	3	3
Jackson	6	5	4	3	2	7	8	8	10	11
Lumpkin	29	28	29	32	27	2	2	1	1	2
Rabun	12	11	10	11	12	5	5	5	5	5
Towns	41	37	27	29	32	2	2	2	2	2
Union	84	86	88	88	85	1	1	1	1	1
White	46	43	39	40	40	1	1	1	1	1
Tennessee										
Blount	2	2	3	3	4	11	11	11	9	8
Bradley	5	5	5	5	4	7	7	7	7	7
Knox	1	1	1	1	1	23	25	16	14	13
Loudon	14	14	16	19	19	3	3	3	2	3
McMinn	2	2	3	3	3	9	9	9	8	8
Monroe	4	3	4	3	2	7	8	7	8	8
Roane	8	8	10	11	9	6	6	4	3	4
Coastal Georgia										
Chatham	1	1	1	2	1	10	10	11	11	12
Glynn	18	15	13	16	18	2	3	3	3	2
Ware	4	4	7	10	7	9	8	7	4	5
North Carolina										

Avery	18	17	15	14	13	1	1	4	4	4
Cherokee	29	29	34	42	46	1	1	1	1	1
Clay	48	49	51	53	53	1	1	1	1	1
Graham	72	72	74	77	75	1	1	1	1	1
Haywood	10	11	12	11	11	5	5	4	5	5
Henderson	3	3	3	3	3	11	11	11	11	11
Jackson	25	25	24	24	23	1	1	1	2	2
Macon	8	8	9	9	9	6	5	4	4	4
Mitchell	37	34	32	28	29	1	1	1	2	1
Swain	25	30	28	28	31	2	2	2	2	2
Transylvania	14	13	14	14	12	3	4	3	3	3
Watauga	1	1	2	2	1	12	11	11	11	13
Yancey	20	19	17	13	12	2	2	4	4	5

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, 2011, commercial (commercial and industrial), commercial (secured by real estate), commercial construction, residential construction, residential mortgage and consumer installment loans represented approximately 10%, 44%, 4%, 11%, 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, 2011, the Bank s legal lending limit was $156 million; however, the Board of Directors has established an internal lending limit of $20 million. All loans to borrowers for any individual real estate project that exceeds $12 million or whose total aggregate borrowing relationship 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 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)	Loans in this category are presently protected from apparent loss; however weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past-due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.
8 (Substandard)	These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses that may include poor liquidity and deterioration of financial ratios. The 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 highly questionable and improbable. There is no reliable secondary source of full repayment.
10 (Loss)	Loans categorized as Loss have the same characteristics as Doubtful, however, probability of loss is certain. Loans classified as Loss are 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. Most collateral dependent impaired loans with specific reserves are charged down 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, 2011, United and its subsidiaries had 1,706 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 www.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 and 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 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%.

In November 2011, United entered into an informal memorandum of understanding with the Federal Reserve Bank of Atlanta and the DBF (the Holding Company MOU) that superseded the board resolution previously requested by the Federal Reserve Bank of Atlanta. The Holding Company MOU provides, similar to the superseded resolution, that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or subordinated indebtedness or repurchase outstanding stock without prior approval of the Federal Reserve Bank of Atlanta. Additionally, the Holding Company MOU requires, among other things, that United ensures the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU.

The Bank is currently subject to an informal memorandum of understanding with the FDIC and the DBF (the Bank MOU). The Bank MOU requires, among other things, that the Bank maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of at least 10% while the Bank MOU is in place. Additionally, the Bank 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. The Bank believes it is in compliance with all requirements of the Bank MOU.

On December 5, 2008, United entered into a Letter Agreement and Securities Purchase Agreement (the TARP Purchase Agreement) with Treasury under the TARP Capital Purchase Program discussed below, pursuant to which United sold (i) 180,000 shares of United s Series B Preferred Stock and (ii) a warrant (the Warrant) to purchase 426,540 shares (219,909 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 $180 million in cash. Pursuant to the terms of the Purchase Agreement, the ability of United to declare or pay dividends or distributions on its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share of ($.45) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions.

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.

Under rules adopted by the Federal Reserve in November 2011, known as the Comprehensive Capital Analysis and Review (CCAR) Rules, bank holding companies with $50 billion or more of total assets are required to submit annual capital plans to the Federal Reserve and generally may pay dividends and repurchase stock only under a capital plan as to which the Federal Reserve has not objected. The CCAR rules will not apply to United for so long as our total consolidated assets remain below $50 billion. However, it is anticipated that United capital ratios will be important factors considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practices.

Due to our accumulated deficit (negative retained earnings), the Bank does not have the ability to pay cash dividends to the parent company in 2012. United did not pay cash dividends on its common stock in 2011, 2010 or 2009.

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 mandatorily 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, 2011 and 2010, the most recent notifications from the FDIC categorize the Bank as well-capitalized under current regulations, regulators expect banks to maintain capital well above the minimum levels. In addition, the Bank 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.

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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.

On December 20, 2011, the Federal Reserve announced its intention to implement substantially all of the Basel III rules. Although the regulatory agencies have not yet published a notice of proposed rulemaking to implement Basel III, they are likely to do so (at least with respect to the Basel III capital framework) during the first half of 2012. United anticipates that the Basel III capital framework as adopted in the United States will establish substantially higher capital requirements than currently apply for institutions with $50 billion or more in total assets. The application of the Basel III liquidity framework to bank holding companies with less than $50 billion of total assets is less certain.

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:

- Created a new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws. Depository institutions are subject to the Consumer Financial Protection Bureau s rule-writing authority, and existing depository institution regulatory agencies retain examination and enforcement authority for such institutions.

- Established 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. In December 2011, the Federal Reserve Board issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for (1) risk-based capital requirements and leverage limits, (2) stress testing of capital, (3) liquidity requirements, (4) overall risk management requirements, (5) resolution plan and credit exposure reporting, and (6) concentration/credit exposure limits. Comments on these proposed rules, are due by March 31, 2012. Most of these proposed rules will not apply to United for so long as its total consolidated assets remain below $50 billion. However, the proposed rules will apply requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each bank holding company establish a risk committee of its board of directors and that that committee include a risk expert apply to bank holding companies with total consolidated assets of $10 billion or more, a size United could grow to through organic growth or acquisitions.

- Implemented 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.

- Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital.

- Provided that interchange fees for debit cards will be set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard. This provision is known as the Durbin Amendment. In June 2011, the Federal Reserve adopted regulations for banks with total assets exceeding $10 billion, setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements certain fraud-prevention standards. At this time it is uncertain whether this new fee structure will impact United.

- Applied the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies and required 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.

Made 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.

Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Required the regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds), with implementation starting as early as July 2012. The statutory provision is commonly called the Volcker Rule . In October 2011, regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal, which were due by February 13, 2012. The proposed rules are highly complex, and many aspects of their application remain uncertain. Based on the proposed rules, United does not currently anticipate that the Volcker Rule will have a material effect on its or the Bank s operations because neither entity engages in the businesses prohibited by the Volcker Rule.

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 up to one-third of the executive s total annual compensation, which do not fully vest during the TARP period, (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. In 2010, the federal banking agencies issued guidance on incentive compensation policies (the Incentive Compensation Guidance) 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 Guidance, 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.

The federal banking agencies have 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:

- provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks,

be compatible with effective internal controls and risk management, and

be supported by strong corporate governance, including active and effective oversight by the organization s board of directors and appropriate policies, procedures and monitoring.

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 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.

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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, 2012, are as follows:

Name (age)	Position with United	Officer of United Since
Jimmy C. Tallent (59)	President, Chief Executive Officer and Director	1988
Rex S. Schuette (62)	Executive Vice President and Chief Financial Officer	2001
David Shearrow (52)	Executive Vice President and Chief Risk Officer since April 2007; prior to joining United was Executive Vice President and Senior Credit Officer of SunTrust Banks	2007
Craig Metz (56)	Executive Vice President of Retail Banking and Marketing since 2011; previously Executive Vice President of Marketing	2002
Bill M. Gilbert (59)	Regional President of North Georgia and Coastal Georgia since 2011; previously Senior Vice President of Retail Banking	2003
Glenn S. White (60)	Regional President of the Atlanta Region since 2008; previously President of United Community Bank - Gwinnett since 2007; prior to joining United was Chief Executive Officer of Gwinnett Commercial Group, Inc.	2008
Tim Schools (42)	Regional President of North Carolina and Tennessee since November 2011; prior to joining United was President (2008 2010) and Chief Operating Officer (2007 2008) of American Savings Bank, F.S.B., was Chief Financial Officer of South Financial Group, Inc. (2004 2007)	2011

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.

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 Holding Company MOU, United has agreed to not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or subordinated indebtedness or repurchase outstanding stock without prior regulatory approval. Additionally, the Holding Company MOU requires, among other things, that United ensures that the Bank functions in a safe and sound manner. The Bank MOU requires, among other things, that the Bank maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of at least 10% while the Bank MOU is in place and that, prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators.

If we are unable to comply with the Holding Company MOU or Bank MOU, then we could become subject to additional, heightened regulatory enforcement actions and orders, possibly including cease and desist or consent orders or written agreements. If we fail to comply with the Holding Company MOU or Bank MOU or any 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 adverse effect on our business, operations, financial condition, results of operations or the value of our common stock. Further, as long as either memorandum of understanding is in place, it is unlikely that United or the Bank could participate in negotiated purchases, mergers or FDIC-assisted transactions.

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 residential or commercial real estate;
- a permanent 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 sufficient taxable income in the future, then we may not be able to fully realize the benefits of our deferred tax assets. 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.

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.

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 the Bank. 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, repurchase agreements 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 and preferred stock and trust preferred securities, 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 Bank 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.

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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.

In addition, United is a legal entity separate and distinct from the Bank and depends on subsidiary service fees and dividends from the Bank to fund its payment of dividends to its common and preferred shareholders and of interest and principal on its outstanding debt and trust preferred securities. Due to our accumulated deficit (negative retained earnings), the Bank does not have the ability to pay cash dividends to United in 2012. The Bank is also subject to other laws that authorize regulatory authorities to prohibit or reduce the flow of funds from the Bank to United and the Bank MOU that requires written consent of the Bank s regulators before it can pay a dividend. Any inability of United pay its obligations, or need to defer the payment of any such obligations, could have a material adverse effect on our business, operations, financial condition, and the value of our common stock.

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. 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 $448 million at December 31, 2011, comprising 11% 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.

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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 $1.82 billion at December 31, 2011, comprising 44% of total loans. Commercial real estate loans typically involve larger loan balances than compared to residential mortgage loans. 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 owner-occupied properties. 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 and judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to the allowance for loan losses, fair value measurement, 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; or, significantly increase or decrease accrued taxes and 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, 2011, we recorded an operating provision for loan losses of $251 million compared to $235 million and $310 million for the years ended December 31, 2010 and 2009, 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.

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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 or request that we consent to 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. Enforcement actions, including the imposition of 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. Closure of the Bank 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 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 created a new Consumer Financial Protection Bureau with the power to promulgate and enforce consumer protection laws. Depository institutions are subject to the Consumer Financial Protection Bureau s rule-writing authority, and existing depository institution regulatory agencies retain examination and enforcement authority for such institutions. The Dodd-Frank Act also established 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, made permanent the $250,000 limit for federal deposit insurance, provided unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions and repealed 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 Securities and Exchange Commission, (2) FDIC insurance assessments, (3) interchange fees for debit cards, which are 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.

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.

We have established a full valuation allowance against our net deferred tax asset of $273 million as of December 31, 2011, which includes approximately $227 million of deferred tax benefits related to federal and state operating loss carry-forwards. Our ability to use such assets, including the reversal or partial release of the valuation allowance, is dependent on our ability to generate future earnings within the operating loss carry-forward periods, which are generally 20 years. If we do not realize taxable earnings within the carry-forward periods, our deferred tax asset would be permanently impaired. Additionally, our ability to use such assets to offset future tax liabilities could be permanently 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 Plan will prevent United from experiencing an ownership change under Section 382. Our inability to utilize these deferred tax assets (benefits) would have a material adverse effect on our financial condition and results of operations.

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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 provides services or performs operational functions at 130 locations, of which 108 are owned and 20 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 2011.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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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, 2011 was $6.99. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2011 and 2010.

	2011				2010			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$ 11.85	$ 5.95	$ 11.65	227,321	$ 25.00	$ 16.05	$ 22.05	176,585
Second quarter	14.65	9.80	10.56	139,741	31.00	19.30	19.75	169,997
Third quarter	11.33	7.67	8.49	214,303	20.50	10.20	11.20	162,032
Fourth quarter	8.90	6.22	6.99	202,024	13.00	5.50	9.75	216,916

The stock price information shown above has been adjusted to reflect United s 1 for 5 reverse stock split as though it had occurred at the beginning of the earliest reported period.

