UNITED COMMUNITY BANKS INC
Form 10-K
February 27, 2007

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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, 2006
Commission File Number 0-21656
UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia	**58-1807304**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
63 Highway 515, 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 þ No o

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

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 þ No o

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Aggregate market value of the voting stock held by non-affiliates of the Registrant: $1,033,500,000 (based on shares held by non-affiliates at $30.44 per share, the closing stock price on the Nasdaq stock market on June 30, 2006).

As of January 31, 2007, 44,455,841 shares of common stock were issued and outstanding, including presently exercisable options to acquire 1,436,362 shares and 32,928 shares issuable under United Community Banks, Inc. s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the Annual Meeting of Shareholders to be held on April 25, 2007 are incorporated herein into Part III by reference.

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PART I

ITEM 1. BUSINESS.

United Community Banks, Inc. (United), a bank holding company registered under the Bank Holding Company Act of 1956, was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, Blairsville, Georgia, now known as United Community Bank (UCB-Georgia). Substantially all of United s activities are currently conducted by its wholly-owned state chartered bank subsidiaries: UCB-Georgia and United Community Bank, Brevard, North Carolina (UCB-North Carolina), which United acquired in 1990. UCB-Georgia and UCB-North Carolina are collectively referred to in this report as the Banks.

Since the early 1990 s, United has actively expanded its market coverage through organic growth complemented by selective acquisitions, primarily of banks whose management share United s community banking and customer service philosophies. Although those acquisitions have directly contributed approximately 30% of United s growth over the last ten years, their contribution has primarily been to provide United access to new markets with attractive 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. Organic growth will continue to be the focus of United s balanced growth strategy to extend its reach in both new and existing markets.

To emphasize the commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of 26 separate community banks, which as of December 31, 2006, operated at 101 locations in north Georgia, metro Atlanta, coastal Georgia, western North Carolina and east Tennessee. The community banks offer a full range of retail and corporate banking services, including checking, savings, and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services, and other financial services, and are led by local bank presidents (referred to herein as the 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.

In December 2006, United completed the acquisition of Southern Bancorp, Inc. a Georgia bank holding company. United also acquired two branch locations in western North Carolina. Both transactions collectively added $430 million in assets and $360 million in deposits. In addition, United opened eight de novo locations in 2006 and seven in 2005. United made no acquisitions during 2005.

On February 6, 2007, United announced a definitive agreement to acquire Gwinnett Commercial Group, Inc. (Gwinnett Commercial) and its wholly-owned subsidiary First Bank of the South. At December 31, 2006, Gwinnett Commercial had total assets and deposits of $675 million and $583 million, respectively. First Bank of the South has five banking offices in metro Atlanta.

Under the terms of the agreement, Gwinnett Commercial s shareholders will receive $32.5 million in cash consideration and 5.7 million shares of United common stock. Based on United Community Banks 30 day average closing price of $32.35 on February 2, 2007, the transaction has an aggregate value of approximately $216.6 million. The transaction is expected to close during the second quarter of 2007.

UCB-Georgia, through its full-service retail mortgage lending division, United Community Mortgage Services (UCMS), is approved as a seller/servicer for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation and provides fixed and adjustable-rate home mortgages. During 2006, UCB-Georgia originated $365 million of residential mortgage loans throughout 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 with no recourse to UCB-Georgia other than for breach of warranties.

Acquired in 2000, Brintech, Inc. (Brintech), a subsidiary of UCB-Georgia, is a consulting firm for the financial services industry. Brintech provides consulting, advisory, and implementation services in the areas of strategic planning, profitability improvement, technology, efficiency, security, risk management, network, Internet banking, web site development, marketing, core processing, and telecommunications.

United owns an insurance agency, United Community Insurance Services, Inc. (UCIS), known as United Community Advisory Services, that is a subsidiary of UCB-Georgia.

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

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Forward-Looking Statements

This Form 10-K contains forward-looking statements regarding United, including, without limitation, statements relating to United s expectation with respect to revenue, credit losses, levels of nonperforming assets, expenses, earnings and other measures of financial performance. Words such as may , could , would , should , believes , exp anticipates , estimates , intends , plans , targets or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond United s control). The following factors, among others, could cause United s financial performance to differ materially from the expectations expressed in such forward-looking statements:

- our recent operating results may not be indicative of future operating results;
- our business is subject to the success of the local economies in which we operate;
- our concentration of construction and land development loans is subject to unique risks that could adversely affect our earnings;
- we may face risks with respect to future expansion and acquisitions or mergers;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- if our allowance for loan losses is not sufficient to cover actual loan losses, earnings would decrease;
- competition from financial institutions and other financial service providers may adversely affect our profitability;
- business increases, productivity gains and other investments are lower than expected or do not occur as quickly as anticipated;
- competitive pressures among financial services companies increase significantly;
- the strength of the United States economy in general changes;
- trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, change;
- inflation or market conditions fluctuate;
- conditions in the stock market, the public debt market and other capital markets deteriorate;
- financial services laws and regulations change;
- technology changes and United fails to adapt to those changes;
- consumer spending and saving habits change;
- unanticipated regulatory or judicial proceedings occur; and
- United is unsuccessful at managing the risks involved in the foregoing.

