UNITED COMMUNITY BANKS INC
Form 10-K
March 01, 2013
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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, 2012

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 the 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 and non-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: $483,964,000 (based on shares held by non-affiliates at $8.57 per share, the closing stock price on the Nasdaq stock market on June 30, 2012).

As of January 31, 2013, 57,752,268 shares of common stock were issued and outstanding including 42,435,474 voting shares and 15,316,794 non-voting shares. Also outstanding were presently exercisable options to acquire 461,708 shares, presently exercisable warrants to acquire 3,312,470 shares and 131,420 shares issuable under United Community Banks, Inc. s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the 2013 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, as amended (the BHC Act), 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 separate community banks , which as of December 31, 2012, operated at 105 locations throughout north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina, east Tennessee and the Greenville-Mauldin-Easley, South Carolina MSA. In 2012, United expanded into Greenville, South Carolina by opening a loan production office. 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 2012, the Bank originated $370 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.

Reverse Stock Split

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.

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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 fixed rate cumulative perpetual preferred stock, Series B (the 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;
- the formal investigation by the Securities and Exchange Commission (the SEC) or any penalty, sanction or further restatement of our previously issued financial statements that may result from such investigation;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution; 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 SEC. United cautions that the foregoing list of factors is not exclusive, and do not 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.

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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, east Tennessee and the Greenville-Mauldin-Easley, South Carolina MSA, 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 deposit 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				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
Atlanta, Georgia MSA										
Bartow	9%	12%	9%	8%	7%	4	3	4	5	7
Carroll	6	6	5	4	3	6	6	7	7	9
Cherokee	5	4	4	4	4	9	9	9	9	9
Cobb	3	3	3	3	4	10	10	10	7	8
Coweta	2	2	2	3	1	10	10	10	10	12
Dawson	36	36	30	29	33	1	1	1	1	1
DeKalb	1	1	1	1	1	18	21	21	18	16
Douglas	2	2	1	1	2	12	11	13	13	10
Fayette	7	8	9	11	2	6	5	4	4	12
Forsyth	6	3	2	3	2	7	11	13	11	13
Fulton	1	1	1	1	1	20	20	18	20	17
Gwinnett	3	3	3	3	4	8	7	8	7	7
Henry	5	4	4	4	3	7	7	9	8	10
Newton	3	3	3	3	4	8	8	8	9	7
Paulding	5	5	3	2	2	6	7	8	12	11
Pickens	4	3	2	2	3	6	7	7	7	7
Rockdale	12	12	12	12	11	4	4	4	3	5
Walton	1	2	1	1	1	10	10	10	10	11
Gainesville, Georgia MSA										
Hall	12	14	14	13	12	5	3	3	4	4
North Georgia										
Chattooga	40	40	39	40	41	1	1	1	1	1
Fannin	49	52	49	50	52	1	1	1	1	1
Floyd	16	16	14	13	13	2	1	3	3	4
Gilmer	25	25	15	14	14	2	2	2	2	2
Habersham	22	20	16	14	14	2	2	3	3	3
Jackson	6	6	5	4	3	6	7	8	8	10
Lumpkin	29	29	28	29	32	2	2	2	1	1
Rabun	13	12	11	10	11	3	5	5	5	5
Towns	48	41	37	27	29	2	2	2	2	2
Union	83	84	86	88	88	1	1	1	1	1
White	44	46	43	39	40	1	1	1	1	1
Tennessee										
Blount	1	2	2	3	3	11	11	11	11	9
Bradley	5	5	5	5	5	7	7	7	7	7
Knox	1	1	1	1	1	26	23	25	16	14
Loudon	13	14	14	16	19	3	3	3	3	2
McMinn	3	2	2	3	3	9	9	9	9	8
Monroe	4	4	3	4	3	7	7	8	7	8
Roane	8	8	8	10	11	6	6	6	4	3
Coastal Georgia										
Chatham	1	1	1	1	2	10	10	10	11	11
Glynn	12	18	15	13	16	3	2	3	3	3
Ware	3	4	4	7	10	9	9	8	7	4
North Carolina										
Avery	16	18	17	15	14	2	1	1	4	4
Cherokee	35	29	29	34	42	1	1	1	1	1
Clay	45	48	49	51	53	1	1	1	1	1
Graham	71	72	72	74	77	1	1	1	1	1
Haywood	10	10	11	12	11	5	5	5	4	5
Henderson	3	3	3	3	3	11	11	11	11	11

Jackson	25	25	25	24	24	1	1	1	1	2
Macon	8	8	8	9	9	5	6	5	4	4
Mitchell	36	37	34	32	28	1	1	1	1	2
Swain	21	25	30	28	28	2	2	2	2	2
Transylvania	15	14	13	14	14	3	3	4	3	3
Watauga	2	1	1	2	2	12	12	11	11	11
Yancey	18	20	19	17	13	2	2	2	4	4

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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, 2012, commercial (secured by real estate), commercial (commercial and industrial), commercial construction, residential mortgage, residential construction, and consumer installment loans represented approximately 43%, 11%, 4%, 29%, 9% and 4%, 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 (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 (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 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.
Residential construction	Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property.
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, 2012, the Bank s legal lending limit was $162 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 exist that may include poor liquidity and deterioration of financial ratios. The loan may be past-due and related deposit accounts experiencing overdrafts. There is the distinct possibility that United will sustain some loss if deficiencies are not corrected. If possible, immediate corrective action is taken.
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, 2012, United and its subsidiaries had 1,553 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.

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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 and a loan production office in South Carolina; neither the North Carolina Banking Commission (NCBC), the Tennessee Department of Financial Institutions (TDFI), nor the South Carolina Commissioner of Banking 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, a state bank with negative retained earnings may declare dividends by first obtaining the written permission of the DBF. If a state bank has positive retained earnings, it may declare a dividend without DBF approval if it 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). The Holding Company MOU provides, among other things, 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 and the DBF. Additionally, the Holding Company MOU requires 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 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 2013 without the approval of the DBF. United did not pay cash dividends on its common stock in 2012, 2011 or 2010.