At January 31, 2012, there were approximately 6,650 record shareholders and 16,900 beneficial shareholders of United s common stock.

Dividends. No cash or stock dividends were declared on United s common stock during 2010 or 2011. Federal and state laws and regulations impose restrictions on the ability of United and the Bank to pay dividends, and the Holding Company MOU 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. Effective April 15, 2011, United received approval to make payments for currently payable and previously deferred dividends and interest on its preferred stock and trust preferred securities. Since then, United has continued to receive quarterly approvals of all payments, including the fourth quarter of 2011 and the first quarter of 2012.

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 of ($.45) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions. Additional information regarding this item is included in Note 20 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. Except as described below under Sales of Unregistered Securities, no shares were repurchased during 2011 or 2010. 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. No shares were delivered to exercise stock options in 2011 or 2010.

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 1,551,126 shares of United s common stock, in exchange for 16,613 Series D Preferred Shares and warrants to purchase 1,551,126 shares of common stock.

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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, 2006 and ending on December 31, 2011.

	Cumulative Total Return *					
	September 30, 2006	September 30, 2007	September 30, 2008	September 30, 2009	September 30, 2010	September 30, 2011
United Community Banks, Inc.	$ 100	$ 50	$ 44	$ 11	$ 6	$ 5
Nasdaq Stock Market (U.S.) Index	100	108	66	95	113	114
Nasdaq Bank Index	100	79	58	48	57	51

* Assumes $100 invested on December 31, 2006 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.

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

(in thousands, except per share data; taxable equivalent)	2011	2010	2009	2008	2007
INCOME SUMMARY					
Net interest revenue	$ 233,669	$ 243,052	$ 245,227	$ 238,704	$ 274,483
Operating provision for loan losses (1)	251,000	234,750	310,000	184,000	37,600
Operating fee revenue (2)	49,908	48,548	50,964	46,081	53,701
Total operating revenue (1)(2)	32,577	56,850	(13,809)	100,785	290,584
Operating expenses (3)	261,599	242,952	217,050	200,335	181,730
Loss on sale of nonperforming assets		45,349			
Operating (loss) income from continuing operations before taxes	(229,022)	(231,451)	(230,859)	(99,550)	108,854
Operating income taxes	(2,276)	73,218	(91,754)	(35,651)	40,266
Net operating (loss) income from continuing operations	(226,746)	(304,669)	(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		11,750			(10,998)
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	(226,746)	(502,344)	(228,327)	(63,450)	57,993
Preferred dividends and discount accretion	11,838	10,316	10,242	724	18
Net (loss) income available to common shareholders	$ (238,584)	$ (512,660)	$ (238,569)	$ (64,174)	$ 57,975
PERFORMANCE MEASURES					
Per common share:					
Diluted operating (loss) earnings from continuing operations (1)(2)(3)	$ (5.97)	$ (16.64)	$ (12.37)	$ (6.82)	$ 7.36
Diluted (loss) earnings from continuing operations	(5.97)	(27.15)	(19.80)	(6.82)	6.18
Diluted (loss) earnings	(5.97)	(27.09)	(19.76)	(6.77)	6.22
Cash dividends declared (rounded)				.87	1.73
Stock dividends declared (6)			3 for 130	2 for 130	
Book value	6.62	15.40	41.78	84.75	88.52
Tangible book value (5)	6.47	14.80	30.09	51.93	54.62
Key performance ratios:					
Return on equity (4)	(93.57)%	(85.08)%	(34.40)%	(7.82)%	7.79%
Return on assets	(3.15)	(6.61)	(2.76)	(.76)	.75
Net interest margin	3.44	3.56	3.29	3.18	3.88
Operating efficiency ratio from continuing operations (2)(3)	92.27	98.98	73.97	70.00	55.53
Equity to assets	7.75	10.77	11.12	10.22	9.61
Tangible equity to assets (5)	7.62	8.88	8.33	6.67	6.63
Tangible common equity to assets (5)	3.74	6.52	6.15	6.57	6.63
Tangible common equity to risk-weighted assets (5)	8.25	5.64	10.39	8.34	8.21
ASSET QUALITY *					
Non-performing loans	$ 127,479	$ 179,094	$ 264,092	$ 190,723	$ 28,219
Foreclosed properties	32,859	142,208	120,770	59,768	18,039
Total non-performing assets (NPAs)	160,338	321,302	384,862	250,491	46,258
Allowance for loan losses	114,468	174,695	155,602	122,271	89,423
Operating net charge-offs (1)	311,227	215,657	276,669	151,152	21,834
Allowance for loan losses to loans	2.79%	3.79%	3.02%	2.14%	1.51%
Operating net charge-offs to average loans (1)	7.33	4.42	5.03	2.57	.38

NPAs to loans and foreclosed properties		3.87		6.77		7.30		4.35		.78
NPAs to total assets		2.30		4.42		4.81		2.92		.56
AVERAGE BALANCES *($ in millions)*										
Loans	$	4,307	$	4,961	$	5,548	$	5,891	$	5,735
Investment securities		1,999		1,453		1,656		1,489		1,278
Earning assets		6,785		6,822		7,465		7,504		7,071
Total assets		7,189		7,605		8,269		8,319		7,731
Deposits		6,275		6,373		6,713		6,524		6,029
Shareholders equity		557		819		920		850		743
Common shares Basic *(thousands)*		39,943		18,925		12,075		9,474		9,190
Common shares Diluted *(thousands)*		39,943		18,925		12,075		9,474		9,319
AT YEAR END *($ in millions)*										
Loans *	$	4,110	$	4,604	$	5,151	$	5,705	$	5,929
Investment securities		2,120		1,490		1,530		1,617		1,357
Total assets		6,983		7,276		8,000		8,592		8,207
Deposits		6,098		6,469		6,628		7,004		6,076
Shareholders equity		575		469		962		989		832
Common shares outstanding *(thousands)*		57,561		18,937		18,809		9,602		9,381

(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 $11.8 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.

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Selected Financial Data (Continued)

(in thousands, except per share data; taxable equivalent)	2011 Fourth Quarter	2011 Third Quarter	2011 Second Quarter	2011 First Quarter	2010 Fourth Quarter	2010 Third Quarter	2010 Second Quarter	2010 First Quarter
INCOME SUMMARY								
Interest revenue	$ 71,905	$ 74,543	$ 76,931	$ 75,965	$ 81,215	$ 84,360	$ 87,699	$ 89,849
Interest expense	12,855	15,262	17,985	19,573	21,083	24,346	26,072	28,570
Net interest revenue	59,050	59,281	58,946	56,392	60,132	60,014	61,627	61,279
Operating provision for loan losses (1)	14,000	36,000	11,000	190,000	47,750	50,500	61,500	75,000
Fee revenue (2)	12,667	11,498	13,905	11,838	12,442	12,861	11,579	11,666
Total operating revenue (1)(2)	57,717	34,779	61,851	(121,770)	24,824	22,375	11,706	(2,055)
Operating expenses (3)	51,080	46,520	48,728	115,271	64,918	64,906	58,308	54,820
Loss on sale of nonperforming assets							45,349	
Operating income (loss) from continuing operations before income taxes	6,637	(11,741)	13,123	(237,041)	(40,094)	(42,531)	(91,951)	(56,875)
Operating income tax expense (benefit)	(3,264)	(402)	1,095	295	144,760	(16,706)	(32,419)	(22,417)
Net operating income (loss) from continuing operations (1)(2)(3)	9,901	(11,339)	12,028	(237,336)	(184,854)	(25,825)	(59,532)	(34,458)
Noncash goodwill impairment charges						(210,590)		
Partial reversal of fraud loss provision					11,750			
Loss from discontinued operations								(101)
Gain from sale of subsidiary								1,266
Net income (loss)	9,901	(11,339)	12,028	(237,336)	(173,104)	(236,415)	(59,532)	(33,293)
Preferred dividends and discount accretion	3,025	3,019	3,016	2,778	2,586	2,581	2,577	2,572
Net income (loss) available to common shareholders	$ 6,876	$ (14,358)	$ 9,012	$ (240,114)	$ (175,690)	$ (238,996)	$ (62,109)	$ (35,865)
PERFORMANCE MEASURES								
Per common share:								
Diluted operating income (loss) from continuing operations (1)(2)(3)	$ .12	$ (.25)	$ .16	$ (13.00)	$ (9.87)	$ (1.50)	$ (3.29)	$ (1.96)
Diluted income (loss) from continuing operations	.12	(.25)	.16	(13.00)	(9.25)	(12.62)	(3.29)	(1.96)
Diluted income (loss)	.12	(.25)	.16	(13.00)	(9.25)	(12.62)	(3.29)	(1.90)
Book value	6.62	6.77	7.11	2.20	15.40	25.70	38.55	39.76
Tangible book value (5)	6.47	6.61	6.94	1.69	14.80	25.26	26.95	28.12
Key performance ratios:								
Return on equity (4)(6)	7.40%	(15.06)%	42.60%	(526.54)%	(196.10)%	(148.04)%	(35.89)%	(20.10)%
Return on assets (6)	.56	(.64)	.66	(13.04)	(9.47)	(12.47)	(3.10)	(1.70)
Net interest margin (6)	3.51	3.55	3.41	3.30	3.58	3.57	3.60	3.49
Operating efficiency ratio from continuing operations (2)(3)	71.23	65.73	66.88	169.08	89.45	89.38	141.60	75.22
Equity to assets	8.28	8.55	8.06	6.15	7.80	11.37	11.84	11.90
Tangible equity to assets (5)	8.16	8.42	7.93	6.01	7.64	9.19	9.26	9.39
Tangible common equity to assets (5)	5.38	5.65	1.37	2.70	5.22	6.78	6.91	7.13
Tangible common equity to risk-weighted assets (5)	8.25	8.52	8.69	.75	5.64	9.60	9.97	10.03
ASSET QUALITY *								
Non-performing loans	$ 127,479	$ 144,484	$ 71,065	$ 83,769	$ 179,094	$ 217,766	$ 224,335	$ 280,802
Foreclosed properties	32,859	44,263	47,584	54,378	142,208	129,964	123,910	136,275

Total non-performing assets (NPAs)	160,338	188,747	118,649	138,147	321,302	347,730	348,245	417,077
Allowance for loan losses	114,468	146,092	127,638	133,121	174,695	174,613	174,111	173,934
Operating net charge-offs [(1)]	45,624	17,546	16,483	231,574	47,668	49,998	61,323	56,668
Allowance for loan losses to loans	2.79%	3.55%	3.07%	3.17%	3.79%	3.67%	3.57%	3.48%
Operating net charge-offs to average loans (1)(6)	4.39	1.68	1.58	20.71	4.03	4.12	4.98	4.51
NPAs to loans and foreclosed properties	3.87	4.54	2.82	3.25	6.77	7.11	6.97	8.13
NPAs to total assets	2.30	2.74	1.66	1.79	4.42	4.96	4.55	5.32
AVERAGE BALANCES *($ in millions)*								
Loans	$ 4,175	$ 4,194	$ 4,266	$ 4,599	$ 4,768	$ 4,896	$ 5,011	$ 5,173
Investment securities	2,141	2,150	2,074	1,625	1,354	1,411	1,532	1,518
Earning assets	6,688	6,630	6,924	6,902	6,680	6,676	6,854	7,085
Total assets	7,019	7,000	7,363	7,379	7,254	7,522	7,704	7,946
Deposits	6,115	6,061	6,372	6,560	6,294	6,257	6,375	6,570
Shareholders equity	581	598	594	454	566	855	912	945
Common shares basic *(thousands)*	57,646	57,599	25,427	18,466	18,984	18,936	18,905	18,878
Common shares diluted *(thousands)*	57,646	57,599	57,543	18,466	18,984	18,936	18,905	18,878
AT PERIOD END *($ in millions)*								
Loans *	$ 4,110	$ 4,110	$ 4,163	$ 4,194	$ 4,604	$ 4,760	$ 4,873	$ 4,992
Investment securities	2,120	2,123	2,188	1,884	1,490	1,310	1,488	1,527
Total assets	6,983	6,894	7,152	7,709	7,276	7,013	7,652	7,837
Deposits	6,098	6,005	6,183	6,598	6,469	5,999	6,330	6,488
Shareholders equity	575	583	603	586	469	662	904	926
Common shares outstanding (thousands)	57,561	57,510	57,469	20,903	18,937	18,887	18,856	18,835

(1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of $11.8 million in the fourth quarter of 2010. Operating charge-offs also exclude the $11.8 million related partial recovery of the previously charged off amount.