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

Monetary Policy And Economic Conditions

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

Competition

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

The following table displays the respective percentage of total bank and thrift deposits in each county where the Banks have operations. The table also indicates the 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, 2006. 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

	UCB - GEORGIA					UCB - NORTH CAROLINA		
	Market Share	Rank in Market		Market Share	Rank in Market		Market Share	Rank in Market
Metro Atlanta			**North Georgia**			Avery	13 %	4
Bartow	7 %	6	Chattooga	38 %	2	Cherokee	44	1
Carroll	3	9	Fannin	56	1	Clay	51	1
Cherokee	4	9	Floyd	15	3	Graham	69	1
Cobb	4	7	Gilmer	14	2	Haywood	11	5
Coweta	1	11	Habersham	15	3	Henderson	2	12
Dawson	40	1	Hall	9	4	Jackson	24	2
Douglas	1	12	Lumpkin	27	2	Macon	8	4
Fayette	2	11	Rabun	15	3	Mitchell	28	2
Forsyth	1	12	Towns	34	2	Swain	31	2
Fulton	1	19	Union	80	1	Transylvania	15	3
Henry	4	8	White	42	1	Yancey	9	5
Newton	4	6						
Paulding	3	7	**Tennessee**					
Rockdale	14	2	Blount	4	7			
			Knox	1	13			
Coastal Georgia			Loudon	19	3			
Chatham	1	11	McMinn	4	7			
Glynn	16	3	Monroe	1	8			
Ware	8	5	Roane	10	3			

Loans

The Banks make both secured and unsecured loans to individuals, firms, and corporations. Secured loans include first and second real estate mortgage loans. The Banks also make direct installment loans to consumers on both a secured and unsecured basis. At December 31, 2006, commercial (commercial and industrial), commercial (secured by real estate), construction and land development, residential mortgage and consumer installment loans represented approximately 6%, 23%, 43%, 25% and 3%, respectively, of United s total loan portfolio.

Specific risk elements associated with each of the Banks lending categories include, but are not limited to:

Loan Type	Risk Elements
Commercial (commercial and industrial)	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and vehicles); increased competition; use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payments.
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.
Construction and land development	Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property.
Residential mortgage	

	Changes in local economy affecting borrower s employment; insufficient collateral value due to decline in property value.
Consumer Installment	Loss of borrower s employment; changes in local economy; the inability to monitor collateral (vehicles and boats).

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Lending Policy

The Banks make loans primarily to persons or businesses that reside, work, own property, or operate in their primary market areas. Unsecured loans are generally made only to persons who qualify for such credit based on net worth 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 Banks policies are permitted on a case-by-case basis and require the approving officer to document, in writing, the reason for the exception. Policy exceptions made for borrowers whose total aggregate loans exceed the approving officer s credit limit must be approved through the credit approval process. All loans to borrowers whose aggregate lending relationship exceeds $5 million must be reported to the lending Bank s Board of Directors for ratification.

United s Credit Administration department provides each lending officer with written guidelines for lending activities as approved by the Banks Boards of Directors. Limited lending authority is delegated to lending officers by United s Management Credit and Policy Committee as authorized by the Banks Boards of Directors or the Committee s designees in Credit Administration. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by the Management Credit and Policy Committee as authorized by the Banks Boards of Directors. Loans to borrowers whose total aggregate loans exceed $12.5 million require the additional approval of two United directors.

Regional Credit Managers

United utilizes its Regional Credit Managers to provide credit administration support to the Banks as needed. The Regional Credit Managers have joint lending approval authority with the community bank Presidents within varying limits set by the Management Credit and Policy Committee based on characteristics of each market. The Regional Credit Managers also provide credit underwriting support as needed by the Banks they serve.

Loan Review and Non-performing Assets

The Loan Review Department of United reviews, or engages an independent third party to review, the Banks loan portfolios 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 Committees of the Boards 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 all loans comprising that credit relationship, will be downgraded to a classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, collateral, and other secondary source of repayment, different loans in a relationship can be assigned different risk ratings. Under United s 10-tier loan grading system, grades 1 through 6 are considered pass (acceptable) credit risk, grade 7 is a watch rating, and grades 8 through 10 are adversely classified credits that require management s attention. Both the pass and adversely classified ratings, and the entire 10-grade rating scale, provide 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 one of the Banks. Risk ratings of 2 through 6 in the pass category each have incrementally more risk. The four watch list credit ratings and rating definitions are:

7 (Watch)	Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past-due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.
8 (Substandard)	Specific and well-defined weaknesses that may include poor liquidity and deterioration of financial ratios. Loan may be past-due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.
9 (Doubtful)	Specific weaknesses characterized by Substandard that are severe enough to make collection in full unlikely. No reliable secondary source of full repayment.