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 ratio of 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 ratio of tangible equity to total assets 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 ratio of tangible equity to total assets 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, 2012, the FDIC categorized 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 Basel III 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 June 7, 2012, the federal regulatory authorities issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with Basel III Proposals and certain provisions of the Dodd-Frank Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). The proposed rules would apply to all depository institutions and savings and loan holding companies and all bank holding companies with total consolidated assets of $500 million or more (banking organizations). When fully phased in, the proposed rules will require more capital with a greater emphasis on common equity. Specifically, among other things, the proposed rules:

- establish a new common equity tier 1 minimum capital requirement of 4.5%, a higher minimum tier 1 capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0% that would be phased in and fully effective in 2015;

- provide, to be considered well-capitalized , a new common equity tier 1 capital requirement of 6.5%, a higher tier 1capital to risk-weighted assets requirement of 8.0% and a higher total capital to risk-weighted assets of 10.0% that would be phased in and fully effective in 2015;

- stratifies risk-weighting of mortgage loans from 35-200% and adds 20% risk-weighting for short term unused loan commitments;

- assigns higher risk-weightings (150%) to credit exposures that are more than 90 days past due or are on nonaccrual status and certain high volatility commercial real estate loans that finance the acquisition, development or construction of real property;

- contemplates that, for banking organizations with less than $15 billion in assets, the ability to treat trust preferred securities as tier 1 capital would be phased out over a ten-year period;

- requires that unrealized gains and losses on certain securities holdings be included for purposes of calculating regulatory capital requirements; and

- limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of an additional 2.5% of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements that would be phased in and fully effective in 2019.

When the new 4.5% common equity tier 1 capital requirement and 2.5% capital conservation buffer are added, the Basel III proposal would effectively result in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7%. The proposed rules indicated that the final rule would become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019; however, the agencies have recently stated that, due to the volume of public comments received, the final rule would not be in effect on January 1, 2013. The timing of the final rule is uncertain at this time.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Dodd-Frank Act 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. 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. Because United s total assets fall below $10 billion, this new fee structure had little impact on 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.

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. The proposed rules are highly complex, and many aspects of their application remain uncertain. Their implementation has been delayed into 2013. 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 remain 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 s 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.

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

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

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

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

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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, 2013, are as follows:

Name (age)	Position with United	Officer of United Since
Jimmy C. Tallent (60)	President, Chief Executive Officer and Director	1988
H. Lynn Harton (51)	Chief Operating Officer since September 2012; prior to joining United was Executive Vice President and Special Assistant to the Chief Executive Officer of Toronto-Dominion Bank (2010 2012); President and Chief Executive Officer of South Financial Group (2009 2010); Chief Risk and Chief Credit Officer of South Financial Group (2007 2009); Chief Credit Officer of Regions Financial Corporation (2004 2007)	2012
Rex S. Schuette (63)	Executive Vice President and Chief Financial Officer	2001
David Shearrow (53)	Executive Vice President and Chief Risk Officer	2007
Bill M. Gilbert (60)	Director of Banking since January 2013; Regional President of North Georgia and Coastal Georgia (2011 2013); Senior Vice President of Retail Banking (2003 2011)	2003
Tim Schools (43)	Chief Strategy Officer since January 2013; Regional President of North Carolina and Tennessee (November 2011 through 2012); prior to joining United was President (2008 2010) and Chief Operating Officer (2007 2008) of American Savings Bank, F.S.B.	2011
Ray Skinner (48)	Senior Vice President, Retail Banking since September 2012; prior to joining United was Executive Vice President and Chief Banking Officer of Community & Southern Bank (2011 2012), Executive Vice President, Consumer Banking of American Savings Bank, F.S.B (2008 2011)	2012

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.

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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. If the Basel III Proposals are fully adopted, these ratios will go even higher. 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. 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, as well as its negative retained earnings position, requires written consent of the Bank s regulators before it can pay a dividend. Any inability of United to 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 $382 million at December 31, 2012, comprising 9% of total loans. Residential construction and development loans are often riskier than home equity loans or residential mortgage loans to individuals. Poor economic conditions have resulted in decreased demand for residential housing, which, in turn, has adversely affected the development and construction efforts of residential real estate developer borrowers. Consequently, economic downturns like the current one impacting our market areas adversely affect the ability of residential real estate developer borrowers to repay these loans and the value of property used as collateral for such loans. A sustained weak economy could also result in higher levels of nonperforming loans in other categories, such as commercial and industrial loans, which may result in additional losses. Because of the general economic slowdown we are currently experiencing, these loans represent higher risk due to slower sales and reduced cash flow that affect the borrowers ability to repay on a timely basis and could result in a sharp increase in our total net-charge offs and could require us to significantly increase our allowance for loan losses, which could have a material adverse effect on our financial condition or results of operations.

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

Our commercial real estate loan portfolio was $1.81 billion at December 31, 2012, comprising 43% 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 GAAP 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, 2012, we recorded a provision for loan losses of $62.5 million compared to $251 million and $223 million for the years ended December 31, 2011 and 2010, 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 Dodd-Frank Act and related regulations may adversely affect our business, financial condition, liquidity or results of operations.

The Dodd-Frank Act 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. The expiration of the unlimited insurance on demand deposits could result in some deposit balance attrition to other financial institutions, as deposit customers restructure their deposits to manage their deposit insurance coverage. 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.

The short-term and long-term impact of the changing regulatory capital requirements is uncertain.

On June 7, 2012, the federal regulatory authorities proposed rules, the Basel III Proposals, that would substantially amend the regulatory risk-based capital rules applicable to United and the Bank. The proposed rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The proposed rules were subject to a public comment period that has expired and there is no date set for the adoption of final rules.

The Basel III Proposals include new minimum risk-based capital and leverage ratios, which would be phased in during through 2015, and would modify capital and asset definitions for purposes of calculating those ratios. Among other things, the proposals establish a new common equity tier 1 minimum capital requirement of 4.5%, a higher minimum tier 1capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0% that would be phased in and fully effective in 2015. In addition, the proposals provide, to be considered well-capitalized , a new common equity tier 1 capital requirement of 6.5%, a higher tier 1capital to risk-weighted assets requirement of 8.0% and a higher total capital to risk-weighted assets of 10.0% that would be phased in and fully effective in 2015. Moreover, the proposals would limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of an additional 2.5% of common equity tier 1 capital in addition to the 4.5% minimum common equity tier 1 requirement and the other amounts necessary to the minimum risk-based capital requirements that would be phased in and fully effective in 2019. The proposals also seek to eliminate trust preferred securities from Tier 1 capital over a ten-year period.