(2) Excludes revenue generated by discontinued operations in the first quarter of 2010.

(3) Excludes the goodwill impairment charge of $211 million in the third quarter of 2010 and expenses relating to discontinued operations in the first quarter of 2010.

(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.

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

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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 continues to experience challenges in its loan portfolio caused by the weakened housing and commercial real estate markets. The fragile economic conditions that spread beyond the housing market, causing prolonged levels of high unemployment, negatively impacted United s loan portfolio again in 2011. United reported a net loss of $227 million in 2011, which primarily reflects the credit losses taken in the first quarter associated with the execution of a plan to sell approximately $293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately $142 million in foreclosed properties (the Problem Asset Disposition Plan). This compared to a net loss of $502 million in 2010, which included non-cash charges of $211 million for goodwill impairment, a tax charge of $157 million to recognize a full valuation allowance on United s net deferred tax asset, a $11.8 million partial fraud loss recovery, as well as a $45.3 million loss from the transaction with Fletcher, which is described on page 34. Diluted operating loss from continuing operations per common share was $5.97 for the year ended December 31, 2011, compared with a diluted operating loss per common share of $16.64 for 2010. The goodwill impairment charge represented $11.13 of loss per share in 2010 and the partial fraud loss recovery resulted in an increase in earnings of $.62 per share, bringing the total loss in 2010 to $27.09 per share.

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 $251 million in 2011 compared with $223 million in 2010. The third quarter 2011 loan loss provision included a $25.0 million loan loss provision related to United classifying its largest lending relationship. Net charge-offs for 2011 were $311 million compared with $204 million in 2010. During the first quarter of 2011, in conjunction with a bulk sale transaction (the Bulk Loan Sale), performing substandard loans with a carrying amount of $166 million and nonperforming loans with a carrying amount of $101 million were collectively written down to the expected sales proceeds of $80.6 million. As part of the Bulk Loan Sale, United recognized net charge-offs of $186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011 and the proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of $7.27 million. 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.

As of December 31, 2011, United s allowance for loan losses was $114 million, or 2.79% of loans compared to $175 million, or 3.79% of loans at the end of 2010. Nonperforming assets of $160 million, which excludes assets that are covered by loss sharing agreements with the FDIC, were 2.30% of total assets at December 31, 2011, compared to 4.42% as of December 31, 2010. The decrease in this ratio was due to the execution of the Problem Asset Disposition Plan, where United sold substandard and nonperforming loans, and accelerated the disposition of approximately $142 million in foreclosed properties, as well as a general improving trend in credit quality indicators.

Taxable equivalent net interest revenue was $234 million for 2011, compared to $243 million for the same period in 2010. The $9.38 million, or 4% decrease in net interest revenue, was primarily due to lower average loan balances and a 12 basis point decrease in the net interest margin. Average loans for 2011 declined $654 million from 2010. The decrease in net interest revenue was substantially offset by lower deposit costs.

Net interest margin decreased 12 basis points from 3.56% in 2010 to 3.44% in 2011. Interest reversals on performing loans that were moved to held for sale during the first quarter of 2011 account for three basis points of the 12 basis point decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in 2011 and lowered the margin by approximately 66 basis points. In order to reduce the amount of excess liquidity, United reduced the level of time deposits and brokered deposits by lowering rates on retail certificates of deposit and other deposit products and allowing the run-off of maturing brokered deposits.

Operating fee revenue of $49.9 million was up $1.36 million, or 3%, from 2010. Overdraft fees declined $2.98 million, or 17%, as a result of regulatory changes requiring customer consent before using overdraft services. This decline was partially offset by a $2.08 million increase in ATM and debit card fee income. Mortgage loan and related fees decreased $1.6 million compared to the prior year, due to lower origination volumes that were driven by the changing interest rate environment that in turn, affected refinancing activity. The year over year increase in other fee revenue was attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges, especially during the second quarter of 2011. Hedge ineffectiveness gains recognized in 2011 were $5.00 million compared with $1.59 million in 2010.

For 2011, operating expenses of $262 million, were up $18.6 million, or 8%, from the same period in the prior year. This comparison excludes the $45.3 million loss on the sale of nonperforming assets to Fletcher in the second quarter of 2010 and the $211 million goodwill impairment charge in the third quarter of 2010. The increase in operating expenses in 2011 was primarily due to an increase in foreclosed property costs in anticipation of the Bulk Loan Sale and other accelerated asset dispositions. For 2011, foreclosed property costs of $78.9 million were up $13.2 million compared to 2010.

At the end of 2011, United held $185 million in short-term investments compared to $442 million at the end of 2010, as part of its continued emphasis on reducing excess liquidity. Loans at December 31, 2011 were $4.11 billion, down $495 million from the end of 2010, due primarily to the Bulk Loan Sale in the first quarter as well as a general weak loan demand. Totaling $448 million, residential construction loans at December 31, 2011 represented 11% of outstanding loans, down from 15% at the end of 2010, a decrease of $247 million. Deposits were down $371 million to $6.10 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 $266 million in 2011, excluding public funds deposits. At the end of 2011, total equity capital was $575 million, up $107 million from December 31, 2010 reflecting the capital raise completed in the first quarter of 2011, offset by the net loss of 2011. At December 31, 2011, 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 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 impairment analyses of all nonaccrual loans over $500,000, accruing substandard loans in relationships over $2 million and Troubled Debt Restructured loans (TDRs), which are all 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 quarterly. 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 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 considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change, including as a result of regulators disagreeing with our judgment. 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, 2011, the percentage of total assets measured at fair value was 26%. 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, fair value , less cost to sell, or listed selling price 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 cause the Bank to change its judgments about fair value.

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The fair values for available for sale securities are generally based upon quoted market prices or observable market prices for similar instruments. United utilizes a third-party pricing service in determining the fair value of its securities portfolio. The pricing service uses observable inputs when available including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers. These values take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information. When market observable data is not available, which generally occurs due to the lack of liquidity for certain securities, the valuation of the security is subjective and may involve substantial judgment by management. As of December 31, 2011, United had approximately $350,000 of available for sale securities valued using unobservable inputs. This amount represents less than .01% of total assets. United periodically reviews available for sale securities that are in an unrealized loss position to determine whether other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost-basis. The primary factors United considers in determining whether impairment is other-than-temporary are long term expectations and recent experience regarding principal and interest payments, and United s ability and intent to hold the security until the amortized cost basis is recovered.

United uses derivatives primarily to manage interest rate risk. The fair values of derivative financial instruments are determined based on quoted market prices, dealer quotes and internal pricing models that are primarily sensitive to market observable data. United mitigates the credit risk by subjecting counterparties to credit reviews and approvals similar to those used in making loans and other extensions of credit. In addition, certain counterparties are required to provide collateral to United when their unsecured loss positions exceed certain negotiated limits.

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 regulatory agencies and 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.

At December 31, 2011, United reported no net deferred tax asset, due to a full valuation allowance of $273 million. 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. In making such judgments, significant weight is given to evidence that can be objectively verified. Because of the significant weight given to recent losses, management determined that a full valuation allowance was necessary.

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. 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.

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, 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 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 an $11.4 million gain 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.

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.

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.

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. In 2007, United recorded a special provision for loan losses and related charge-offs of $18 million as a result of fraud related loan losses associated with the two failed real estate developments near Spruce Pine, North Carolina.

Net operating loss excludes the effect of the goodwill impairment charge of $211 million and the $11.8 million fraud loss partial recovery in 2010; the goodwill impairment charges of $95 million, the $11.4 million gain on acquisition, and the $2.9 million in severance costs in 2009; and the fraud related loan loss in 2007, 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 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.

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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)	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
	For the Twelve Months Ended				
Interest revenue reconciliation					
Interest revenue taxable equivalent	$ 299,344	$ 343,123	$ 404,961	$ 466,969	$ 550,917
Taxable equivalent adjustment	(1,707)	(2,001)	(2,132)	(2,261)	(1,881)
Interest revenue (GAAP)	$ 297,637	$ 341,122	$ 402,829	$ 464,708	$ 549,036
Net interest revenue reconciliation					
Net interest revenue taxable equivalent	$ 233,669	$ 243,052	$ 245,227	$ 238,704	$ 274,483
Taxable equivalent adjustment	(1,707)	(2,001)	(2,132)	(2,261)	(1,881)
Net interest revenue (GAAP)	$ 231,962	$ 241,051	$ 243,095	$ 236,443	$ 272,602
Provision for loan losses reconciliation					
Operating provision for loan losses	$ 251,000	$ 234,750	$ 310,000	$ 184,000	$ 37,600
Provision for special fraud-related loan loss and partial recovery		(11,750)			18,000
Provision for loan losses (GAAP)	$ 251,000	$ 223,000	$ 310,000	$ 184,000	$ 55,600
Fee revenue reconciliation					
Operating fee revenue	$ 49,908	$ 48,548	$ 50,964	$ 46,081	$ 53,701
Gain from acquisition			11,390		
Fee revenue (GAAP)	$ 49,908	$ 48,548	$ 62,354	$ 46,081	$ 53,701
Total revenue reconciliation					
Total operating revenue	$ 32,577	$ 56,850	$ (13,809)	$ 100,785	$ 290,584
Taxable equivalent adjustment	(1,707)	(2,001)	(2,132)	(2,261)	(1,881)
Gain from acquisition			11,390		
Provision for special fraud-related loan loss and partial recovery		11,750			(18,000)
Total revenue (GAAP)	$ 30,870	$ 66,599	$ (4,551)	$ 98,524	$ 270,703
Expense reconciliation					
Operating expense	$ 261,599	$ 288,301	$ 217,050	$ 200,335	$ 181,730
Noncash goodwill impairment charge		210,590	95,000		
Severance costs			2,898		
Operating expense (GAAP)	$ 261,599	$ 498,891	$ 314,948	$ 200,335	$ 181,730
Income (loss) from continuing operations before taxes reconciliation					
Operating income (loss) from continuing operations before taxes	$ (229,022)	$ (231,451)	$ (230,859)	$ (99,550)	$ 108,854
Taxable equivalent adjustment	(1,707)	(2,001)	(2,132)	(2,261)	(1,881)
Gain from acquisition			11,390		

Noncash goodwill impairment charge		(210,590)	(95,000)		
Severance costs			(2,898)		
Provision for special fraud-related loan loss and partial recovery		11,750			(18,000)
Income (loss) from continuing operations before taxes (GAAP)	$ (230,729)	$ (432,292)	$ (319,499)	$ (101,811)	$ 88,973
Income tax (benefit) expense reconciliation					
Operating income tax (benefit) expense	$ (2,276)	$ 73,218	$ (91,754)	$ (35,651)	$ 40,266
Taxable equivalent adjustment	(1,707)	(2,001)	(2,132)	(2,261)	(1,881)
Gain from acquisition, tax expense			4,328		
Severance costs, tax benefit			(1,101)		
Provision for special fraud-related loan loss tax benefit					(7,002)
Income tax (benefit) expense (GAAP)	$ (3,983)	$ 71,217	$ (90,659)	$ (37,912)	$ 31,383
Diluted earnings (loss) from continuing operations per common share reconciliation					
Diluted operating earnings (loss) from continuing operations per common share	$ (5.97)	$ (16.64)	$ (12.37)	$ (6.82)	$ 7.36
Gain from acquisition			.58		
Noncash goodwill impairment charge		(11.13)	(7.86)		
Severance costs			(.15)		
Provision for special fraud-related loan loss and partial recovery		.62			(1.18)
Diluted earnings (loss) from continuing operations per common share (GAAP)	$ (5.97)	$ (27.15)	$ (19.80)	$ (6.82)	$ 6.18
Book value per common share reconciliation					
Tangible book value per common share	$ 6.47	$ 14.80	$ 30.09	$ 51.93	$ 54.62
Effect of goodwill and other intangibles	.15	.60	11.69	32.82	33.90
Book value per common share (GAAP)	$ 6.62	$ 15.40	$ 41.78	$ 84.75	$ 88.52
Efficiency ratio from continuing operations reconciliation					
Operating efficiency ratio from continuing operations	92.27%	98.98%	73.97%	70.00%	55.53%
Gain from acquisition			(2.77)		
Noncash goodwill impairment charge		72.29	31.17		
Severance costs			.95		
Efficiency ratio from continuing operations (GAAP)	92.27%	171.27%	103.32%	70.00%	55.53%
Average equity to assets reconciliation					
Tangible common equity to assets	3.74%	6.52%	6.15%	6.57%	6.63%
Effect of preferred equity	3.88	2.36	2.18	.10	
Tangible equity to assets	7.62	8.88	8.33	6.67	6.63
Effect of goodwill and other intangibles	.13	1.89	2.79	3.55	2.98
Equity to assets (GAAP)	7.75%	10.77%	11.12%	10.22%	9.61%
Actual tangible common equity to risk-weighted assets reconciliation					
Tangible common equity to risk-weighted assets	8.25%	5.64%	10.39%	8.34%	8.21%
Effect of other comprehensive income	(.03)	(.42)	(.87)	(.91)	(.23)
Effect of deferred tax limitation			(1.27)		
Effect of trust preferred	1.18	1.06	.97	.88	.65
Effect of preferred equity	4.29	3.53	3.19	2.90	