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

In addition, Credit Administration and Accounting jointly prepare a quarterly analysis to determine the adequacy of the Allowance for Loan Losses (ALL) for each of the Banks. The aggregation of these ALL analyses provides the consolidated analysis for United. The ALL analysis starts with total loans and subtracting loans secured by deposit accounts at the Banks, which effectively have no risk of loss. Next, all loans with an adversely classified rating are subtracted, including loans considered impaired. 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, adjusted to reflect current economic conditions, which provides a required minimum ALL for pass credits. The remaining total loans in each of the four watch list rating categories are then multiplied by the following loss factors: Watch (5%); Substandard (25%); Doubtful (50%); and Loss (100%). Loans that are considered impaired are evaluated separately and are assigned specific reserves as necessary.

Asset/Liability Committees

United s asset/liability committee (ALCO) is composed of executive officers and the Treasurer of United. The Banks ALCOs are composed of executive officers of each of the Banks and the Treasurer of United. The ALCOs are charged with managing the assets and liabilities of United and each of the Banks. The ALCOs attempt to manage asset growth, liquidity, and capital to maximize income and reduce interest rate risk, market risk and liquidity risk. The ALCOs direct each Bank s overall acquisition and allocation of funds. At periodic meetings, the committees review the monthly asset and liability funds budget in relation to the actual flow of funds; the ratio of the amount of rate sensitive assets to the amount of rate sensitive liabilities; the ratio of allowance for loan losses to outstanding and non-performing loans; and other variables, such as stress testing expected loan demand, investment opportunities, core deposit growth within specified categories, 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

The Banks investment portfolio policy is to maximize income within liquidity, asset quality and regulatory constraints. The policy is reviewed from time to time by United s ALCO and the Banks Boards of Directors. Individual transactions, portfolio composition, and performance are reviewed and approved periodically by the Banks Boards of Directors or a committee thereof. The Chief Financial Officer and Treasurer of United and the President of each of the Banks administer the policy and report information to the Boards of Directors on a quarterly basis concerning sales, purchases, maturities and calls, resultant gains or losses, average maturity, federal taxable equivalent yields, and appreciation or depreciation by investment categories.

Employees

As of December 31, 2006, United and its subsidiaries had 1,866 full-time equivalent employees. Neither United nor any of the subsidiaries was a party to any collective bargaining agreement and management believes that employee relations are good.

Available Information

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

Supervision And Regulation

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

General. United is a registered bank holding company subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve) under the Bank Holding Company Act of 1956, as amended (the 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.

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The 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 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 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 relationships of United and the Banks and related matters. The DBF may also require such other information as is necessary to keep itself informed as to whether the provisions of Georgia law and the regulations and orders issued thereunder by the DBF have been complied with, and the DBF may examine United and each of the Banks. The North Carolina Banking Commission (NCBC), which has the statutory authority to regulate non-banking affiliates of North Carolina banks, in 1992 began using this authority to examine and regulate the activities of North Carolina-based holding companies owning North Carolina-based banks. Although the NCBC has not exercised its authority to date to examine and regulate holding companies outside of North Carolina that own North Carolina banks, it is likely the NCBC may do so in the future. The Tennessee Department of Financial Institutions (TDFI) does not examine or directly regulate out-of-state holding companies.

United is an affiliate of the Banks under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Banks to United, (2) investments in the stock or securities of United by the Banks, (3) the Banks 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 Banks. 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.

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Each of United s subsidiaries is regularly examined by the Federal Deposit Insurance Corporation (the FDIC). UCB-Georgia as a state banking association organized under Georgia law, is subject to the supervision of, and is regularly examined by, the DBF. UCB-North Carolina is subject to the supervision of, and is regularly examined by, the NCBC. UCB-Georgia s Tennessee branches are subject to examination by the TDFI. Both the FDIC and the respective state bank regulators must grant prior approval of any merger, consolidation or other corporation reorganization involving UCB-Georgia, or UCB-North Carolina. A bank can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of a commonly-controlled institution.

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

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

(a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);

(b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and

(c) the ratio of equity capital to adjusted assets is not less than 6%.

Under North Carolina law, state banks may declare a dividend for as much of the undivided profits of UCB-North Carolina as it deems appropriate.

The payment of dividends by United and the Banks 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 each 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 to the Banks. At December 31, 2006, net assets available from the Banks to pay dividends without prior approval from regulatory authorities totaled approximately $46 million. For 2006, United s declared cash dividend payout to common stockholders was $13.1 million, or 18.82% of basic earnings per common share.

Capital Adequacy. 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 (as defined) to risk-weighted assets of eight percent (8%); and (2) a minimum Tier I Capital (as defined) to risk-weighted assets of four percent (4%). In addition, the Federal Reserve and the FDIC have established a minimum three percent (3%) leverage ratio of Tier I Capital to quarterly average total assets for the most highly-rated banks and bank holding companies. Tier I Capital generally consists of common equity excluding unrecognized gains and losses on available for sale securities, plus minority interests in equity accounts of consolidated subsidiaries and certain perpetual preferred stock less certain intangibles. The Federal Reserve and the FDIC will require a bank holding company and a bank, respectively, to maintain a leverage ratio greater than four percent (4%) if either is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. 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 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 interest rate risk to maintain adequate capital for the risk.