While the Basel III Proposals and other regulatory capital requirements will likely result in generally higher regulatory capital standards with an increased focus on common equity, it is difficult at this time to predict when or how any new standards will ultimately be applied to United and the Bank. The application of more stringent capital requirements for United and the Bank could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in additional regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our

having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in us modifying our business strategy and could limit our ability to make dividends.

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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 $270 million as of December 31, 2012, which includes approximately $221 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.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure we use, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or users. Such problems could jeopardize the security of our customers personal information and other information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, or inhibit current and potential customers from our Internet banking services, any of all of which could have a material adverse effect on our results of operations and financial condition. Although we have security measures designed to mitigate the possibility of break-ins, breaches and other disruptive problems, including firewalls and penetration testing, there can be no assurance that such security measures will be effective in preventing such problems.

Our lack of geographic diversification increases our risk profile.

Our operations are located principally in Georgia, western North Carolina and east Tennessee. As a result of this geographic concentration, our results depend largely upon economic and business conditions in this area. Deterioration in economic and business conditions in our service area could have a material adverse impact on the quality of our loan portfolio and the demand for our products and services, which in turn may have a material adverse effect on our results of operations.

Our interest-only home equity lines of credit expose us to increased lending risk.

At December 31, 2012, we had $385 million of home equity line of credit loans, which represented 9% of our loan portfolio as of that date. Historically, United s home equity lines of credit generally had a 35 month or 10 year draw period with interest-only payment requirements for the term of the loan, a balloon payment requirement at the end of the draw period and a maximum 80% combined loan to value ratio. Since June, 2012 new home equity lines of credit generally have a 10 year interest only draw period followed by a 15 year amortized repayment period for any outstanding balance at the 10 year conversion date. United continues to offer a home equity line of credit with a 35 month draw period with interest-only payment requirements for the term of the loan with a balloon payment requirement at the end of the draw period. All home equity line of credit products, historically and currently available, have a maximum 80% combined loan to value ratio. These loans are also secured by a first or second lien on the underlying home.

In the case of interest-only loans, a borrower s monthly payment is subject to change when the loan converts to fully-amortizing status. Since the borrower s monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, the borrower might not be able to afford the increased monthly payment. In addition, interest-only loans have a large, balloon payment at the end of the loan term, which the borrower may be unable to pay. Also, real estate values may decline, dramatically reducing or even eliminating the borrower s equity, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off their mortgage obligations. The risks can be magnified by United s limited ability to monitor the delinquency status of the first lien on the collateral. For these reasons, home equity lines of credit are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of losses.

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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 125 locations, of which 104 are owned and 21 are leased under operating leases. Note 9 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. Additionally, in the ordinary course of business, United and the Bank are subject to regulatory examinations and investigations. Based on our knowledge and advice of counsel, in the opinion of management, there is no such pending or threatened legal matter 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 2012.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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, 2012 was $9.44. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2012 and 2011.

	2012				2011			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$ 10.30	$ 6.37	$ 9.75	142,987	$ 11.85	$ 5.95	$ 11.65	227,321
Second quarter	9.77	7.76	8.57	145,132	14.65	9.80	10.56	139,741
Third quarter	8.82	6.12	8.39	329,475	11.33	7.67	8.49	214,303
Fourth quarter	9.49	8.01	9.44	202,871	8.90	6.22	6.99	202,024

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, 2013, there were approximately 6,700 record shareholders and 15,000 beneficial shareholders of United s common stock.

Dividends. No cash or stock dividends were declared on United s common stock during 2012 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 and DBF. 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.

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 21 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 2012 or 2011. 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 2012 or 2011.

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 pursuant to an exemption provided by Section 4(2) of the Securities Act of 1933. The warrants may be exercised at any time or from time to time prior to August 22, 2013.

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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, 2007 and ending on December 31, 2012.

FIVE YEAR CUMULATIVE TOTAL RETURNS*

COMPARISON OF UNITED COMMUNITY BANKS, INC.,

NASDAQ STOCK MARKET (U.S.) INDEX

AND NASDAQ BANK INDEX

As of December 31

	Cumulative Total Return *					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
United Community Banks, Inc.	$ 100	$ 89	$ 22	$ 13	$ 9	$ 13
Nasdaq Stock Market (U.S.) Index	100	61	88	104	105	124
Nasdaq Bank Index	100	73	61	72	65	77

* Assumes $100 invested on December 31, 2007 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)	**2012**	**2011**	**2010**	**2009**	**2008**
INCOME SUMMARY					
Net interest revenue	$ 229,099	$ 233,669	$ 243,052	$ 245,227	$ 238,704
Operating provision for loan losses [1]	62,500	251,000	234,750	310,000	184,000
Operating fee revenue [2]	56,771	49,908	48,548	50,964	46,081
Total operating revenue [1][2]	223,370	32,577	56,850	(13,809)	100,785
Operating expenses [3]	186,774	261,599	242,952	217,050	200,335
Loss on sale of nonperforming assets			45,349		
Operating income (loss) from continuing operations before taxes	36,596	(229,022)	(231,451)	(230,859)	(99,550)
Operating income taxes	2,740	(2,276)	73,218	(91,754)	(35,651)
Net operating income (loss) from continuing operations	33,856	(226,746)	(304,669)	(139,105)	(63,899)
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		
Net income (loss) from discontinued operations			(101)	513	449
Gain from sale of subsidiary, net of income taxes and selling costs			1,266		
Net income (loss)	33,856	(226,746)	(502,344)	(228,327)	(63,450)
Preferred dividends and discount accretion	12,148	11,838	10,316	10,242	724
Net income (loss) available to common shareholders	$ 21,708	$ (238,584)	$ (512,660)	$ (238,569)	$ (64,174)
PERFORMANCE MEASURES					
Per common share:					
Diluted operating earnings (loss) from continuing operations [1][2][3]	$ .38	$ (5.97)	$ (16.64)	$ (12.37)	$ (6.82)
Diluted earnings (loss) from continuing operations	.38	(5.97)	(27.15)	(19.80)	(6.82)
Diluted earnings (loss)	.38	(5.97)	(27.09)	(19.76)	(6.77)
Cash dividends declared (rounded)					.87
Stock dividends declared [6]				3 for 130	2 for 130
Book value	6.67	6.62	15.40	41.78	84.75
Tangible book value [5]	6.57	6.47	14.80	30.09	51.93
Key performance ratios:					
Return on equity [4]	5.43%	(93.57)%	(85.08)%	(34.40)%	(7.82)%
Return on assets	.49	(3.15)	(6.61)	(2.76)	(.76)
Net interest margin	3.50	3.44	3.56	3.29	3.18
Operating efficiency ratio from continuing operations [2][3]	65.43	92.27	98.98	73.97	70.00
Equity to assets	8.47	7.75	10.77	11.12	10.22
Tangible equity to assets [5]	8.38	7.62	8.88	8.33	6.67
Tangible common equity to assets [5]	5.54	3.74	6.52	6.15	6.57
Tangible common equity to risk-weighted assets [5]	8.26	8.25	5.64	10.39	8.34
ASSET QUALITY *					
Non-performing loans	$ 109,894	$ 127,479	$ 179,094	$ 264,092	$ 190,723
Foreclosed properties	18,264	32,859	142,208	120,770	59,768
Total non-performing assets (NPAs)	128,158	160,338	321,302	384,862	250,491
Allowance for loan losses	107,137	114,468	174,695	155,602	122,271
Operating net charge-offs [1]	69,831	311,227	215,657	276,669	151,152
Allowance for loan losses to loans	2.57%	2.79%	3.79%	3.02%	2.14%
Operating net charge-offs to average loans [1]	1.69	7.33	4.42	5.03	2.57
NPAs to loans and foreclosed properties	3.06	3.87	6.77	7.30	4.35
NPAs to total assets	1.88	2.30	4.42	4.81	2.92