Tier I capital ratio (Regulatory)		13.69%		9.81%		12.41%		11.21%		8.63%
Net charge-offs reconciliation										
Operating net charge-offs	$	311,227	$	215,657	$	276,669	$	151,152	$	21,834
Subsequent partial recovery of fraud-related charge-off				(11,750)						18,000
Net charge-offs (GAAP)	$	311,227	$	203,907	$	276,669	$	151,152	$	39,834
Net charge-offs to average loans reconciliation										
Operating net charge-offs to average loans		7.33%		4.42%		5.03%		2.57%		.38%
Subsequent partial recovery of fraud-related charge-off				(.25)						.31
Net charge-offs to average loans (GAAP)		7.33%		4.17%		5.03%		2.57%		.69%

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Table 1 (Continued) Operating Earnings to GAAP Earnings Reconciliation Quarterly

Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2011				2010			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Interest revenue reconciliation								
Interest revenue taxable equivalent	$ 71,905	$ 74,543	$ 76,931	$ 75,965	$ 81,215	$ 84,360	$ 87,699	$ 89,849
Taxable equivalent adjustment	(423)	(420)	(429)	(435)	(497)	(511)	(500)	(493)
Interest revenue (GAAP)	$ 71,482	$ 74,123	$ 76,502	$ 75,530	$ 80,718	$ 83,849	$ 87,199	$ 89,356
Net interest revenue reconciliation								
Net interest revenue taxable equivalent	$ 59,050	$ 59,281	$ 58,946	$ 56,392	$ 60,132	$ 60,014	$ 61,627	$ 61,279
Taxable equivalent adjustment	(423)	(420)	(429)	(435)	(497)	(511)	(500)	(493)
Net interest revenue (GAAP)	$ 58,627	$ 58,861	$ 58,517	$ 55,957	$ 59,635	$ 59,503	$ 61,127	$ 60,786
Provision for loan losses reconciliation								
Operating provision for loan losses	$ 14,000	$ 36,000	$ 11,000	$ 190,000	$ 47,750	$ 50,500	$ 61,500	$ 75,000
Provision for special fraud-related loan loss and partial recovery					(11,750)			
Provision for loan losses (GAAP)	$ 14,000	$ 36,000	$ 11,000	$ 190,000	$ 36,000	$ 50,500	$ 61,500	$ 75,000
Fee revenue reconciliation								
Operating fee revenue	$ 12,667	$ 11,498	$ 13,905	$ 11,838	$ 12,442	$ 12,861	$ 11,579	$ 11,666
Gain from acquisition								
Fee revenue (GAAP)	$ 12,667	$ 11,498	$ 13,905	$ 11,838	$ 12,442	$ 12,861	$ 11,579	$ 11,666
Total revenue reconciliation								
Total operating revenue	$ 57,717	$ 34,779	$ 61,851	$ (121,770)	$ 24,824	$ 22,375	$ 11,706	$ (2,055)
Taxable equivalent adjustment	(423)	(420)	(429)	(435)	(497)	(511)	(500)	(493)
Gain from acquisition								
Provision for special fraud-related loan loss and partial recovery					11,750			
Total revenue (GAAP)	$ 57,294	$ 34,359	$ 61,422	$ (122,205)	$ 36,077	$ 21,864	$ 11,206	$ (2,548)
Expense reconciliation								
Operating expense	$ 51,080	$ 46,520	$ 48,728	$ 115,271	$ 64,918	$ 64,906	$ 103,657	$ 54,820
Noncash goodwill impairment charge						210,590		
Severance costs								
Operating expense (GAAP)	$ 51,080	$ 46,520	$ 48,728	$ 115,271	$ 64,918	$ 275,496	$ 103,657	$ 54,820
Income (loss) from continuing operations before taxes reconciliation								
Operating income (loss) from continuing operations before taxes	$ 6,637	$ (11,741)	$ 13,123	$ (237,041)	$ (40,094)	$ (42,531)	$ (91,951)	$ (56,875)
Taxable equivalent adjustment	(423)	(420)	(429)	(435)	(497)	(511)	(500)	(493)
Gain from acquisition								
Noncash goodwill impairment charge						(210,590)		

Severance costs								
Provision for special fraud-related loan loss and partial recovery					11,750			
Income (loss) from continuing operations before taxes (GAAP)	$ 6,214	$ (12,161)	$ 12,694	$ (237,476)	$ (28,841)	$ (253,632)	$ (92,451)	$ (57,368)
Income tax (benefit) expense reconciliation								
Operating income tax (benefit) expense	$ (3,264)	$ (402)	$ 1,095	$ 295	$ 144,760	$ (16,706)	$ (32,419)	$ (22,417)
Taxable equivalent adjustment	(423)	(420)	(429)	(435)	(497)	(511)	(500)	(493)
Gain from acquisition, tax expense								
Severance costs, tax benefit								
Provision for special fraud-related loan loss tax benefit								
Income tax (benefit) expense (GAAP)	$ (3,687)	$ (822)	$ 666	$ (140)	$ 144,263	$ (17,217)	$ (32,919)	$ (22,910)
Diluted earnings (loss) from continuing operations per common share reconciliation								
Diluted operating earnings (loss) from continuing operations per common share	$ .12	$ (.25)	$ .16	$ (13.00)	$ (9.87)	$ (1.50)	$ (3.29)	$ (1.96)
Gain from acquisition								
Noncash goodwill impairment charge						(11.12)		
Severance costs								
Provision for special fraud-related loan loss and partial recovery					.62			
Diluted earnings (loss) from continuing operations per common share (GAAP)	$ .12	$ (.25)	$ .16	$ (13.00)	$ (9.25)	$ (12.62)	$ (3.29)	$ (1.96)
Book value per common share reconciliation								
Tangible book value per common share	$ 6.47	$ 6.61	$ 6.94	$ 1.69	$ 14.80	$ 25.26	$ 26.95	$ 28.12
Effect of goodwill and other intangibles	.15	.16	.17	.51	.60	.44	11.60	11.64
Book value per common share (GAAP)	$ 6.62	$ 6.77	$ 7.11	$ 2.20	$ 15.40	$ 25.70	$ 38.55	$ 39.76
Efficiency ratio from continuing operations reconciliation								
Operating efficiency ratio from continuing operations	71.23%	65.73%	66.88%	169.08%	89.45%	89.38%	141.60%	75.22%
Gain from acquisition								
Noncash goodwill impairment charge						290.00		
Severance costs								
Efficiency ratio from continuing operations (GAAP)	71.23%	65.73%	66.88%	169.08%	89.45%	379.38%	141.60%	75.22%
Average equity to assets reconciliation								
Tangible common equity to assets	5.38%	5.65%	1.37%	2.70%	5.22%	6.78%	6.91%	7.13%
Effect of preferred equity	2.78	2.77	6.56	3.31	2.42	2.41	2.35	2.26
Tangible equity to assets	8.16	8.42	7.93	6.01	7.64	9.19	9.26	9.39
Effect of goodwill and other intangibles	.12	.13	.13	.14	.16	2.18	2.58	2.51
Equity to assets (GAAP)	8.28%	8.55%	8.06%	6.15%	7.80%	11.37%	11.84%	11.90%
Actual tangible common equity to risk-weighted assets reconciliation								
Tangible common equity to risk-weighted assets	8.25%	8.52%	8.69%	.75%	5.64%	9.60%	9.97%	10.03%
Effect of other comprehensive income	(.03)	(.29)	(.42)	(.32)	(.42)	(.81)	(.87)	(.85)
Effect of deferred tax limitation						(2.94)	(2.47)	(1.75)
Effect of trust preferred	1.18	1.19	1.15	1.13	1.06	1.06	1.03	1.00
Effect of preferred equity	4.29	4.33	4.20	5.87	3.53	3.51	3.41	3.29

Tier I capital ratio (Regulatory)	13.69%	13.75%	13.62%	7.43%	9.81%	10.42%	11.07%	11.72%
Net charge-offs reconciliation								
Operating net charge-offs	$ 45,624	$ 17,546	$ 16,483	$ 231,574	$ 47,668	$ 49,998	$ 61,323	$ 56,668
Subsequent partial recovery of fraud-related charge-off					(11,750)			
Net charge-offs (GAAP)	$ 45,624	$ 17,546	$ 16,483	$ 231,574	$ 35,918	$ 49,998	$ 61,323	$ 56,668
Net charge-offs to average loans reconciliation								
Operating net charge-offs to average loans	4.39%	1.68%	1.58%	20.71%	4.03%	4.12%	4.98%	4.51%
Subsequent partial recovery of fraud-related charge-off					(1.00)			
Net charge-offs to average loans (GAAP)	4.39%	1.68%	1.58%	20.71%	3.03%	4.12%	4.98%	4.51%

Transaction with Fletcher International

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 separate limited liability companies (LLCs) affiliates of 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 selling 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 made to the LLCs in connection with their respective purchases have the same terms for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. 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. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to be sufficient to service the loans for another five to six quarters. While recent news articles and other sources have questioned the financial health of Fletcher and its affiliates, the loans to the LLCs have performed according to their contractual terms since inception. However, during the third quarter of 2011, United determined that the ultimate repayment of the $76.6 million loan relationship through the sale of the underlying collateral is unlikely due to the lack of sales activity and further decline in real estate values. As a result, United recorded a loan loss provision of $25.0 million during the third quarter of 2011 and recorded a partial charge-off in the same amount during the fourth quarter.

Also on April 1, 2010, United and Fletcher International Ltd. (Fletcher Ltd. , together with Fletcher Inc. and their affiliates, Fletcher), 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. had not purchased all of the Convertible Preferred Stock by May 29, 2011, it was required to pay United 5% of the commitment amount not purchased by that date, and it must pay United an additional 5% of any commitment amount not purchased by July 3, 2012. Fletcher has paid United $3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. The penalty payment associated with Fletcher s option to purchase preferred stock was considered an equity transaction and was therefore recorded as an increase to capital surplus in shareholders equity.

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 $26.25 per share of common stock (equal to 2,476,190 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United s common stock is above $60.20, 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.

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 $21.25 per common share (cash exercise equal to 1,411,765 shares of common stock). The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. The $35 million warrant price is equivalent to $30.10 per common share (cash exercise equal to 1,162,791 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from May 26, 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. 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.

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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).*

	September 30, Valuation Approach	September 30, Fair Value Heirarchy	September 30, Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase $30 million in common stock at $21.25 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

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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 $23.85; 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 2011 and 2008. For additional information on operating earnings measures, refer to the preceding section on Non-GAAP Financial Measures.

There are a few large items included in operating earnings that are generally nonrecurring in nature that affect comparability between periods. Although credit losses in all periods were elevated, reflecting the weak economic cycle of the past four years, in 2011, United s credit losses reflected the Problem Asset Disposition Plan. That plan included the Bulk Loan Sale which removed United s most challenging problem assets and resulted in a significant decrease in the level of problem assets. As a result, the Problem Asset Disposition Plan accelerated United s return to profitability following the first quarter capital transaction. In addition, operating earnings in 2010 included a $45.3 million charge to operating expense resulting from the Fletcher transaction, which increased the net loss per share by $2.40, and the $157 million income tax expense related to establishment of a full deferred tax valuation allowance.

United reported a net operating loss from continuing operations of $227 million for the year ended December 31, 2011. This compared to a net operating loss from continuing operations of $305 million for the same period in 2010. Diluted operating loss from continuing operations per share for 2011 was $5.97. This compared to diluted operating loss from continuing operations per share for 2010 of $16.64. The 2011 and 2010 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 $234 million in 2011, a decrease of $9.38 million, or 4%, from the level recorded in 2010. Taxable equivalent net interest revenue for 2010 decreased $2.18 million, or less than 1%, from the 2009 level. The decreases in net interest revenue in 2011 compared to 2010 and in 2010 compared to 2009 were due primarily to lower levels of average loan balances which were substantially offset by lower rates on deposits and a more favorable deposit mix. United continued its focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

The average yield on loans decreased 6 basis points reflecting the continuing effect of the low interest rate environment. Average loans decreased $654 million in 2011, or 13%, from 2010. The decrease in the loan portfolio was primarily attributable to weak loan demand as well as the Bulk Loan Sale completed in April 2011. Loan charge-offs, foreclosure activity and management s efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have also contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During 2011, United made $392 million in new loans, primarily commercial and small business loans in north Georgia, the Atlanta MSA and coastal Georgia.