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. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank s capital leverage ratio reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

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

To continue to conduct its business as currently conducted, United and the Banks will need to maintain capital well above the minimum levels. As of December 31, 2006 and 2005, the most recent notifications from the FDIC categorized each of the Banks as well capitalized under current regulations.

Commercial Real Estate. In December, 2006 the federal banking agencies, including the FDIC, issued a final guidance on concentrations in commercial real estate lending, noting that recent increases in banks commercial real estate concentrations could create safety and soundness concerns in the event of a significant economic downturn. The guidance mandates certain minimal risk management practices and categorizes banks with defined levels of such concentrations as banks requiring elevated examiner scrutiny. The Banks have concentrations in commercial real estate loans in excess of those defined levels. Management believes that United s credit processes and procedures meet the risk management standards dictated by this guidance, but it is not yet possible to determine the impact this guidance may have on examiner attitudes with respect to the Banks real estate concentrations, which attitudes could effectively limit increases in the Banks loan portfolios and require additional credit administration and management costs associated with those portfolios.

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

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

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

Anti-Money Laundering Initiatives and the USA Patriot Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. The USA Patriot Act of 2001 (the USA Patriot Act) has imposed significant new compliance and due diligence obligations, creating new crimes and penalties. The United States Treasury Department has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to United and the Banks. 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.

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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 executives of United, and their ages, positions with United, past five year employment history and terms of office as of January 31, 2007, are as follows:

Name (age)	Position with United	Officer of United Since
Jimmy C. Tallent (54)	President, Chief Executive Officer and Director	1988
Guy W. Freeman (70)	Executive Vice President, Chief Operating Officer and Director	1995
Rex S. Schuette (57)	Executive Vice President and Chief Financial Officer	2001
Thomas C. Gilliland (59)	Executive Vice President, Secretary, General Counsel and Director	1992
Ray K. Williams (61)	Executive Vice President of Risk Management since March 2002; prior to joining United, he was a private investor from 1996 to 2002, before that he was Corporate Senior Credit Officer of Bank South Corporation	2002
Craig Metz (51)	Executive Vice President of Marketing since August 2002; prior to joining United, he was Executive Vice President of Consumer Marketing Services of Assurant Group - Fortis Company	2002
William M. Gilbert (54)	Senior Vice President of Retail Banking since June 2003; previously, he was President of United Community Bank - Summerville	2003

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.

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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.

Recent operating results may not be indicative of future operating results.

United may not be able to sustain its growth. Various factors, such as increased size, economic conditions, regulatory and legislative considerations, competition and the ability to find and retain people that can make United s community-focused operating model successful, may impede its ability to expand its market presence. If United experiences a significant decrease in its growth rate, its results of operations and financial condition may be adversely affected.

United s business is subject to the success of the local economies and real estate markets in which it operates.

United s success significantly depends on the growth in population, income levels, loans and deposits and on the continued stability in real estate values in its markets. If the communities in which it operates do not grow or if prevailing economic conditions locally or nationally are unfavorable, United s business may be adversely affected. Adverse economic conditions in United s specific market areas, specifically decreases in real estate property values due to the nature of United s loan portfolio, over 90% of which is secured by real estate, could reduce United s growth rate, affect the ability of customers to repay their loans and generally affect United s financial condition and results of operations. United is less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of more diverse economies.

United s concentration of construction and land development loans is subject to unique risks that could adversely affect earnings.

United s construction and land development loan portfolio was $2.3 billion at December 31, 2006, comprising 43% of total loans. Construction and land development loans are often riskier than home equity loans or residential mortgage loans to individuals. In the event of a general economic slowdown, they would represent higher risk due to slower sales and reduced cash flow that could impact the borrowers ability to repay on a timely basis.

In addition, although regulations and regulatory policies affecting banks and financial services companies undergo continuous change and we cannot predict when changes will occur or the ultimate effect of any changes, there has been recent regulatory focus on construction, development and other commercial real estate lending. Recent changes in the federal policies applicable to construction, development or other commercial real estate loans make us subject us to substantial limitations with respect to making such loans, increase the costs of making such loans, and require us to have a greater amount of capital to support this kind of lending, all of which could have a material adverse effect on our profitability or financial condition.

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

United regularly engages in de novo branch expansion. Also, if a business opportunity becomes available in the right market with the right management team, United may seek to acquire other financial institutions or parts of those institutions. 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 a target institution;
- 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; and
- the risk of loss of key employees and customers of the acquired institution.

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

Changes in prevailing interest rates may negatively affect the level of net interest revenue, the primary component of net income. 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. At December 31, 2006, our simulation model indicated that a 200 basis point increase in rates over the next twelve months would cause an approximate 1.9% increase in net interest revenue and a 200 basis point decrease in rates over the next twelve months would cause an approximate .7% decrease in net interest revenue.

Changes in the level of interest rates may also negatively affect the value of United s assets and its ability to realize gains or avoid losses from the sale of those assets, all of which ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

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

United s 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. United may experience significant loan losses which would have a material adverse effect on operating results. Management makes various assumptions and judgments about the collectibility 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. United maintains an allowance for loan losses in an attempt to cover any loan losses inherent in the portfolio. In determining the size of the allowance, management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. 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.