AVERAGE BALANCES *($ in millions)*					
Loans	$ 4,166	$ 4,307	$ 4,961	$ 5,548	$ 5,891
Investment securities	2,089	1,999	1,453	1,656	1,489
Earning assets	6,547	6,785	6,822	7,465	7,504
Total assets	6,865	7,189	7,605	8,269	8,319
Deposits	5,885	6,275	6,373	6,713	6,524
Shareholders equity	582	557	819	920	850
Common shares Basic *(thousands)*	57,857	39,943	18,925	12,075	9,474
Common shares Diluted *(thousands)*	57,857	39,943	18,925	12,075	9,474
AT YEAR END *($ in millions)*					
Loans *	$ 4,175	$ 4,110	$ 4,604	$ 5,151	$ 5,705
Investment securities	2,079	2,120	1,490	1,530	1,617
Total assets	6,802	6,983	7,276	8,000	8,592
Deposits	5,952	6,098	6,469	6,628	7,004
Shareholders equity	581	575	469	962	989
Common shares outstanding *(thousands)*	57,741	57,561	18,937	18,809	9,602

(1) Excludes the recovery of $11.8 million in previously recognized fraud-related loan losses 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 income (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) 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)

	2012				2011			
(in thousands, except per share data; taxable equivalent)	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
INCOME SUMMARY								
Interest revenue	$ 64,450	$ 65,978	$ 66,780	$ 70,221	$ 71,905	$ 74,543	$ 76,931	$ 75,965
Interest expense	8,422	8,607	9,944	11,357	12,855	15,262	17,985	19,573
Net interest revenue	56,028	57,371	56,836	58,864	59,050	59,281	58,946	56,392
Provision for loan losses	14,000	15,500	18,000	15,000	14,000	36,000	11,000	190,000
Fee revenue	14,761	13,764	12,867	15,379	12,667	11,498	13,905	11,838
Total revenue	56,789	55,635	51,703	59,243	57,717	34,779	61,851	(121,770)
Operating expenses	50,726	44,783	44,310	46,955	51,080	46,520	48,728	115,271
Income (loss) before income taxes	6,063	10,852	7,393	12,288	6,637	(11,741)	13,123	(237,041)
Income tax expense (benefit)	802	284	894	760	(3,264)	(402)	1,095	295
Net income (loss)	5,261	10,568	6,499	11,528	9,901	(11,339)	12,028	(237,336)
Preferred dividends and discount accretion	3,045	3,041	3,032	3,030	3,025	3,019	3,016	2,778
Net income (loss) available to common shareholders	$ 2,216	$ 7,527	$ 3,467	$ 8,498	$ 6,876	$ (14,358)	$ 9,012	$ (240,114)
PERFORMANCE MEASURES								
Per common share:								
Diluted income (loss)	.04	.13	.06	.15	.12	(.25)	.16	(13.00)
Book value	6.67	6.75	6.61	6.68	6.62	6.77	7.11	2.20
Tangible book value (2)	6.57	6.64	6.48	6.54	6.47	6.61	6.94	1.69
Key performance ratios:								
Return on equity (1)(3)	2.15%	7.43%	3.51%	8.78%	7.40%	(15.06)%	42.60%	(526.54)%
Return on assets (3)	.31	.63	.37	.66	.56	(.64)	.66	(13.04)
Net interest margin (3)	3.44	3.60	3.43	3.53	3.51	3.55	3.41	3.30
Efficiency ratio	71.69	62.95	63.84	63.31	71.23	65.73	66.88	169.08
Equity to assets	8.63	8.75	8.33	8.19	8.28	8.55	8.06	6.15
Tangible equity to assets (2)	8.55	8.66	8.24	8.08	8.16	8.42	7.93	6.01
Tangible common equity to assets (2)	5.67	5.73	5.45	5.33	5.38	5.65	1.37	2.70
Tangible common equity to risk-weighted assets (2)	8.26	8.44	8.37	8.21	8.25	8.52	8.69	.75
ASSET QUALITY *								
Non-performing loans	$ 109,894	$ 115,001	$ 115,340	$ 129,704	$ 127,479	$ 144,484	$ 71,065	$ 83,769
Foreclosed properties	18,264	26,958	30,421	31,887	32,859	44,263	47,584	54,378
Total non-performing assets (NPAs)	128,158	141,959	145,761	161,591	160,338	188,747	118,649	138,147
Allowance for loan losses	107,137	107,642	112,705	113,601	114,468	146,092	127,638	133,121
Net charge-offs	14,505	20,563	18,896	15,867	45,624	17,546	16,483	231,574
Allowance for loan losses to loans	2.57%	2.60%	2.74%	2.75%	2.79%	3.55%	3.07%	3.17%
Net charge-offs to average loans (3)	1.39	1.99	1.85	1.55	4.39	1.68	1.58	20.71
NPAs to loans and foreclosed properties	3.06	3.41	3.51	3.88	3.87	4.54	2.82	3.25
NPAs to total assets	1.88	2.12	2.16	2.25	2.30	2.74	1.66	1.79
AVERAGE BALANCES *($ in millions)*								
Loans	$ 4,191	$ 4,147	$ 4,156	$ 4,168	$ 4,175	$ 4,194	$ 4,266	$ 4,599
Investment securities	2,088	1,971	2,145	2,153	2,141	2,150	2,074	1,625
Earning assets	6,482	6,346	6,665	6,700	6,688	6,630	6,924	6,902
Total assets	6,778	6,648	6,993	7,045	7,019	7,000	7,363	7,379
Deposits	5,873	5,789	5,853	6,028	6,115	6,061	6,372	6,560
Shareholders equity	585	582	583	577	581	598	594	454
Common shares basic *(thousands)*	57,971	57,880	57,840	57,764	57,646	57,599	25,427	18,466
Common shares diluted *(thousands)*	57,971	57,880	57,840	57,764	57,646	57,599	57,543	18,466