Average interest-earning assets for the year decreased $37 million, or 1%, from 2010. For the year ended December 31, 2011, average loans decreased $654 million compared to 2010, however this decrease was offset by a $546 million increase in average investment securities. The increase in the securities portfolio was due to purchases of floating rate mortgage-backed securities in an effort to temporarily invest excess liquidity, including the proceeds from the new capital raised at the end of the first quarter of 2011. Average interest bearing liabilities in 2011 decreased $298 million, or 5%, from the prior year due to the rolling off of higher-cost brokered deposits and certificates of deposit as funding needs decreased. The average yield on interest-earning assets for 2011 was 4.41% down 62 basis points from 5.03% in 2010. A significant contributing factor to the decrease in the yield on interest earning assets was due to the build-up of excess liquidity resulting in a shift in earning asset mix from loans, which generally yield a higher rate than other asset classes, to temporary investments which have relatively low yields. In light of the weak economic environment, in late 2010, United sought to maintain above normal levels of liquidity by entering into brokered deposit arrangements and temporarily investing the proceeds in floating rate mortgage-backed securities at a slightly negative spread. Liquidity levels increased further as a result of the first quarter 2011 capital transaction. Following the capital transaction, management has sought to reduce liquidity levels.

The average cost of interest bearing liabilities for the year ended December 31, 2011, was 1.16% compared to 1.68% for the same period in 2010, 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 2011, 2010 and 2009, United s net interest spread was 3.25%, 3.35%, and 3.00%, respectively, while the net interest margin was 3.44%, 3.56%, and 3.29%, respectively. Interest reversals on performing loans classified as held for sale as part of the Bulk Loan Sale reduced net interest margin by three basis points in 2011. The combined effect of the lower yield on earning assets caused mostly by the shift in earning asset mix from loans to investment securities, partially offset by the lower cost of interest-bearing liabilities, resulted in the net interest margin decreasing 12 basis points from 2010 to 2011. The buildup of excess liquidity also, which lowered the margin by 66 basis points in 2011 compared to 20 basis points in 2010, contributed to the decrease in the net interest margin. The improvement in net interest margin from 2009 to 2010 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.

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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)

	2011			2010			2009		
	Average Balance	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
Assets:									
Interest-earning assets:									
Loans [1][2]	$ 4,307,111	$ 239,195	5.55%	$ 4,960,805	$ 278,149	5.61%	$ 5,547,915	$ 322,284	5.81%
Taxable securities [3]	1,973,678	55,251	2.80	1,425,322	58,821	4.13	1,626,032	76,048	4.68
Tax-exempt securities [1][3]	25,693	1,651	6.43	27,827	1,860	6.68	30,460	2,164	7.10
Federal funds sold and other interest-earning assets	478,403	3,247	.68	408,359	4,293	1.05	260,232	4,465	1.72
Total interest-earning assets	6,784,885	299,344	4.41	6,822,313	343,123	5.03	7,464,639	404,961	5.43
Non-interest-earning assets:									
Allowance for loan losses	(145,656)			(190,227)			(146,535)		
Cash and due from banks	90,212			106,582			105,127		
Premises and equipment	178,061			180,379			180,381		
Other assets [3]	281,233			685,547			665,775		
Total assets	$ 7,188,735			$ 7,604,594			$ 8,269,387		
Liabilities and Shareholders Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW	$ 1,348,493	$ 3,998	.30	$ 1,360,729	$ 6,966	.51	$ 1,297,139	$ 11,023	.85
Money market	993,871	5,456	.55	780,982	7,552	.97	589,389	9,545	1.62
Savings deposits	195,468	234	.12	184,479	331	.18	177,410	483	.27
Time deposits less than $100,000	1,471,596	18,648	1.27	1,581,750	30,260	1.91	1,891,774	56,811	3.00
Time deposits greater than $100,000	948,659	14,347	1.51	1,084,967	23,114	2.13	1,306,302	42,518	3.25
Brokered deposits	401,393	6,156	1.53	610,483	13,509	2.21	756,122	20,997	2.78
Total interest-bearing deposits	5,359,480	48,839	.91	5,603,390	81,732	1.46	6,018,136	141,377	2.35
Federal funds purchased, repurchase agreeements, & other short-term borrowings	102,727	4,250	4.14	103,479	4,235	4.09	177,589	2,842	1.60
Federal Home Loan Bank advances	47,220	2,042	4.32	90,137	3,355	3.72	220,468	4,622	2.10
Long-term debt	139,666	10,544	7.55	150,107	10,749	7.16	150,604	10,893	7.23
Total borrowed funds	289,613	16,836	5.81	343,723	18,339	5.34	548,661	18,357	3.35

Total interest-bearing liabilities	5,649,093	65,675	1.16	5,947,113	100,071	1.68	6,566,797	159,734	2.43
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	915,649			769,395			694,469		
Other liabilities	66,809			69,367			88,490		
Total liabilities	6,631,551			6,785,875			7,349,756		
Shareholders equity	557,184			818,719			919,631		
Total liabilities and shareholders equity	$ 7,188,735			$ 7,604,594			$ 8,269,387		
Net interest revenue		$ 233,669			$ 243,052			$ 245,227	
Net interest-rate spread			3.25%			3.35%			3.00%
Net interest margin [4]			3.44%			3.56%			3.29%

[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 $32.2 million, $43.2 million and $15.3 million in 2011, 2010 and 2009, 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.

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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)

	September 30,	September 30, 2011 Compared to 2010 Increase (decrease) due to changes in	September 30,	September 30,	September 30, 2010 Compared to 2009 Increase (decrease) due to changes in	September 30,
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	$ (36,326)	$ (2,628)	$ (38,954)	$ (33,213)	$ (10,922)	$ (44,135)
Taxable securities	18,665	(22,235)	(3,570)	(8,822)	(8,405)	(17,227)
Tax-exempt securities	(139)	(70)	(209)	(180)	(124)	(304)
Federal funds sold and other interest-earning assets	651	(1,697)	(1,046)	1,956	(2,128)	(172)
Total interest-earning assets	(17,149)	(26,630)	(43,779)	(40,259)	(21,579)	(61,838)
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	(62)	(2,906)	(2,968)	517	(4,574)	(4,057)
Money Market	1,714	(3,810)	(2,096)	2,545	(4,538)	(1,993)
Savings deposits	19	(116)	(97)	19	(171)	(152)
Time deposits less than $100,000	(1,986)	(9,626)	(11,612)	(8,259)	(18,292)	(26,551)
Time deposits greater than $100,000	(2,649)	(6,118)	(8,767)	(6,385)	(13,019)	(19,404)
Brokered deposits	(3,878)	(3,475)	(7,353)	(3,644)	(3,844)	(7,488)
Total interest-bearing deposits	(6,842)	(26,051)	(32,893)	(15,207)	(44,438)	(59,645)
Federal funds purchased, repurchase agreements & other short-term borrowings	(31)	46	15	(1,576)	2,969	1,393
Federal Home Loan Bank advances	(1,790)	477	(1,313)	(3,649)	2,382	(1,267)
Long-term debt	(770)	565	(205)	(36)	(108)	(144)
Total borrowed funds	(2,591)	1,088	(1,503)	(5,261)	5,243	(18)
Total interest-bearing liabilities	(9,433)	(24,963)	(34,396)	(20,468)	(39,195)	(59,663)
Decrease in net interest revenue	$ (7,716)	$ (1,667)	$ (9,383)	$ (19,791)	$ 17,616	$ (2,175)

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 the end of each reporting period. The operating provision for loan losses was $251 million in 2011, compared with $235 million in 2010, and $310 million in 2009. 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 5.91%, 4.81% and 5.64%, respectively, in 2011, 2010 and 2009. The amount of provision recorded in each year was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover inherent losses in the loan portfolio. During the third quarter of 2011, United recorded an additional loan loss provision of $25.0 million specifically related to the classification of its largest lending relationship. In 2011, the increase in the provision for loan losses compared to a year ago was primarily due to the increased level of charge-offs in the first quarter of 2011 recorded in conjunction with the Problem Asset Disposition Plan and transfer of loans to the held for sale category in anticipation of the Bulk Loan Sale. The operating ratio of net loan charge-offs to average outstanding loans for 2011 was 7.33%, compared with 4.42% for 2010, excluding the $11.8 million partial recovery, and 5.03% for 2009.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to obtain cash flow needed to service debt from selling lots and houses. 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 four 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 pressure resulting from economic conditions has persisted and 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 $49.9 million in 2011, compared with $48.5 million in 2010 and $51.0 million in 2009. 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. 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)

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, Change 2011-2010
Overdraft fees	$ 14,246	$ 17,227	$ 19,059	(17)%
ATM and debit card fees	12,079	10,001	8,963	21
Other service charges and fees	2,785	2,899	2,964	(4)
Service charges and fees	29,110	30,127	30,986	(3)
Mortgage loan and related fees	5,419	7,019	8,959	(23)
Brokerage fees	2,986	2,662	2,085	12
Securities gains, net	842	2,552	2,756	
Losses on prepayment of borrowings	(791)	(2,233)		
Hedge ineffectiveness	5,001	1,585	(393)	
Other	7,341	6,836	6,571	7
Total fee revenue before gain from acquisition	49,908	48,548	50,964	3
Gain from acquisition			11,390	
Total fee revenue	$ 49,908	$ 48,548	$ 62,354	3

Service charges and fees of $29.1 million were down $1.02 million, or 3%, from 2010. The decrease was primarily due to a $2.98 million, or 17%, decline in overdraft fees resulting from decreased utilization of our courtesy overdraft services with the changes to Regulation E in 2010 requiring customers to opt in to such services. The decrease in overdraft fees was partially offset by $2.08 million in higher ATM and debit card interchange revenue.

Mortgage loan and related fees of $5.42 million were down $1.60 million, or 23%, from 2010. In 2011, United closed 1,752 mortgage loans totaling $261 million compared with 2,033 loans totaling $325 million in 2010. Origination volumes were driven by the changing interest rate environment which had a significant impact on refinancing activity. Substantially all these originated residential mortgages were sold into the secondary market, including the right to service the loans.

Brokerage fees of $2.99 million increased $324,000, or 12%, from 2010. The increase in brokerage fees was due to improving market conditions from those in 2010. 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 recognized net securities gains of $842,000 and $2.55 million during 2011 and 2010, respectively. The 2010 net gain was net of $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 charge was more than offset by realized gains from securities sales. United also recognized losses from the prepayment of FHLB advances. The losses were part of the same balance sheet management activities that resulted in the securities gains. The securities gains

and prepayment losses are mostly offsetting and had little net impact on financial results in the periods incurred. The net securities gains in 2009 were net of $1.24 million in impairment charges on equity and trust preferred securities investments in banks that failed during the year.

In 2011, United recognized $5.00 million in income from hedge ineffectiveness compared with $1.59 million in income from hedge ineffectiveness in 2010. Most of the hedge ineffectiveness in 2010 and 2011 related to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the original term of the derivative instrument. The ineffectiveness, which is caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains.

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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)

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, Change 2011-2010
Salaries and employee benefits	$ 100,095	$ 96,618	$ 101,568	4%
Communications and equipment	13,135	13,781	14,676	(5)
Occupancy	15,645	15,394	15,653	2
Advertising and public relations	4,291	4,625	3,950	(7)
Postage, printing and supplies	4,256	4,072	5,040	5
Professional fees	9,727	9,254	11,480	5
Foreclosed property foreclosure and carrying costs	10,499	16,381	14,484	(36)
Foreclosed property writedowns and losses from sales	68,406	49,326	17,881	39
FDIC assessments and other regulatory charges	14,259	13,747	16,004	4
Amortization of intangibles	3,016	3,160	3,104	(5)
Other	18,270	16,594	13,210	10
	261,599	242,952	217,050	8
Loss on sale of nonperforming assets		45,349		
Operating expenses, before nonrecurring items	261,599	288,301	217,050	
Goodwill impairment charges		210,590	95,000	
Severance cost			2,898	
Total operating expenses	$ 261,599	$ 498,891	$ 314,948	

Operating expenses excluding nonrecurring items and the loss from the sale of nonperforming assets to Fletcher International were $262 million in 2011 as compared to $243 million in 2010 and $217 million in 2009. The increase in foreclosed property losses for 2011 was primarily due to United s Problem Asset Disposition Plan. Nonrecurring 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 in 2010 resulted from an isolated event, because disposition of nonperforming assets is considered an operating activity, it is not excluded from operating expenses as a nonrecurring item, but has been separated to make trend comparisons more meaningful. Including the loss on sale of nonperforming assets and those nonrecurring charges, operating expenses for 2010 and 2009 were $499 million and $315 million, respectively.