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

The banking business is highly competitive, and United experiences competition in each of its markets from many other financial institutions. United competes with commercial 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 its market areas and elsewhere. United competes with these institutions both in attracting deposits and in making loans. Many of United s 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. United may face a competitive disadvantage as a result of its smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although United competes by concentrating marketing efforts in primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, there can be no assurance that this strategy will continue to be successful.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

There have been no written 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 63 Highway 515, Blairsville, Georgia. United owns this property. The Banks conduct business from facilities primarily owned by the Banks, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Banks, Brintech and UCIS provide services or perform operational functions at 125 locations, of which 94 are owned and 31 are leased under operating leases. Note 7 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 Banks are defendants in various legal proceedings incidental to its business. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision will result in a material adverse change in the consolidated financial condition or results of operations of United. No material proceedings terminated in the fourth quarter of 2006.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders of United during the fourth quarter of 2006.

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PART II

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

Stock. United s common stock trades on The Nasdaq Global Select Market under the symbol UCBI . The closing price for the period ended December 31, 2006 was $32.32. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2006 and 2005.

Stock Price Information

	2006				**2005**			
	High	**Low**	**Close**	**Avg Daily Volume**	**High**	**Low**	**Close**	**Avg Daily Volume**
First quarter	$29.64	$26.02	$28.15	59,252	$27.92	$23.02	$23.73	42,662
Second quarter	31.26	27.02	30.44	92,937	26.44	21.70	26.02	63,805
Third quarter	33.10	27.51	30.05	86,495	29.36	25.75	28.50	59,305
Fourth quarter	33.37	29.03	32.32	87,626	30.50	25.32	26.66	74,710

At January 31, 2007, there were approximately 12,000 shareholders of record of United s common stock.

Stock Split. On April 28, 2004, United affected a three-for-two stock split in the form of a stock dividend for shareholders of record April 14, 2004. All financial statements and per share amounts included in this Form 10-K have been restated to reflect the change in the number of shares outstanding as of the beginning of the earliest period presented.

Dividends. United declared cash dividends of $.32, $.28 and $.24 per common share in 2006, 2005 and 2004, respectively. Federal and state laws and regulations impose restrictions on the ability of United and the Banks to pay dividends. Additional information regarding this item is included in Note 15 to the Consolidated Financial Statements and under the heading of Supervision and Regulation in Part I of this report.

Share Repurchases. United s 2000 Key Employee Stock Option Plan allows option holders to exercise stock options by delivering previously acquired shares having a fair market value equal to the exercise price provided that the shares delivered must have been held by the option holder for at least six months. During 2006 and 2005, optionees delivered 17,576 and 52,284 shares, respectively, to exercise stock options. There were no other share repurchases during 2006 and 2005.

Sales of Unregistered Securities. United has not sold any unregistered securities in the past three years.

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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, 2001 and ending on December 31, 2006. United s common stock was not traded on an exchange until March 18, 2002 when it became listed on the Nasdaq Stock Market. The total shareholder return is based on stock trades known to United during the periods prior to March 18, 2002.

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

* Assumes $100 Invested on December 31, 2001 in United s common stock and above noted indexes. Total return includes reinvestment of dividends and values of stock and indexes as of December 31 of each year.

	Cumulative Total Return					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
United Community Banks, Inc.	$100	$126	$172	$214	$214	$262
Nasdaq Stock Market (U.S.) Index	100	69	103	112	115	126
Nasdaq Bank Index	100	102	132	151	147	165

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ITEM 6. SELECTED FINANCIAL DATA
UNITED COMMUNITY BANKS, INC.
Selected Financial Information
For the Years Ended December 31,

(in thousands, except per share data; taxable equivalent)	2006	2005	2004	2003	2002	5 Year CAGR (4)
INCOME SUMMARY						
Interest revenue	$ 446,695	$ 324,225	$ 227,792	$ 198,689	$ 185,498	
Interest expense	208,815	127,426	74,794	70,600	76,357	
Net interest revenue	237,880	196,799	152,998	128,089	109,141	19%
Provision for loan losses	14,600	12,100	7,600	6,300	6,900	
Fee revenue	49,095	46,148	39,539	38,184	30,734	14
Total revenue	272,375	230,847	184,937	159,973	132,975	18
Operating expenses (1)	162,070	140,808	110,974	97,251	80,690	16
Income before taxes	110,305	90,039	73,963	62,722	52,285	20
Income taxes	41,490	33,297	26,807	23,247	19,505	
Net operating income	68,815	56,742	47,156	39,475	32,780	19
Merger-related charges, net of tax			565	1,357		
Net income	$ 68,815	$ 56,742	$ 46,591	$ 38,118	$ 32,780	20
OPERATING PERFORMANCE (1)						
Earnings per common share:						
Basic	$ 1.70	$ 1.47	$ 1.31	$ 1.15	$ 1.02	14
Diluted	1.66	1.43	1.27	1.12	.99	14
Return on tangible equity (2)(3)	17.52%	18.99%	19.74%	19.24%	17.88%	
Return on assets	1.09	1.04	1.07	1.06	1.11	
Efficiency ratio	56.35	57.77	57.65	58.39	57.72	
Dividend payout ratio	18.82	19.05	18.32	17.39	16.34	
GAAP PERFORMANCE						
Per common share:						
Basic earnings	$ 1.70	$ 1.47	$ 1.29	$ 1.11	$ 1.02	15
Diluted earnings	1.66	1.43	1.25	1.08	.99	15
Cash dividends declared (rounded)	.32	.28	.24	.20	.17	19
Book value	14.37	11.80	10.39	8.47	6.89	19
Tangible book value (3)	10.57	8.94	7.34	6.52	6.49	14
Key performance ratios:						
Return on equity (2)	13.28%	13.46%	14.39%	14.79%	16.54%	
Return on assets	1.09	1.04	1.05	1.02	1.11	
Net interest margin	4.05	3.85	3.71	3.68	3.95	
Dividend payout ratio	18.82	19.05	18.60	18.02	16.34	