AT PERIOD END *($ in millions)*								
Loans *	$ 4,175	$ 4,138	$ 4,119	$ 4,128	$ 4,110	$ 4,110	$ 4,163	$ 4,194
Investment securities	2,079	2,025	1,984	2,202	2,120	2,123	2,188	1,884
Total assets	6,802	6,699	6,737	7,174	6,983	6,894	7,152	7,709
Deposits	5,952	5,823	5,822	6,001	6,098	6,005	6,183	6,598
Shareholders equity	581	585	576	580	575	583	603	586
Common shares outstanding *(thousands)*	57,741	57,710	57,641	57,603	57,561	57,510	57,469	20,903

(1) 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). (2) Excludes effect of acquisition related intangibles and associated amortization. (3) 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 earnings (loss) and operating earnings (loss) per diluted share are non-GAAP performance measures. United s management believes that operating performance measures are useful in analyzing the Company s financial performance trends since they exclude 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 34 and 35.

While United continues to experience challenges in its loan portfolio caused by the weakened housing and commercial real estate markets, the Company s financial condition improved considerably in 2012. United was able to experience loan growth, despite the fragile economic conditions in its markets and intense competition for quality loans. United reported net income of $33.9 million in 2012 compared to a net loss of $227 million in 2011, which primarily reflected 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). Diluted earnings per common share was $.38 for the year ended December 31, 2012, compared with a diluted loss per common share of $5.97 for 2011.

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. United s provision for loan losses was $62.5 million in 2012 compared with $251 million in 2011, reflecting the improvement in the credit quality of United s loan portfolio. Net charge-offs for 2012 were $69.8 million compared with $311 million in 2011. During the second 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 sold for $87.9 million.

Since the execution of the Problem Asset Disposition Plan in the first quarter of 2011, United s allowance for loan losses analysis has indicated a lower allowance requirement each quarter than the previous quarter, resulting in provisions for loan losses being below the amount of net charge-offs. The only exception was the third quarter of 2011, due to the classification of United s largest lending relationship. As United s historical loss experience and other credit measures have improved, the amount of estimated losses inherent in the loan portfolio, as measured by United s quarterly analysis of the allowance for loan losses, has decreased accordingly.

As of December 31, 2012, United s allowance for loan losses was $107 million, or 2.57% of loans compared to $114 million, or 2.79% of loans at the end of 2011. Nonperforming assets of $128 million, which excludes assets that are covered by loss sharing agreements with the FDIC, were 1.88% of total assets at December 31, 2012, compared to 2.30% as of December 31, 2011.

Taxable equivalent net interest revenue was $229 million for 2012, compared to $234 million in 2011. The $4.57 million, or 2% decrease in net interest revenue, was primarily the result of lower yields on the loan and securities portfolios, which were due to loan pricing competition and the reinvestment of maturing and called securities proceeds at record low interest rates. The decrease in net interest revenue was substantially offset by lower deposit costs.

Net interest margin increased 6 basis points from 3.44% in 2011 to 3.50% in 2012 due primarily to the smaller balance of interest earning assets. During the financial crisis, United maintained levels of liquidity well in excess of the level carried during periods of more stable economic conditions. The higher levels of liquidity inflated the balance sheet at a slightly negative spread. Beginning in 2011 and continuing throughout 2012, United has removed much of the excess liquidity from its balance sheet as credit concerns and economic conditions began to stabilize. Also contributing to the 2012 margin improvement was a higher average balance of non-interest bearing demand deposits.

Fee revenue of $56.8 million was up $6.86 million, or 14%, from 2011. Overdraft fees declined $944,000, or 7%, as a result of regulatory changes requiring customer consent before using overdraft services. This decline was more than offset by a $1.03 million increase in ATM and debit card fee revenue. In addition, beginning January 1, 2012, United began assessing service fees on low balance demand deposit accounts which increased other deposit service charges by $2.48 million over 2011. Mortgage loan and related fees increased $5.06 million compared to the prior year, due to higher origination volumes that were driven by record low mortgage rates. Hedge ineffectiveness gains recognized in 2012 were $659,000 compared with $5.00 million in 2011.

For 2012, operating expenses of $187 million were down $74.8 million, or 29%, from the same period in the prior year. Lower salary and employee benefits expense accounted for $4.07 million of the decrease, due to the reduction in staff levels. At December 31, 2012, United had 1,590 staff compared with 1,754 at December 31, 2011, a reduction of 164 staff. Foreclosed property costs were $64.9 million lower in 2012, due to the Problem Asset Disposition that drove up foreclosed property costs in 2011. United s focus on reducing costs and improving operational efficiency resulted in the reduction of most expense categories in 2012.

As of December 31, 2012, United established litigation reserves of $4.00 million by recording a charge to other operating expenses. The litigation reserves are described in more detail below in Transaction with Fletcher International Legal Disputes .

Loans at December 31, 2012 were $4.18 billion, up $65 million from the end of 2011. This was the first year over year loan growth since 2008. Much of the loan growth resulted from United s focus on owner-occupied commercial real estate and small business lending. United has also been running a successful home equity line of credit promotion that added $100 million in new loans in the second half of the year. In addition, United purchased $40 million of indirect auto loans during 2012. Totaling $382 million, residential construction loans at December 31, 2012 represented 9% of outstanding loans, down from 11% at the end of 2011, a decrease of $66.7 million. Deposits were down $146 million to $5.95 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 $311 million in 2012, excluding public funds deposits. At the end of 2012, total equity capital was $581 million, up $6 million from December 31, 2011, reflecting the company s return to profitability in 2012. At December 31, 2012, 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.