Salaries and employee benefits expense for 2011 was $100 million, an increase of $3.48 million, or 4%, from 2010. The increase was due to higher group medical insurance, incentive compensation and severance costs and a lower level of deferred direct loan origination costs in 2011. Headcount totaled 1,754 at December 31, 2011 compared to 1,817 at December 31, 2010.

Communication and equipment expense for 2011 was $13.1 million, which was down $646,000, or 5%, from 2010, due to lower equipment depreciation charges and lower telephone charges.

Occupancy expense of $15.6 million for 2011 was up $251,000, or 2%, compared to the same period in 2010. The increase was due to higher costs for utilities, real estate taxes and insurance premiums.

Advertising and public relations expense for 2011 was $4.29 million, a decrease of $334,000, or 7%, from 2010. The decrease was due to a discontinuance of direct mail programs and efforts to reduce discretionary spending.

Postage, printing and supplies expense for 2011 was $4.26 million, an increase of $184,000, or 5%, from 2010. Much of the increase was due to higher postage costs and outside courier expenses.

Professional fees were $9.73 million for 2011, an increase of $473,000 million, or 5%, from 2010. The increase was primarily due to professional services costs associated with the Bulk Loan Sale.

Foreclosed property expenses related to foreclosure and carrying costs for 2011 was $10.5 million, a decrease of $5.88 million from 2010. While foreclosed property expenses have remained elevated throughout the weak economic cycle, the decrease from 2010 is due to the lower level of foreclosed properties. The foreclosure and carrying costs category includes legal fees, property taxes, marketing costs, utility services, maintenance and repair charges. Realized losses and write-downs on foreclosed property totaled $68.4 million for the year ended December 31, 2011, compared to $49.3 million for 2010. The increase reflects higher writedowns in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan.

FDIC assessments and other regulatory charges expense for 2011 was $14.3 million, an increase of $512,000 from 2010, reflecting an increase in United s assessment rate beginning in the first quarter of 2011. United s assessment rate was subsequently lowered in the second quarter of 2011.

Other expenses totaled $18.3 million for 2011, an increase of $1.68 million, or 10%, from 2010, primarily due to an increase in property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale.

Income Taxes

Income tax benefit from continuing operations was $3.98 million in 2011, compared to income tax expense of $71.2 million in 2010 and income tax benefit of $90.7 million in 2009, respectively. The effective tax rates (as a percentage of pre-tax net income) were 1.73%, (16.5)%, and 28.4% for 2011, 2010 and 2009, respectively. The 2011 tax benefit included the reversal of previously established reserves for uncertain tax positions of $4.59 million as a result of the tax returns upon which the tax positions were claimed were no longer subject to audit as a result of statute expiration and due to the settlement of a state tax dispute. Because of the full valuation allowance on United s net deferred tax asset, United did not recognize a tax benefit on its pre-tax loss in 2011 other than adjustments to its reserve for uncertain tax positions.

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.

At December 31, 2011, United had no net deferred tax assets due to a full valuation allowance of $273 million. 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. 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. The deferred tax assets are analyzed quarterly for changes affecting realizabilty. Because management has determined that the objective negative evidence outweighs the positive evidence, management has established a full valuation allowance against its net deferred tax assets.

Management will continue to evaluate and weigh the positive and negative evidence going forward and, if the weight of evidence shifts such that the positive evidence outweighs the negative evidence, the valuation allowance will be adjusted or completely reversed as appropriate.

In February 2011, United adopted a tax benefits preservation plan designed to protect its ability to utilize its substantial tax assets. Those tax assets include net operating losses that it could utilize in certain circumstances to offset taxable income and reduce its federal income tax liability and the future tax benefits from potential net unrealized built in losses. United s ability to use its tax benefits would be substantially limited if it were to experience an ownership change as defined under Section 382 of the Internal Revenue Code. 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 tax benefits preservation 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.

In connection with the tax benefits preservation plan in February 2011, United entered into a share exchange agreement with the Elm Ridge Parties to transfer to the Company 1,551,126 shares of United s common stock in exchange for 16,613 shares of the Company s series D preferred shares and warrants to purchase 1,551,126 shares of common stock. 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.

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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 2011 decreased $1.08 million, or 2%, to $59.1 million from the same period a year ago, primarily due to lower levels of average loan balances. Average loans were down $593 million during the fourth quarter of 2011 compared to 2010. The net interest margin decreased 7 basis points from the fourth quarter of 2010 to 3.51% for the fourth quarter of 2011. The reduction in average loan balances was significantly offset by lower funding costs due to reductions in deposit rates.

The fourth quarter of 2011 provision for loan losses was $14 million. This compared to an operating provision of $47.8 million for the fourth quarter of 2010, which excluded a partial fraud recovery of $11.8 million. Nonperforming assets totaled $160 million, down $161 million from a year ago. Nonperforming assets as a percentage of total assets were 2.30% at December 31, 2011, compared with 4.42% at December 31, 2010.

The following table presents the components of fee revenue from continuing operations for the fourth quarters of 2011 and 2010.

Table 6 Quarterly Fee Revenue From Continuing Operations

(in thousands)

	September 30,	September 30,	September 30,
	Three Months Ended December 31,		
	2011	2010	Change
Overdraft fees	$ 3,537	$ 3,832	(8)%
ATM and debit card fees	2,969	2,535	17
Other service charges and fees	742	672	10
Service charges and fees	7,248	7,039	3
Mortgage loan and related fees	1,825	1,868	(2)
Brokerage fees	782	778	1
Securities gains, net	4		
Other	2,808	2,757	2
Total operating fee revenue	$ 12,667	$ 12,442	2

Operating fee revenue for the fourth quarter of 2011 of $12.7 million increased $225,000, or 2%, from $12.4 million for the fourth quarter of 2010. Service charges and fees on deposit accounts increased $209,000, or 3%, to $7.25 million. Lower overdraft fees resulting from regulatory changes that require customers to give consent prior to using United s overdraft services, were more than offset by higher ATM and debit card fees. Mortgage fees decreased $43,000, or 2%, to $1.83 million due to a decrease in refinancing activity. United closed $78.8 million in mortgage loans in the fourth quarter of 2011, compared to $90.7 million in the fourth quarter of 2010. United recognized $4,000 in net securities gains in the fourth quarter of 2011, compared to none in the fourth quarter of 2010.

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The following table presents operating expenses from continuing operations for the fourth quarters of 2011 and 2010.

Table 7 Quarterly Operating Expenses From Continuing Operations

(in thousands)

	September 30,	September 30,	September 30,
	Three Months Ended December 31,		
	2011	2010	Change
Salaries and employee benefits	$ 23,473	$ 23,777	(1)%
Communications and equipment	3,129	3,377	(7)
Occupancy	3,972	4,024	(1)
Advertising and public relations	944	1,102	(14)
Postage, printing and supplies	1,017	1,063	(4)
Professional fees	1,996	3,016	(34)
Foreclosed property foreclosure and carrying costs	2,369	4,753	(50)
Foreclosed property writedowns and losses from sales	6,933	15,849	(56)
FDIC assessments and other regulatory charges	2,599	3,299	(21)
Amortization of intangibles	746	771	(3)
Other	3,902	3,887	
Total operating expenses	$ 51,080	$ 64,918	(21)

Operating expenses decreased $13.8 million to $51.1 million, a 21% decrease from the fourth quarter of 2010. Salaries and employee benefit costs of $23.5 million decreased $304,000, or 1%, from the fourth quarter of 2010 mostly due to a one-time credit adjustment of $2.24 million resulting from the reclassification of unamortized actuarial gains and losses and prior service costs to other comprehensive income for United s Modified Retirement Plan. The reclassification was partially offset by higher incentives in the fourth quarter of 2011. Communications and equipment expenses were down $248,000, or 7%, to $3.13 million for the fourth quarter of 2011 compared to 2010 due to lower depreciation and maintenance charges. Occupancy expense was relatively flat at $3.97 million for the fourth quarter of 2011 compared to 2010. Advertising and public relations expense decreased $158,000, or 14%, reflecting efforts to control discretionary spending. Professional fees decreased $1.02 million to $2.00 million, reflecting unusually high legal expenses in late 2010 associated with the Problem Asset Disposition Plan and capital raise that occurred in early 2011. Foreclosed property foreclosure and carry cost expense of $2.37 million decreased $2.38 million from $4.75 million for the fourth quarter of 2010, due to a lower number of foreclosed properties held following the execution of the Problem Asset Disposition Plan in early 2011. Write-downs and losses from sales of foreclosed property totaled $6.93 million for the fourth quarter of 2011, a decrease of $8.92 million, or 56%, also related to a lower volume of foreclosed property. FDIC assessments and other regulatory charges decreased from $3.30 million during the fourth quarter of 2010 to $2.60 million for 2011 due to the change in the assessment base from deposits to assets. Other operating expense remained relatively flat at $3.90 million for the fourth quarter of 2011 compared to 2010.

Balance Sheet Review

Total assets at December 31, 2011 were $6.98 billion, a decrease of $293 million, or 4%, from December 31, 2010. On an average basis, total assets decreased $416 million, or 5%, from 2010 to 2011. Average interest earning assets for 2011 and 2010 were $6.78 billion and $6.82 billion, respectively.

Loans

Substantially all of United s 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 $4.31 billion in 2011, compared with $4.96 billion in 2010, a decrease of 13%. The decrease primarily results from the Problem Asset Disposition Plan although weak loan demand within United s market and management s efforts to reduce United s residential construction concentration also contributed. At December 31, 2011, total loans were $4.11 billion, a decrease of $495 million, or 11%, from December 31, 2010. The rate of loan growth began to decline in the first quarter of 2007, and the balances have continued to decline through the subsequent years. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets and continued

through most of 2011. In the fourth quarter of 2011, the loan portfolio began to stabilize indicating a possible inflection point upon which loan growth is expected to return. The deterioration over the past five years 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 $392 million in new loans funded during 2011.

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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	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
Commercial (secured by real estate)	$ 1,821,414	$ 1,761,424	$ 1,779,398	$ 1,626,966	$ 1,475,930
Commercial & industrial	428,249	441,518	390,520	410,529	417,715
Commercial construction	164,155	296,582	362,566	499,663	527,123
Total commercial	2,413,818	2,499,524	2,532,484	2,537,158	2,420,768
Residential mortgage	1,134,902	1,278,780	1,427,198	1,526,388	1,501,916
Residential construction	448,391	695,166	1,050,065	1,478,679	1,829,506
Consumer installment	112,503	130,656	141,729	162,636	177,073
Total loans	$ 4,109,614	$ 4,604,126	$ 5,151,476	$ 5,704,861	$ 5,929,263

Loans by Market	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
North Georgia	$ 1,425,811	$ 1,688,586	$ 1,883,880	$ 2,040,082	$ 2,060,224
Atlanta MSA	1,219,652	1,310,222	1,435,223	1,705,561	2,002,089
North Carolina	597,446	701,798	771,709	809,863	805,999
Coastal Georgia	346,189	335,020	405,689	463,642	415,622
Gainesville MSA	264,567	312,049	389,766	420,169	399,560
East Tennessee	255,949	256,451	265,209	265,544	245,769
Total loans	$ 4,109,614	$ 4,604,126	$ 5,151,476	$ 5,704,861	$ 5,929,263

As of December 31, 2011, United s 25 largest credit relationships consisted of loans and loan commitments ranging from $8.23 million to $50.4 million, with an aggregate total credit exposure of $392 million, including $8.12 million in unfunded commitments, and $384 million in balances outstanding, excluding participations sold. United had only five lending relationships whose total credit exposure exceeded $20 million and only one relationship in excess of $25 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, 2011

(in thousands)

September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
				Rate Structure for Loans	

	Maturity				Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial (commercial and industrial)	$ 167,249	$ 189,068	$ 71,932	$ 428,249	$ 209,885	$ 51,115
Construction (commercial and residential)	275,395	263,081	74,070	612,546	228,096	109,055
Total	$ 442,644	$ 452,149	$ 146,002	$ 1,040,795	$ 437,981	$ 160,170

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 among all of the community banks. Additional information on United s credit administration function is included in Item 1 under the heading Loan Review and Nonperforming Assets.

United classifies performing loans as substandard 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 four years.