Equity to assets	8.06	7.63	7.45	7.21	7.01	
Tangible equity to assets [3]	6.32	5.64	5.78	6.02	6.60	
ASSET QUALITY						
Allowance for loan losses	$ 66,566	$ 53,595	$ 47,196	$ 38,655	$ 30,914	
Non-performing assets	13,654	12,995	8,725	7,589	8,019	
Net charge-offs	5,524	5,701	3,617	4,097	3,111	
Allowance for loan losses to loans	1.24%	1.22%	1.26%	1.28%	1.30%	
Non-performing assets to total assets	.19	.22	.17	.19	.25	
Net charge-offs to average loans	.12	.14	.11	.15	.14	
AVERAGE BALANCES						
Loans	$ 4,800,981	$ 4,061,091	$ 3,322,916	$ 2,753,451	$ 2,239,875	21
Investment securities	1,041,897	989,201	734,577	667,211	464,468	16
Earning assets	5,877,483	5,109,053	4,119,327	3,476,030	2,761,265	19
Total assets	6,287,148	5,472,200	4,416,835	3,721,284	2,959,295	19
Deposits	5,017,435	4,003,084	3,247,612	2,743,087	2,311,717	20
Shareholders equity	506,946	417,309	329,225	268,446	207,312	24
Common shares outstanding:						
Basic	40,393	38,477	36,071	34,132	32,062	
Diluted	41,575	39,721	37,273	35,252	33,241	
AT YEAR END						
Loans	$ 5,376,538	$ 4,398,286	$ 3,734,905	$ 3,015,997	$ 2,381,798	22
Investment securities	1,107,153	990,687	879,978	659,891	559,390	19
Earning assets	6,565,730	5,470,718	4,738,389	3,796,332	3,029,409	21
Total assets	7,101,249	5,865,756	5,087,702	4,068,834	3,211,344	21
Deposits	5,772,886	4,477,600	3,680,516	2,857,449	2,385,239	22
Shareholders equity	616,767	472,686	397,088	299,373	221,579	26
Common shares outstanding	42,891	40,020	38,168	35,289	31,895	

(1) Excludes pre-tax merger-related and restructuring charges totaling $.9 million, or $.02 per diluted common share, recorded in 2004 and $2.1 million, or $.04 per diluted common share, recorded in 2003.

(2) Net income available to common stockholders, which excludes preferred stock

dividends, divided by average realized common equity which excludes accumulated other comprehensive income (loss).

(3) Excludes effect of acquisition related intangibles and associated amortization.

(4) Compound annual growth rate.

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UNITED COMMUNITY BANKS, INC.
Selected Financial Information (continued)