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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 losses inherent in the loan portfolio and is based on 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. 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. 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, 2012, the percentage of total assets measured at fair value was 30%. See Note 23 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 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 and held to maturity securities are generally based upon quoted market prices or observable market prices for similar instruments. United utilizes a third-party pricing service to assist with 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, 2012, United had $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, 2012, United reported no net deferred tax asset, due to a full valuation allowance of $270 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.

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.

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.

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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: taxable equivalent interest revenue, taxable equivalent net interest revenue, operating provision for loan losses, operating fee revenue, total operating revenue, operating expense, operating income (loss), operating earnings (loss) per share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are 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 34 and 35.

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 bargain purchase gain on the acquisition of Southern Community Bank in the amount of $11.4 million during the second quarter of 2009.

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

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

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

(in thousands, except per share data; taxable equivalent)	For the Twelve Months Ended				
	2012	**2011**	**2010**	**2009**	**2008**
Interest revenue reconciliation					
Interest revenue taxable equivalent	$ 267,429	$ 299,344	$ 343,123	$ 404,961	$ 466,969
Taxable equivalent adjustment	(1,690)	(1,707)	(2,001)	(2,132)	(2,261)
Interest revenue (GAAP)	$ 265,739	$ 297,637	$ 341,122	$ 402,829	$ 464,708
Net interest revenue reconciliation					
Net interest revenue taxable equivalent	$ 229,099	$ 233,669	$ 243,052	$ 245,227	$ 238,704
Taxable equivalent adjustment	(1,690)	(1,707)	(2,001)	(2,132)	(2,261)
Net interest revenue (GAAP)	$ 227,409	$ 231,962	$ 241,051	$ 243,095	$ 236,443
Provision for loan losses reconciliation					
Operating provision for loan losses	$ 62,500	$ 251,000	$ 234,750	$ 310,000	$ 184,000
Partial recovery of special fraud-related loan loss			(11,750)		
Provision for loan losses (GAAP)	$ 62,500	$ 251,000	$ 223,000	$ 310,000	$ 184,000
Fee revenue reconciliation					
Operating fee revenue	$ 56,771	$ 49,908	$ 48,548	$ 50,964	$ 46,081
Gain from acquisition				11,390	
Fee revenue (GAAP)	$ 56,771	$ 49,908	$ 48,548	$ 62,354	$ 46,081
Total revenue reconciliation					
Total operating revenue	$ 223,370	$ 32,577	$ 56,850	$ (13,809)	$ 100,785
Taxable equivalent adjustment	(1,690)	(1,707)	(2,001)	(2,132)	(2,261)
Gain from acquisition				11,390	
Partial recovery of special fraud-related loan loss			11,750		
Total revenue (GAAP)	$ 221,680	$ 30,870	$ 66,599	$ (4,551)	$ 98,524
Expense reconciliation					
Operating expense	$ 186,774	$ 261,599	$ 288,301	$ 217,050	$ 200,335
Noncash goodwill impairment charge			210,590	95,000	
Severance costs				2,898	
Operating expense (GAAP)	$ 186,774	$ 261,599	$ 498,891	$ 314,948	$ 200,335
Income (loss) before taxes reconciliation					
Income (loss) before taxes	$ 36,596	$ (229,022)	$ (231,451)	$ (230,859)	$ (99,550)
Taxable equivalent adjustment	(1,690)	(1,707)	(2,001)	(2,132)	(2,261)
Gain from acquisition				11,390	
Noncash goodwill impairment charge			(210,590)	(95,000)	
Severance costs				(2,898)	
Partial recovery of special fraud-related loan loss			11,750		
Income (loss) before taxes (GAAP)	$ 34,906	$ (230,729)	$ (432,292)	$ (319,499)	$ (101,811)

Income tax expense (benefit) reconciliation					
Income tax expense (benefit)	$ 2,740	$ (2,276)	$ 73,218	$ (91,754)	$ (35,651)
Taxable equivalent adjustment	(1,690)	(1,707)	(2,001)	(2,132)	(2,261)
Gain from acquisition, tax expense				4,328	
Severance costs, tax benefit				(1,101)	
Income tax expense (benefit) (GAAP)	$ 1,050	$ (3,983)	$ 71,217	$ (90,659)	$ (37,912)
Diluted earnings (loss) from continuing operations per common share reconciliation					
Diluted operating earnings (loss) from continuing operations per common share	$ .38	$ (5.97)	$ (16.64)	$ (12.37)	$ (6.82)
Gain from acquisition				.58	
Noncash goodwill impairment charge			(11.13)	(7.86)	
Severance costs				(.15)	
Partial recovery of special fraud-related loan loss			.62		
Diluted earnings (loss) from continuing operations per common share (GAAP)	$ .38	$ (5.97)	$ (27.15)	$ (19.80)	$ (6.82)
Book value per common share reconciliation					
Tangible book value per common share	$ 6.57	$ 6.47	$ 14.80	$ 30.09	$ 51.93
Effect of goodwill and other intangibles	.10	.15	.60	11.69	32.82
Book value per common share (GAAP)	$ 6.67	$ 6.62	$ 15.40	$ 41.78	$ 84.75
Efficiency ratio from continuing operations reconciliation					
Operating efficiency ratio from continuing operations	65.43%	92.27%	98.98%	73.97%	70.00%
Gain from acquisition				(2.77)	
Noncash goodwill impairment charge			72.29	31.17	
Severance costs				.95	
Efficiency ratio from continuing operations (GAAP)	65.43%	92.27%	171.27%	103.32%	70.00%
Average equity to assets reconciliation					
Tangible common equity to assets	5.54%	3.74%	6.52%	6.15%	6.57%
Effect of preferred equity	2.84	3.88	2.36	2.18	.10
Tangible equity to assets	8.38	7.62	8.88	8.33	6.67
Effect of goodwill and other intangibles	.09	.13	1.89	2.79	3.55
Equity to assets (GAAP)	8.47%	7.75%	10.77%	11.12%	10.22%
Tangible common equity to risk-weighted assets reconciliation					
Tangible common equity to risk-weighted assets	8.26%	8.25%	5.64%	10.39%	8.34%
Effect of other comprehensive income	.51	(.03)	(.42)	(.87)	(.91)
Effect of deferred tax limitation				(1.27)	
Effect of trust preferred	1.15	1.18	1.06	.97	.88
Effect of preferred equity	4.24	4.29	3.53	3.19	2.90
Tier I capital ratio (Regulatory)	14.16%	13.69%	9.81%	12.41%	11.21%
Net charge-offs reconciliation					
Operating net charge-offs	$ 69,831	$ 311,227	$ 215,657	$ 276,669	$ 151,152
Subsequent partial recovery of fraud-related charge-off			(11,750)		
Net charge-offs (GAAP)	$ 69,831	$ 311,227	$ 203,907	$ 276,669	$ 151,152