Table 10 Performing Substandard Loans

(dollars in thousands)

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, December 31, 2009	September 30, December 31, 2008
By Category				
Commercial (secured by real estate)	$ 143,058	$ 156,765	$ 123,740	$ 43,228
Commercial & industrial	15,753	16,767	33,974	20,808
Commercial construction	18,510	90,745	51,696	15,551
Total commercial	177,321	264,277	209,410	79,587
Residential mortgage	76,442	86,143	79,741	51,732
Residential construction	71,955	158,770	196,908	160,113
Consumer installment	2,751	2,957	3,553	3,085
Total	$ 328,469	$ 512,147	$ 489,612	$ 294,517
By Market				
North Georgia	$ 134,945	$ 212,992	$ 256,178	$ 137,026
Atlanta MSA	99,453	185,327	141,205	108,852
North Carolina	40,302	42,335	17,524	18,183
Coastal Georgia	24,985	29,223	40,930	20,260
Gainesville MSA	17,338	33,962	26,969	2,363
East Tennessee	11,446	8,308	6,806	7,833
Total loans	$ 328,469	$ 512,147	$ 489,612	$ 294,517

At December 31, 2011, performing substandard loans totaled $328 million and decreased $184 million from December 31, 2010. Most of the decrease from a year ago occurred in United s Atlanta and north Georgia markets and was primarily the result of our Bulk Loan Sale which was completed on April 18, 2011. Residential construction and commercial construction showed the most significant decreases as they represented more than 60% of the carrying amount of the aggregate loans included in the loan sale.

Reviews of substandard performing and non-performing loans, troubled debt restructures, past due loans and larger credits, are conducted on a weekly, monthly or quarterly 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. In addition to United s internal loan review, United also uses external loan review to ensure the independence of the loan review process.

The provision for loan losses charged to earnings was based upon management s judgment of the amount necessary to maintain the allowance at a level appropriate to absorb losses inherent in the loan portfolio at the balance sheet date. The amount each quarter 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 the previous periods reflects 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.

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.

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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)

	2011		2010		2009		2008		2007	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Commercial (secured by real estate)	$ 31,644	44	$ 31,191	38	$ 19,208	34	$ 8,948	28	$ 9,520	25
Commercial & industrial	5,681	10	7,580	10	6,892	8	8,512	7	7,902	7
Total commercial	37,325	54	38,771	48	26,100	42	17,460	35	17,422	32
Construction	36,476	15	99,351	21	99,446	27	71,573	35	38,183	40
Residential mortgage	29,076	28	22,305	28	17,266	28	18,364	27	19,611	25
Consumer installment	2,124	3	3,030	3	2,545	3	3,756	3	3,823	3
Unallocated	9,467		11,238		10,245		11,118		10,384	
Total allowance for loan losses	$ 114,468	100	$ 174,695	100	$ 155,602	100	$ 122,271	100	$ 89,423	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)

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
Balance beginning of period	$ 174,695	$ 155,602	$ 122,271	$ 89,423	$ 66,566
Provision for loan losses	251,000	223,000	310,000	184,000	55,600
Allowance for loan losses acquired from subsidiaries at merger date					7,091
Charge-offs:					
Commercial (secured by real estate)	59,468	33,593	21,796	5,843	688
Commercial & industrial	24,890	10,837	11,322	5,197	1,188
Commercial construction	55,730	9,993	9,908	1,796	245
Residential mortgage	53,707	28,806	18,997	12,995	7,022
Residential construction	118,916	136,666	219,168	123,771	30,351
Consumer installment	3,594	4,828	5,115	3,275	2,200
Total loans charged-off	316,305	224,723	286,306	152,877	41,694
Recoveries:					
Commercial (secured by real estate)	448	1,167	520	72	97

Commercial & industrial	967	1,762	5,397	61	187
Commercial construction	203	431	12	4	1
Residential mortgage	738	867	411	224	486
Residential construction	1,678	15,370	2,253	653	117
Consumer installment	1,044	1,219	1,044	711	972
Total recoveries	5,078	20,816	9,637	1,725	1,860
Net charge-offs	311,227	203,907	276,669	151,152	39,834
Balance end of period	$ 114,468	$ 174,695	$ 155,602	$ 122,271	$ 89,423
Total loans [1]:					
At year-end	$ 4,109,614	$ 4,604,126	$ 5,151,476	$ 5,704,861	$ 5,929,263
Average	4,244,305	4,884,330	5,501,165	5,890,889	5,734,608
Allowance as a percentage of year- end loans	2.79%	3.79%	3.02%	2.14%	1.51%
As a percentage of average loans:					
Net charge-offs	7.33	4.17	5.03	2.57	.69
Provision for loan losses	5.91	4.57	5.64	3.12	.97
Allowance as a percentage of nonperforming loans	90	98	59	64	317

[1] Excludes loans acquired through the FDIC assisted acquisition of Southern Community Bank that are covered by loss sharing agreements.
At December 31, 2011, the allowance for loan losses was $114 million, or 2.79% of total loans, compared with $175 million, or 3.79% of loans at December 31, 2010. The decrease in the allowance for loan losses is consistent with the decrease in classified loans resulting from the execution of the Problem Asset Disposition Plan, including the Bulk Loan Sale which reduced the amount of loss remaining in the loan portfolio. During the third quarter of 2011, United recorded a provision for loan losses of $25.0 million related to classifying its largest lending relationship to nonaccrual status and recorded a $25.0 million partial charge-off during the fourth quarter.

Management believes that the allowance for loan losses at December 31, 2011 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. The amount of any change could be significant if management s assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolio categories. 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 nonaccrual loans and accruing loans past due over 90 days, totaled $127 million at December 31 2011, compared with $179 million at December 31, 2010. There were no accruing loans more than 90 days past due at December 31, 2011 and 2010. At December 31, 2011 and 2010, the ratio of nonperforming loans to total loans was 3.10% and 3.89%, respectively. The ratio of nonperforming loans to total loans decreased due to the Bulk Loan Sale in April 2011, which included performing and nonperforming substandard loans. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled $160 million at December 31, 2011, compared with $321 million at December 31, 2010. United sold $108 million and $168 million respectively, of foreclosed properties during 2011 and 2010. Both of these events helped lower the balance of foreclosed properties by 77% in 2011.

United s policy is to place loans on nonaccrual 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 well secured and in the process of collection. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied as a reduction of principal.

There were no commitments to lend additional funds to customers whose loans were on nonaccrual status at December 31, 2011, 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 losses on the covered assets.

Table 13 Nonperforming Assets

As of December 31,

(in thousands)

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
Nonaccrual loans (NPLs)	$ 127,479	$ 179,094	$ 264,092	$ 190,723	$ 28,219
Foreclosed properties	32,859	142,208	120,770	59,768	18,039
Total nonperforming assets (NPAs)	$ 160,338	$ 321,302	$ 384,862	$ 250,491	$ 46,258
NPLs as a percentage of total loans	3.10%	3.89%	5.13%	3.34%	.48%
NPAs as a percentage of loans and foreclosed properties	3.87	6.77	7.30	4.35	.78
NPAs as a percentage of total assets	2.30	4.42	4.81	2.92	.56

At December 31, 2011 and 2010 United had $124 million and $101 million, respectively, in loans with terms that have been modified in a troubled debt restructuring (TDR). Included therein were $17.9 million and $17.3 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 $106 million and $83.7 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At December 31, 2011 and 2010, there were $257 million and $123 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification. Included in impaired loans at December 31, 2011 and 2010 were $189 million and $115 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, 2011 of $68.8 million had specific reserves that totaled $14.8 million and the balance of impaired loans at December 31, 2010 of $7.64 million had specific reserves that totaled $1.05 million. During the third quarter of 2011, United classified its largest lending relationship of $76.6 million as impaired and recorded a specific reserve of $25.0 million, which was charged off in the fourth quarter of 2011. The average recorded investment in impaired loans for 2011, 2010 and 2009 was $127 million, $170 million and $229 million, respectively. During 2011, United recognized $2.66 million in interest income on impaired loans. During 2010 and 2009, 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. Impaired loans increased from 2010 to 2011 due to the classification of United s largest lending relationship and the increase in TDRs which are considered impaired. In addition, United began including substandard accruing loans over $2 million in its impairment analysis in 2011.

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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, 2011 (1)			September 30, 2011 (1)			June 30, 2011 (1)			March 31, 2011 (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY												
Commercial (sec. by RE)	$ 27,322	$ 9,745	$ 37,067	$ 21,998	$ 8,880	$ 30,878	$ 17,764	$ 6,796	$ 24,560	$ 20,648	$ 7,886	$ 28,534
Commercial & industrial	34,613		34,613	53,009		53,009	1,998		1,998	2,198		2,198
Commercial construction	16,655	3,336	19,991	11,370	5,862	17,232	2,782	6,764	9,546	3,701	11,568	15,269
Total commercial	78,590	13,081	91,671	86,377	14,742	101,119	22,544	13,560	36,104	26,547	19,454	46,001
Residential mortgage	22,358	6,927	29,285	22,671	7,960	30,631	24,809	9,056	33,865	23,711	9,117	32,828
Residential construction	25,523	12,851	38,374	34,472	21,561	56,033	22,643	24,968	47,611	32,038	25,807	57,845
Consumer installment	1,008		1,008	964		964	1,069		1,069	1,473		1,473
Total NPAs	$ 127,479	$ 32,859	$ 160,338	$ 144,484	$ 44,263	$ 188,747	$ 71,065	$ 47,584	$ 118,649	$ 83,769	$ 54,378	$ 138,147
BY MARKET												
North Georgia	$ 88,600	$ 15,136	$ 103,736	$ 105,078	$ 17,467	$ 122,545	$ 28,117	$ 21,278	$ 49,395	$ 30,214	$ 23,094	$ 53,308
Atlanta MSA	14,480	6,169	20,649	13,350	12,971	26,321	14,700	11,239	25,939	21,501	16,913	38,414
North Carolina	15,100	5,365	20,465	13,243	7,941	21,184	15,153	8,953	24,106	18,849	7,802	26,651
Coastal Georgia	5,248	1,620	6,868	5,600	2,354	7,954	5,357	2,564	7,921	5,847	3,781	9,628
Gainesville MSA	2,069	3,760	5,829	5,311	2,495	7,806	4,505	3,174	7,679	4,332	2,157	6,489
East Tennessee	1,982	809	2,791	1,902	1,035	2,937	3,233	376	3,609	3,026	631	3,657
Total NPAs	$ 127,479	$ 32,859	$ 160,338	$ 144,484	$ 44,263	$ 188,747	$ 71,065	$ 47,584	$ 118,649	$ 83,769	$ 54,378	$ 138,147

	December 31, 2010 (1)			September 30, 2010 (1)			June 30, 2010 (1)			March 31, 2010 (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY												
Commercial (sec. by RE)	$ 44,927	$ 23,659	$ 68,586	$ 53,646	$ 14,838	$ 68,484	$ 56,013	$ 13,297	$ 69,310	$ 45,918	$ 21,597	$ 67,515
Commercial & industrial	5,611		5,611	7,670		7,670	7,245		7,245	3,610		3,610
Commercial construction	21,374	17,808	39,182	17,279	15,125	32,404	17,872	11,339	29,211	23,556	14,285	37,841
Total commercial	71,912	41,467	113,379	78,595	29,963	108,558	81,130	24,636	105,766	73,084	35,882	108,966
	51,083	22,510	73,593	58,107	26,795	84,902	53,175	24,830	78,005	57,920	26,173	84,093

Residential mortgage												
Residential construction	54,505	78,231	132,736	79,321	73,206	152,527	88,375	74,444	162,819	147,326	74,220	221,546
Consumer installment	1,594		1,594	1,743		1,743	1,655		1,655	2,472		2,472
Total NPAs	$ 179,094	$ 142,208	$ 321,302	$ 217,766	$ 129,964	$ 347,730	$ 224,335	$ 123,910	$ 348,245	$ 280,802	$ 136,275	$ 417,077
BY MARKET												
North Georgia	$ 83,551	$ 66,211	$ 149,762	$ 92,295	$ 67,439	$ 159,734	$ 102,198	$ 60,597	$ 162,795	$ 109,280	$ 63,128	$ 172,408
Atlanta MSA	48,289	41,154	89,443	65,304	32,785	98,089	74,031	30,605	104,636	81,914	36,951	118,865
North Carolina	25,832	11,553	37,385	31,545	11,559	43,104	22,776	11,473	34,249	31,353	8,588	39,941
Coastal Georgia	11,145	11,901	23,046	10,611	10,951	21,562	8,341	16,548	24,889	33,438	21,871	55,309
Gainesville MSA	5,171	9,273	14,444	11,905	5,685	17,590	10,730	2,750	13,480	17,058	3,192	20,250
East Tennessee	5,106	2,116	7,222	6,106	1,545	7,651	6,259	1,937	8,196	7,759	2,545	10,304
Total NPAs	$ 179,094	$ 142,208	$ 321,302	$ 217,766	$ 129,964	$ 347,730	$ 224,335	$ 123,910	$ 348,245	$ 280,802	$ 136,275	$ 417,077

(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.