sands, except per share xable equivalent)	2006 Fourth Quarter	2006 Third Quarter	2006 Second Quarter	2006 First Quarter	2005 Fourth Quarter	2005 Third Quarter	2005 Second Quarter	2005 Fi Qua
IE SUMMARY								
revenue	$ 123,463	$ 116,304	$ 107,890	$ 99,038	$ 91,997	$ 84,994	$ 76,945	$ 7
expense	60,912	55,431	49,407	43,065	38,576	34,033	29,450	2
rest revenue	62,551	60,873	58,483	55,973	53,421	50,961	47,495	4
on for loan losses	3,700	3,700	3,700	3,500	3,500	3,400	2,800	
enue	13,215	12,146	11,976	11,758	11,373	12,396	12,179	1
evenue	72,066	69,319	66,759	64,231	61,294	59,957	56,874	5
ng expenses	42,521	41,441	39,645	38,463	37,052	37,285	35,052	3
before taxes	29,545	27,878	27,114	25,768	24,242	22,672	21,822	2
taxes	11,111	10,465	10,185	9,729	9,012	8,374	8,049	
ome	$ 18,434	$ 17,413	$ 16,929	$ 16,039	$ 15,230	$ 14,298	$ 13,773	$ 1
DRMANCE URES								
mon share:								
rnings	$ .45	$ .43	$ .42	$ .40	$ .39	$ .37	$ .36	$
earnings	.44	.42	.41	.39	.38	.36	.35	
vidends declared	.08	.08	.08	.08	.07	.07	.07	
lue	14.37	13.07	12.34	12.09	11.80	11.04	10.86	
e book value (2)	10.57	10.16	9.50	9.25	8.94	8.05	7.85	
formance ratios:								
on tangible equity	17.49%	17.29%	17.68%	17.66%	18.20%	18.90%	19.21%	
on equity (1)(3)	13.26	13.22	13.41	13.25	13.30	13.42	13.46	
on assets (3)	1.10	1.09	1.10	1.09	1.05	1.01	1.03	
rest margin (3)	3.99	4.07	4.07	4.06	3.94	3.87	3.82	
cy ratio	55.93	56.46	56.27	56.79	56.61	58.71	58.74	
d payout ratio	17.78	18.60	19.05	20.00	17.95	18.92	19.44	
o assets	8.21	8.04	7.95	8.04	7.69	7.46	7.65	
e equity to assets (2)	6.46	6.35	6.22	6.24	5.82	5.53	5.62	
QUALITY								
nce for loan losses	$ 66,566	$ 60,901	$ 58,508	$ 55,850	$ 53,595	$ 51,888	$ 49,873	$ 4
rforming assets	13,654	9,347	8,805	8,367	12,995	13,565	13,495	1
rge-offs	1,930	1,307	1,042	1,245	1,793	1,385	1,380	
nce for loan losses to	1.24%	1.23%	1.22%	1.22%	1.22%	1.22%	1.22%	

rforming assets to total								
	.19	.14	.14	.14	.22	.24	.24	
rge-offs to average								
	.15	.11	.09	.11	.16	.13	.14	
AGE BALANCES								
	$ 5,134,721	$ 4,865,886	$ 4,690,196	$ 4,505,494	$ 4,328,613	$ 4,169,170	$ 3,942,077	$ 3,79
ent securities	1,059,125	1,029,981	1,039,707	1,038,683	1,004,966	1,008,687	996,096	94
assets	6,225,943	5,942,710	5,758,697	5,574,712	5,383,096	5,239,195	4,986,339	4,81
sets	6,669,950	6,350,205	6,159,152	5,960,801	5,769,632	5,608,158	5,338,398	5,16
s	5,517,696	5,085,168	4,842,389	4,613,810	4,354,275	4,078,437	3,853,884	3,71
lders equity	547,419	510,791	489,821	478,960	443,746	418,459	408,352	39
n shares outstanding:								
	41,096	40,223	40,156	40,088	39,084	38,345	38,270	3
	42,311	41,460	41,328	41,190	40,379	39,670	39,436	3
RIOD END								
	$ 5,376,538	$ 4,965,365	$ 4,810,277	$ 4,584,155	$ 4,398,286	$ 4,254,051	$ 4,072,811	$ 3,87
ent securities	1,107,153	980,273	974,524	983,846	990,687	945,922	990,500	92
assets	6,565,730	6,012,987	5,862,614	5,633,381	5,470,718	5,302,532	5,161,067	4,90
sets	7,101,249	6,455,290	6,331,136	6,070,596	5,865,756	5,709,666	5,540,242	5,26
s	5,772,886	5,309,219	4,976,650	4,748,438	4,477,600	4,196,369	3,959,226	3,78
lders equity	616,767	526,734	496,297	485,414	472,686	424,000	415,994	39
n shares outstanding	42,891	40,269	40,179	40,119	40,020	38,383	38,283	3

(1) Net income available to common stockholders, which excludes 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.

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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.

Net income was $68.8 million in 2006, an increase of 21% from the $56.7 million earned in 2005. Diluted earnings per common share was $1.66 for 2006, compared with $1.43 for 2005, an increase of 16%. Return on tangible equity for 2006 was 17.52%, compared with 18.99% for 2005. Return on assets for 2006 was 1.09% as compared to 1.04% in 2005.

Earnings for 2006 were influenced by strong loan and deposit growth, rising interest rates and significant de novo expansion. In addition to those factors, acquisitions completed in 2006 also affect comparisons between 2006 and 2005. Growth in the loan portfolio and rising interest rates drove the $41.1 million, or 21% increase, in taxable equivalent net interest revenue. The net interest margin increased 20 basis points to 4.05%, as rising interest rates had a positive effect on United s slightly asset sensitive balance sheet. The local economies in United s markets have remained strong over the past two years which was a contributing factor to the strong loan growth. During 2006 and 2005, loan growth occurred across all of United s markets with the majority of the growth occurring in the construction and commercial categories.

In both 2006 and 2005, United continued to grow core deposits primarily through its successful Refer a Friend program that rewards existing customers who refer their family and friends to United. In 2006 and 2005, United aggressively pursued customer certificates of deposit as those rates did not rise as fast as wholesale borrowings with comparable terms. The resulting increase in customer deposits funded United s loan growth excluding acquisitions of $704 million and allowed United to decrease wholesale borrowings by $202 million during 2006 contributing to the increase in net interest margin.