Net charge-offs to average loans reconciliation					
Operating net charge-offs to average loans	1.69%	7.33%	4.42%	5.03%	2.57%
Subsequent partial recovery of fraud-related charge-off			(.25)		
Net charge-offs to average loans (GAAP)	1.69%	7.33%	4.17%	5.03%	2.57%

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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)	2012 Fourth Quarter	2012 Third Quarter	2012 Second Quarter	2012 First Quarter	2011 Fourth Quarter	2011 Third Quarter	2011 Second Quarter	2011 First Quarter
Interest revenue reconciliation								
Interest revenue taxable equivalent	$ 64,450	$ 65,978	$ 66,780	$ 70,221	$ 71,905	$ 74,543	$ 76,931	$ 75,965
Taxable equivalent adjustment	(381)	(419)	(444)	(446)	(423)	(420)	(429)	(435)
Interest revenue (GAAP)	$ 64,069	$ 65,559	$ 66,336	$ 69,775	$ 71,482	$ 74,123	$ 76,502	$ 75,530
Net interest revenue reconciliation								
Net interest revenue taxable equivalent	$ 56,028	$ 57,371	$ 56,836	$ 58,864	$ 59,050	$ 59,281	$ 58,946	$ 56,392
Taxable equivalent adjustment	(381)	(419)	(444)	(446)	(423)	(420)	(429)	(435)
Net interest revenue (GAAP)	$ 55,647	$ 56,952	$ 56,392	$ 58,418	$ 58,627	$ 58,861	$ 58,517	$ 55,957
Total revenue reconciliation								
Total operating revenue	$ 56,789	$ 55,635	$ 51,703	$ 59,243	$ 57,717	$ 34,779	$ 61,851	$ (121,770)
Taxable equivalent adjustment	(381)	(419)	(444)	(446)	(423)	(420)	(429)	(435)
Total revenue (GAAP)	$ 56,408	$ 55,216	$ 51,259	$ 58,797	$ 57,294	$ 34,359	$ 61,422	$ (122,205)
Income (loss) before taxes reconciliation								
Income (loss) before taxes	$ 6,063	$ 10,852	$ 7,393	$ 12,288	$ 6,637	$ (11,741)	$ 13,123	$ (237,041)
Taxable equivalent adjustment	(381)	(419)	(444)	(446)	(423)	(420)	(429)	(435)
Income (loss) from continuing operations before taxes (GAAP)	$ 5,682	$ 10,433	$ 6,949	$ 11,842	$ 6,214	$ (12,161)	$ 12,694	$ (237,476)
Income tax expense (benefit) reconciliation								
Operating income tax expense (benefit)	$ 802	$ 284	$ 894	$ 760	$ (3,264)	$ (402)	$ 1,095	$ 295
Taxable equivalent adjustment	(381)	(419)	(444)	(446)	(423)	(420)	(429)	(435)
Income tax expense (benefit) (GAAP)	$ 421	$ (135)	$ 450	$ 314	$ (3,687)	$ (822)	$ 666	$ (140)
Book value per common share reconciliation								
Tangible book value per common share	$ 6.57	$ 6.64	$ 6.48	$ 6.54	$ 6.47	$ 6.61	$ 6.94	$ 1.69
Effect of goodwill and other intangibles	.10	.11	.13	.14	.15	.16	.17	.51
Book value per common share (GAAP)	$ 6.67	$ 6.75	$ 6.61	$ 6.68	$ 6.62	$ 6.77	$ 7.11	$ 2.20

Average equity to assets reconciliation								
Tangible common equity to assets	5.67%	5.73%	5.45%	5.33%	5.38%	5.65%	1.37%	2.70%
Effect of preferred equity	2.88	2.93	2.79	2.75	2.78	2.77	6.56	3.31
Tangible equity to assets	8.55	8.66	8.24	8.08	8.16	8.42	7.93	6.01
Effect of goodwill and other intangibles	.08	.09	.09	.11	.12	.13	.13	.14
Equity to assets (GAAP)	8.63%	8.75%	8.33%	8.19%	8.28%	8.55%	8.06%	6.15%
Tangible common equity to risk-weighted assets reconciliation								
Tangible common equity to risk-weighted assets	8.26%	8.44%	8.37%	8.21%	8.25%	8.52%	8.69%	.75%
Effect of other comprehensive income	.51	.36	.28	.10	(.03)	(.29)	(.42)	(.32)
Effect of trust preferred	1.15	1.17	1.19	1.15	1.18	1.19	1.15	1.13
Effect of preferred equity	4.24	4.29	4.35	4.23	4.29	4.33	4.20	5.87
Tier I capital ratio (Regulatory)	14.16%	14.26%	14.19%	13.69%	13.69%	13.75%	13.62%	7.43%

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) that are 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.

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.

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 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, subject to certain conditions precedent.

Concurrently with the payment of the $10 million deposit under the Asset Purchase Agreement by Fletcher, United also granted a $30 million warrant to Fletcher to purchase non-voting Common Stock Equivalent Junior Preferred Stock (Junior Preferred Stock). The warrant may only be exercised by net share settlement (cashless exercise) and is exercisable for nine years from May 26, 2010, subject to limited extensions upon certain events and certain conditions precedent. The Junior Preferred Stock could be convertible into 1,411,765 common shares exercisable at a price equivalent to $21.25 per share.

Accounting Treatment

Although the Asset Purchase Agreement and the Securities Purchase Agreement were 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.

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

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

Legal Disputes

As disclosed on February 22, 2013, United and FILB Co-Investments LLC (FILB-Co) agreed to settle all outstanding claims and counterclaims in connection with the previously disclosed lawsuit between United and FILB-Co. FILB-Co filed a lawsuit against United with respect to purported contractual rights under the Securities Purchase Agreement that FILB-Co claimed were assigned to it by Fletcher. Fletcher made the purported assignment to FILB-Co in response to redemption requests to Fletcher by several investors in one of Fletcher s funds (Leveraged). Fletcher then transferred its interests in FILB-Co to those investors, who challenged Fletcher s attempted redemption as commercially worthless in liquidation proceedings commenced in the Grand Court of the Cayman Islands. As the result of those proceedings, the Cayman court ordered the liquidation of Leveraged, and a court-appointed liquidator was appointed to manage FILB-Co. Subsequently, Fletcher filed for bankruptcy protection in the U.S. Bankruptcy Court for the Southern District of New York.