In April 2011, United sold nonperforming loans in the Bulk Loan Sale with a carrying amount of $101 million and performing substandard loans with a carrying amount of $166 million. At March 31, 2011, the loans were written down to the expected proceeds from the sale and transferred to the held for sale category and therefore were not included in the table above at the end of the first quarter. Nonperforming assets in the residential construction category were $38.4 million at December 31, 2011, compared to $133 million at December 31, 2010, a decrease of $94.4 million, or 71%. Commercial nonperforming assets decreased from $113 million at December 31, 2010 to $91.7 million at December 31, 2011. Residential mortgage nonperforming assets of $29.3 million decreased $44.3 million from December 31, 2010. While United experienced a reduction in nonperforming assets across all markets, the execution of the Problem Asset Disposition Plan, which included the Bulk Loan Sale and the write down of foreclosed properties, contributed to a decline in the north Georgia and Atlanta MSA markets, where nonperforming asset levels had been particularly elevated.

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The following table summarizes activity in nonperforming assets by year.

Table 15 Activity in Nonperforming Assets by Quarter

(in thousands)

		2011 [1][3]			2010 [1]			2009 [1]	
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	$ 179,094	$ 142,208	$ 321,302	$ 264,092	$ 120,770	$ 384,862	$ 190,723	$ 59,768	$ 250,491
Loans placed on non-accrual [2]	239,681		239,681	494,843		494,843	710,172		710,172
Payments received	(17,131)		(17,131)	(36,641)		(36,641)	(83,907)		(83,907)
Loan charge-offs	(122,949)		(122,949)	(222,150)		(222,150)	(285,237)		(285,237)
Foreclosures	(65,732)	65,732		(237,503)	237,503		(239,766)	239,766	
Capitalized costs		1,249	1,249		1,396	1,396		4,336	4,336
Note / property sales	(11,400)	(107,924)	(119,324)	(83,547)	(168,135)	(251,682)	(27,893)	(165,219)	(193,112)
Loans transferred to held for sale	(74,084)		(74,084)						
Write downs		(57,368)	(57,368)		(25,755)	(25,755)		(9,004)	(9,004)
Net losses on sales		(11,038)	(11,038)		(23,571)	(23,571)		(8,877)	(8,877)
Ending Balance	$ 127,479	$ 32,859	$ 160,338	$ 179,094	$ 142,208	$ 321,302	$ 264,092	$ 120,770	$ 384,862

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

(2) Includes $76.6 million from United s largest loan relationship that was placed on nonaccrual in the third quarter of 2011.

(3) The NPA activity shown for 2011 is presented with all activity related to loans transferred to the held for sale classification on one line as if those loans were transferred to held for sale at the beginning of the period. During the first quarter of 2011, $27.1 million in loans transferred to held for sale were placed on nonaccrual, $1.1 million in payments were received on nonaccrual loans transferred to held for sale and $66.6 million in charge-offs were recorded on nonaccrual loans transferred to held for sale to write them down to the expected proceeds from the sale.

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 lesser of fair value, less estimated costs to sell or the listed selling price, less the cost to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property expense. 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.* In 2011, 2010 and 2009, United transferred $65.7 million, $238 million and $240 million, respectively, of loans into foreclosed property. During 2011 and 2010, proceeds from sales of foreclosed properties were $108 million and $168 million, respectively, which includes $21.1 million and $56.9 million, respectively, of sales that were financed by United. During the first quarter of 2011, United recorded $48.6 million in write-downs on foreclosed properties in order to expedite sales in the following quarters.

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 investment 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 and borrowings, including repurchase agreements. Total investment securities at December 31, 2011 increased $630 million from a year ago. The increase in the securities portfolio was a result of a buildup of liquidity resulting partially from strong core deposit growth with little loan demand to invest the proceeds and the proceeds from the capital transaction that closed in the first quarter and the Bulk Loan Sale that closed in the second quarter. In addition, United had sought to maintain above normal amounts of liquidity due to the uncertain economy. United invested the proceeds from deposits in floating rate mortgage-backed securities. United chose floating rate securities because they have less market risk in the event rates begin to rise.

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, 2011 and December 31, 2010, United had securities held to maturity with a carrying value of $330 million and $266 million, respectively, and securities available for sale totaling $1.79 billion and $1.22 billion, respectively. At December 31, 2011 and 2010, the securities portfolio represented approximately 30% and 20% of total assets, respectively. At December 31, 2011, the effective duration of the investment portfolio based on expected maturities was 1.95 years compared with 3.02 years at December 31, 2010.

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

Table 16 Carrying Value of Investment Securities

As of December 31,

(in thousands)

	September 30, Available for Sale	September 30, December 31, 2011 Held to Maturity	September 30, Total Securities
U.S. Government agencies	$ 43,750	$ 5,000	$ 48,750
State and political subdivisions	26,339	51,903	78,242
Mortgage-backed securities	1,609,909	273,300	1,883,209
Corporate bonds	107,678		107,678
Other	2,371		2,371
Total securities	$ 1,790,047	$ 330,203	$ 2,120,250

	September 30, Available for Sale	September 30, December 31, 2010 Held to Maturity	September 30, 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
Corporate bonds	104,035		104,035
Other	2,452		2,452
Total securities	$ 1,224,417	$ 265,807	$ 1,490,224

	September 30, Available for Sale	September 30, December 31, 2009 Held to Maturity	September 30, 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
Corporate bonds	20,801		20,801
Other	2,265		2,265
Total securities	$ 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 and 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, 2011, United had 89% of its total investment securities portfolio in mortgage backed securities, compared with 80% at December 31, 2010. Due to a lack of loan demand, United continued to purchase mortgage-backed securities in order to obtain a favorable yield with low risk. In 2010, United reinvested the proceeds of maturing fixed-rate mortgage-backed securities in floating-rate collateralized mortgage obligations in order to avoid exposure to significant extension risk. United did not have securities of any issuer in excess of 10% of equity at year-end 2011 or 2010, excluding U.S. Government issues. Approximately 1% of the securities portfolio is rated below A or unrated and 90% 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. 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.

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 beginning in early 2009 to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit balances 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. United has continued to pursue customer transaction deposits by stressing its high customer satisfaction scores.

Total average deposits for 2011 were $6.28 billion, a decrease of $98 million, or 2%, from 2010. Average non-interest bearing demand deposit accounts increased $146 million, or 19%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of $2.54 billion on average for 2011, which increased $212 million, or 9%, from 2010.

At December 31, 2011, total deposits were $6.10 billion compared with $6.47 billion at the end of 2010, a decrease of $371 million, or 6%. Average time deposits for 2011, including brokered time deposits, were $2.82 billion, down from $3.28 billion in 2010. United continued to offer low rates on certificates of deposit, allowing the balances to decline as United s funding needs declined due to weak loan demand. Additional liquidity also allowed United to reduce brokered deposits, which totaled $179 million at December 31, 2011, compared with $677 million at December 31, 2010.

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, 2011 and 2010

(in thousands)

	September 30, 2011	September 30, 2010
$100,000 and greater:		
Three months or less	$ 180,847	$ 227,358
Three to six months	142,720	175,870
Six to twelve months	276,741	361,580
Over one year	246,844	237,551
Total	$ 847,152	$ 1,002,359
Brokered deposits:		
Three months or less	$ 59,594	$ 17,314
Three to six months	40,232	154,367
Six to twelve months	64,071	137,348
Over one year	14,750	367,743
Total	$ 178,647	$ 676,772

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank (FHLB) of Atlanta. Through this affiliation, FHLB secured advances totaled $40.6 million and $55.1 million at December 31, 2011 and 2010, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at December 31, 2011 had fixed interest rates ranging up to 4.49%. During the second quarter of 2011 and

the third quarter of 2010, United prepaid $14.5 million and $50 million, respectively, of fixed-rate advances and incurred prepayment charges of $791,000 and $2.23 million, respectively. 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, 2011, United had $103 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, 2010. 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

The 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 s liquidity policy requires contingent liquidity reserves to cover expected funding needs for a period of twelve months. 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. In addition, because United is a separate entity and apart from the Bank, it 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 Bank MOU, United currently has limited internal 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 2013. 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 could not pay dividends on any of common or preferred stock or trust preferred securities until all accrued and unpaid amounts under the deferred securities had been paid. Effective April 15, 2011, United received approval to make payments for currently payable and previously deferred dividends and interest on its preferred stock and trust preferred securities. Since then, United has continued to receive quarterly approvals of all payments, including the fourth quarter of 2011 and first quarter of 2012. Additionally, the Holding Company MOU requires, among other things, that United ensures that the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU and the Bank MOU.

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 requirements.

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 $23.9 million at December 31, 2011, and typically turn over every 45 days as closed loans are sold to investors in the secondary market. In addition, at December 31, 2011, United held $888 million in excess liquidity, including $140 million in cash equivalent balances, primarily balances in excess of reserve requirements at the Federal Reserve Bank and $563 million in floating rate securities.

The liability section of the balance sheet provides liquidity primarily through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, FHLB advances, brokered deposits, Federal Reserve short-term borrowings and securities sold under agreements to repurchase are additional sources of liquidity and represent United s incremental borrowing capacity. These sources of liquidity are generally short-term in nature 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)

	September 30, Period-end balance	September 30, Period end weighted-average interest rate	September 30, Maximum outstanding at any month-end	September 30, Average amounts outstanding during the year	September 30, Weighted-average rate for the year
December 31, 2011					

Federal funds purchased	$		% $		$ 137	.39%
Repurchase agreements	102,577	4.12		103,666	102,590	4.14
	$ 102,577				$ 102,727	
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	

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Substantially all of the parent company s liquidity is obtained from subsidiary service fees and dividends from the Bank, which is limited by applicable law.

At December 31, 2010, United had sufficient qualifying collateral to increase FHLB advances by $1.06 billion and Federal Reserve discount window capacity of $453 million. United s internal policy limits brokered deposits to 25% of total assets. At December 31, 2011, United had the capacity to increase brokered deposits by $1.57 billion, subject to certain regulatory approvals, 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, 2011

(in thousands)

	September 30,	September 30,	September 30, Maturity By Years	September 30,	September 30,
	Total	**1 or Less**	**1 to 3**	**3 to 5**	**Over 5**
Contractual Cash Obligations					
FHLB advances	$ 40,625	$ 10,500	$ 30,000	$ 125	$
Long-term debt	120,225	30,500		35,000	54,725
Operating leases	9,124	2,930	3,245	849	2,100
Total contractual cash obligations	$ 169,974	$ 43,930	$ 33,245	$ 35,974	$ 56,825
Other Commitments					
Lines of credit	$ 415,093	$ 188,176	$ 69,022	$ 13,860	$ 144,035
Commercial letters of credit	15,888	13,591	2,297		
Uncertain tax positions	6,315	1,816	1,640	585	2,274
Total other commitments	$ 437,296	$ 203,583	$ 72,959	$ 14,445	$ 146,309

As disclosed in United s consolidated statement of cash flows, net cash provided by operating activities was $185 million for the year ended December 31, 2011. The net loss of $227 million for the year included non-cash expenses for provision for loan losses of $251 million, and losses and write downs on foreclosed property of $68.4 million. Other assets decreased $27.2 million and funds collected from the FDIC under loss sharing agreements were $33.6 million, providing another source of cash flows from operating activities. Net cash used in investing activities of $398 million consisted primarily of $1.33 billion of purchases of securities and purchases of premises and equipment of $7.21 million, that were offset by proceeds from sales of securities of $128 million, maturities and calls of investment securities of $570 million, net proceeds from sales of other real estate of $86.8 million, proceeds from notes sales of $99.3 million, and a net decrease in loans of $53 million. The $59.0 million of net cash used in financing activities consisted primarily of proceeds of $362 million from the issuance of common and preferred stock offset by a net decrease in deposits of $371 million. United also paid $15.3 million to settle FHLB advances and repaid $30.0 million in long-term debt. In the opinion of management, United s liquidity position at December 31, 2011 was sufficient to meet its expected cash flow requirements.

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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)

	September 30,	September 30,	September 30,	September 30,	September 30,
			Maturity By Years		
	1 or Less	1 to 5	5 to 10	Over 10	Total
Available for Sale					
U.S. Government agencies	$	$	$ 35,120	$ 8,630	$ 43,750
State and political subdivisions	4,481	15,080	5,872	906	26,339
Corporate bonds		16,596	90,782	300	107,678
Other securities [1]	52,251	1,372,363	134,619	53,047	1,612,280
Total securities available for sale	$ 56,732	$ 1,404,039	$ 266,393	$ 62,883	$ 1,790,047
Weighted average yield [2]	5.29%	2.41%	3.59%	3.43%	2.71%
Held to Maturity					
U.S. Government agencies					