Credit quality remained strong in 2006. Net charge offs were slightly lower than the prior year, while non performing assets were up slightly from the end of 2005. Nonperforming assets, which includes nonaccrual loans, loans past due more than 90 days and foreclosed real estate, were up $659,000 from 2005 while loans increased $704 million over the same period, excluding acquisitions. Because of the increase in loans in 2006, at December 31, 2006, nonperforming assets represented only .19% of total assets compared with .22% at the end of 2005. Net charge offs as a percentage of average loans were .12% compared with .14% for 2005. Management believes that its continued strong credit quality is the result of a combination of factors, most important of which is its community banking business model, which includes community banks managed by local presidents with a local board of directors as well as management who know their markets and their customers. The second key factor is that over 90% of our loans are secured by real estate located within our geographic footprint.

Fee revenue in 2006 increased $2.9 million, or 6%, from 2005. There were modest increases in most fee categories, with the exception of mortgage loan and other related fees, which were flat, and Other fees which were down 8%. Service charges and fees continued to rise due to an increase in the number of deposit accounts and transaction volume associated with initiatives to raise core deposits and attract new customers. In 2006, United recognized $643,000 in net securities losses compared with net securities losses of $809,000 in 2005. The losses recognized in 2006 resulted from a decision to restructure the investment portfolio to improve yield given the market and future expectations. Included in securities gains and losses in 2005 was an impairment loss of $500,000 related to a FHLMC preferred stock investment where the loss in market value was considered to be other than temporary. That security was sold in 2006.

Operating expenses were up $21.3 million, or 15%, from 2005. The increase resulted primarily from United s continued de novo expansion. In 2006, United opened eight locations which followed seven new locations in 2005. These new locations increased headcount by 64 employees from December 31, 2005. The 2006 acquisitions of Southern National Bank and two branches in western North Carolina alone added another 57 staff. Aside from the de novo locations and the acquisitions, headcount at the end of 2006 was held to a year-over-year increase of 114 staff, or

7%, to support core business growth.

In the fourth quarter of 2006, United completed the acquisition of Southern Bancorp, Inc., and its wholly owned subsidiary, Southern National Bank. The company exchanged 2,180,118 shares of its common stock with a value of approximately $67.8 million. The assets of Southern National Bank, including purchase accounting adjustments, totaled $416 million, and were included in United s consolidated balance sheet as of December 31, 2006.

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 and conform to general practices within the banking industry. 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 impact on the financial statements. Management currently views the determination of the allowance for loan losses to be the only critical accounting policy.

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

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimate pursuant to either Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies,* or SFAS 114, *Accounting by Creditors for Impairment of a Loan.* The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over $150,000 where the internal credit rating is at or below a grade seven and on the Watch List . 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 average of actual losses incurred over the prior two years for each type of loan. 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 undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower s financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that accounts for the inherent imprecision in loan loss estimation based on historical loss experience as a result of United s growth through acquisitions, which have expanded the geographic footprint in which it operates, and changed its portfolio mix in recent years. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical losses used in developing loss allocation factors may not be representative of actual unrealized losses inherent in the portfolio.

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

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

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Mergers and Acquisitions

As part of its balanced growth strategy, United selectively engages in 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, high-growth markets with excellent opportunities for further organic growth. Although no acquisitions were completed in 2005, United completed one bank merger and two branch acquisitions in 2006 and three bank mergers in 2004 as part of this strategy. United will continue to evaluate potential transactions as they are presented.

On June 1, 2004, United completed the acquisition of Fairbanco Holding Company, Inc., a bank holding company headquartered in Fairburn, Georgia, and its wholly-owned Georgia subsidiary, 1st Community Bank. On June 1, 2004, 1st Community Bank had assets of $210 million, including purchase accounting related intangibles. United exchanged 914,627 shares of its common stock valued at $20.9 million and approximately $2.7 million in cash for all of the outstanding shares. 1st Community Bank was merged into UCB-Georgia and operates as a separate community bank.

On November 1, 2004, United completed the acquisition of Eagle National Bank, a bank headquartered in Stockbridge, Georgia. On November 1, 2004, Eagle had assets of $78 million, including purchase accounting related intangibles. United exchanged 414,462 shares of its common stock valued at $9.5 million and approximately $2.4 million in cash for all of the outstanding shares. Eagle was merged into UCB-Georgia and operates as a separate community bank.

On December 1, 2004, United completed the acquisition of Liberty National Bancshares, Inc., a bank holding company headquartered in Conyers, Georgia, and its wholly-owned subsidiary, Liberty National Bank. On December 1, 2004, Liberty had assets of $212 million, including purchase accounting related intangibles. United exchanged 1,372,658 shares of its common stock valued at $32.5 million and approximately $3.0 million in cash for all of the outstanding shares. Liberty National Bank was merged into UCB-Georgia and operates as a separate community bank.

On September 22, 2006, United completed the acquisition of two western North Carolina banking locations in Sylva and Bryson City. These offices were acquired from another financial institution, and had $8 million in loans and $38 million in deposits on the date they were acquired. United paid a premium for these branches of approximately 8% of deposits. Both of these offices are located in markets where United has a presence and are natural extensions of its existing franchise.

On December 1, 2006, United comple