Fletcher has stated that it did not assign the Warrant or its right to an alleged registration failure penalty under the Securities Purchase Agreement (apart from a claim for a portion thereof) to FILB-Co, and United has received purported partial warrant exercise notices from Fletcher that include incorrect calculations of the number of settlement shares Fletcher would receive upon exercise and demands for the payment of such a penalty. United believes that any current exercise of the Warrant would not result in the issuance of any settlement shares because, among other things, the Warrant may only be exercised for net shares via a cashless exercise formula, and, following United s 2011 reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination, the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. United also believes that no registration failure penalty is

due. As a result, United has responded to Fletcher with United s calculations related to the Warrant and denied any liability for any such penalty.

In connection with the FILB-Co settlement, United recorded $4 million in litigation charges which includes the establishment of litigation reserves associated with claims that may be made against United by Fletcher.

The settlement with FILB-Co is expected to be completed promptly following completion of a definitive agreement and the receipt of necessary court approvals.

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, and the gain on acquisition and severance costs in 2009, except for the discussion of income taxes. Operating and GAAP earnings were the same in 2012, 2011 and 2008. For additional information on operating earnings measures, refer to the preceding section on Non-GAAP Financial Measures.

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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 execution of 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 of 2011 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 net earnings of $33.9 million for the year ended December 31, 2012. This compared to a net loss of $227 million for the same period in 2011. Diluted earnings per common share for 2012 was $.38. This compared to diluted loss per share for 2011 of $5.97.

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 $229 million in 2012, a decrease of $4.57 million, or 2%, from 2011. Taxable equivalent net interest revenue for 2011 decreased $9.38 million, or 4%, from 2010. The decrease in net interest revenue in 2012 compared to 2011 was primarily due to lower yields on the securities and loan portfolios and smaller balances of interest-earning assets. The decrease in net interest revenue in 2011 compared to 2010 was 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 for 2012 decreased 33 basis points from 2011, reflecting the continuing effect of the low interest rate environment and competition for a limited number of quality lending opportunities. Average loans decreased $142 million in 2012, or 3%, from 2011. The decrease in the loan portfolio has begun to stabilize; however, there is a high level of competition for quality lending relationships, which continues to put pressure on loan pricing. Loan charge-offs, foreclosure activity and management s efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have contributed to declining loan balances. While loan balances have declined, United continues to make new loans and in 2012, United experienced the first positive year-over-year growth in loan balances since 2008. The increase in residential real estate loans is primarily the result of the promotion of a new home equity line product in mid-2012.

Average interest-earning assets for the year decreased $238 million, or 4%, from 2011 due primarily to the decrease in average loans mentioned above and management s efforts to more effectively manage liquidity. During the financial crisis, management maintained liquidity above normal levels. Beginning in 2011 and through 2012, management reduced excess liquidity as the economic environment began to stabilize and credit quality and earnings performance began to improve. Average investment securities for 2012 increased $89.6 million from a year ago, however the average yield decreased 69 basis points as management was unable to reinvest the cash proceeds of maturing securities at yields comparable to those of the securities they replaced. The combined effect of lower loan and investment securities yields drove the average yield on interest-earning assets for 2012 to 4.08%, down 33 basis points from 4.41% in 2011. Abnormally high prepayment activity on mortgage-backed securities also suppressed the securities portfolio yield in 2012 by accelerating the amortization of bond purchase premiums, and the yields at which the proceeds were reinvested fell short of the yields on the bonds they replaced. Partially offsetting the lower loan and securities yields was a higher average yield on other interest-earning assets, due primarily to the use of reverse repurchase agreements including collateral swap transactions where United enters into a repurchase agreement and reverse repurchase agreement simultaneously with the same counterparty subject to a master netting agreement. In these transactions, the offsetting balances are netted on the balance sheet.

Average interest bearing liabilities in 2012 decreased $573 million, or 10%, from the prior year due to the rolling off of higher-cost brokered deposits and certificates of deposit, as noninterest bearing demand deposits increased $227 million and overall funding needs decreased. The average cost of interest bearing liabilities for 2012 was ..76% compared to 1.16% for 2011, 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.

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.

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For 2012, 2011 and 2010, United s net interest spread was 3.32%, 3.25%, and 3.35%, respectively, while the net interest margin was 3.50%, 3.44%, and 3.56%, respectively. The improvement in both ratios in 2012 compared to 2011 was primarily due to United shrinking the balance sheet by reducing some of the excess liquidity that had built up during the financial crisis and by lower rates paid on certificates of deposit and brokered deposits. In 2011, 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.

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)

	2012			2011			2010		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans [1][2]	$ 4,165,520	$ 217,467	5.22%	$ 4,307,111	$ 239,195	5.55%	$ 4,960,805	$ 278,149	5.61%
Taxable securities [3]	2,065,162	43,657	2.11	1,973,678	55,251	2.80	1,425,322	58,821	4.13
Tax-exempt securities [1][3]	23,759	1,565	6.59	25,693	1,651	6.43	27,827	1,860	6.68
Federal funds sold and other interest-earning assets	292,857	4,740	1.62	478,403	3,247	.68	408,359	4,293	1.05
Total interest-earning assets	6,547,298	267,429	4.08	6,784,885	299,344	4.41	6,822,313	343,123	5.03
Non-interest-earning assets:									
Allowance for loan losses	(114,647)			(145,656)			(190,227)		
Cash and due from banks	53,247			90,212			106,582		
Premises and equipment	172,544			178,061			180,379		
Other assets [3]	206,609			281,233			685,547		
Total assets	$ 6,865,051			$ 7,188,735			$ 7,604,594		
Liabilities and Shareholders Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW	$ 1,293,510	$ 2,049	.16	$ 1,348,493	$ 3,998	.30	$ 1,360,729	$ 6,966	.51
Money market	1,140,354	2,518	.22	993,871	5,456	.55	780,982	7,552	.97
Savings deposits	216,880	150	.07	195,468	234	.12	184,479	331	.18
Time deposits less than $100,000	1,170,202	9,788	.84	1,471,596					