

UNITED BANCORPORATION OF ALABAMA INC
Form 10-K
March 29, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended
December 31, 2010

Commission File No. 000-25917

UNITED BANCORPORATION OF ALABAMA, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

63-0833573
(I.R.S. Employer Identification
No.)

P.O. Drawer 8, Atmore, Alabama 36504
(Address of principal executive offices)

Registrant's telephone number, including area code: (251) 446-6000

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

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, Par Value \$.01 Per Share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

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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. x

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

Smaller reporting company x

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

Aggregate market value of voting and nonvoting common equity held by non affiliates as of March 29, 2011 was \$28,745,724 computed by reference to the price reported to the registrant at which the common equity was last sold on or prior to that date and using beneficial ownership of stock rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude voting stock owned by directors and executive officers, some of whom might not be held to be affiliates upon judicial determination.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock	Par Value	Outstanding at March 29, 2011	
Class A	\$.01	2,325,162	Shares*
Class B.	\$.01	0	Shares

*Excludes 63,965 shares held as treasury stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this report.

PART I

ITEM 1. BUSINESS

Forward-Looking Statements

When used or incorporated by reference herein, the words "anticipate", "estimate", "expect", "project", "target", "goal", and similar expressions, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including those set forth below under "Risk Factors" and elsewhere herein, as well as the possibilities of (i) increases in competitive pressures in the banking industry, particularly with respect to community banks; (ii) costs or difficulties in generating deposits or loans to counter cost increases resulting from the recent increase in the number of Bank offices; (iii) general economic conditions, either nationally or regionally, that are less favorable than expected, resulting in deterioration in loan demand, credit quality and/or borrower liquidity, among other things; (iv) changes which may occur in the regulatory environment, including but not limited to changes with respect to recent legislation discussed under "Supervision, Regulation and Government Policy" below; and (v) large and/or rapid changes in interest rates. These forward-looking statements speak only as of the date they are made. The Corporation expressly disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

United Bancorporation of Alabama, Inc. and United Bank

United Bancorporation of Alabama, Inc. (the "Corporation") is a one-bank, bank holding company, with headquarters in Atmore, Alabama. The Corporation was incorporated under the laws of Delaware on March 8, 1982 for the purpose of acquiring all of the issued and outstanding capital stock of The Bank of Atmore, Atmore, Alabama ("Atmore") and Peoples Bank, Frisco City, Alabama ("Peoples"). Atmore was merged into United Bank of Atmore, a wholly-owned subsidiary of the Corporation, and Peoples was merged into United Bank of Frisco City ("Frisco City"), also a wholly-owned subsidiary of the Corporation, in late 1982. Effective March 30, 1984, Frisco City merged into United Bank of Atmore, which had previously changed its name to simply "United Bank."

The Corporation and its subsidiary, United Bank (herein "United Bank" or the "Bank"), operate primarily in one business segment, commercial banking. United Bank contributes substantially all of the total operating revenues and consolidated assets of the Corporation. The Bank serves its customers from seventeen full service banking offices located in Atmore (2 offices), Frisco City, Monroeville, Flomaton, Foley, Lillian, Bay Minette (2 offices), Silverhill, Magnolia Springs, Spanish Fort, Summerdale, and Loxley, Alabama, and in Jay, Pace and Milton, Florida. Additionally, a loan production office is located in Loxley, Alabama.

United Bank offers a broad range of banking services. Services to business customers include providing remote deposit capabilities, checking accounts, money market deposit accounts, time deposit accounts, repurchase agreements, and various types of lending services. Services provided to individual customers include checking accounts, NOW accounts, money market deposit accounts, statement savings accounts, and various other time deposit savings programs and loans, including business, personal, automobile, home and home improvement loans. United Bank offers securities brokerage services, Visa multi-purpose, and nationally recognized credit card service. The Bank also offers internet banking, bill pay and access to online brokerage services at its web site, www.unitedbank.com. The Bank also owns an insurance agency, United Insurance Services, Inc., which opened and began business in 2001.

Competition - The commercial banking business is highly competitive and United Bank competes actively with state and national banks, savings and loan associations, insurance companies, brokerage houses, and credit unions in its market areas for deposits and loans. In addition, United Bank competes with other financial institutions, including personal loan companies, leasing companies, finance companies and certain governmental agencies, all of which engage in marketing various types of loans and other services. The regulatory environment affects competition in the bank business as well.

Employees - The Corporation and its subsidiary had approximately 180 full-time equivalent employees at December 31, 2010. All of the employees are engaged in the operations of United Bank, its subsidiary, or the Corporation. The Corporation considers its employee relations good, and has not experienced and does not anticipate any work stoppage attributable to labor disputes.

Supervision, Regulation and Government Policy – The following discussion of Supervision, Regulation and Government Policy should be read in conjunction with the discussion of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) below. Bank holding companies, banks and many of their non-bank affiliates are extensively regulated under both federal and state law. The following brief summary of certain statutes, rules and regulations affecting the Corporation and the Bank is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below, and is not intended to be an exhaustive description of the statutes or regulations applicable to the Corporation's business. Any change in applicable law or regulations could have a material effect on the business of the Corporation and its subsidiary. Supervision, regulation and examination of banks by bank regulatory agencies are intended primarily for the protection of depositors rather than holders of corporation common stock.

The Corporation is registered as a bank holding company (“BHC”) with the Board of Governors of the Federal Reserve System (the “Federal Reserve”) under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), having determined that continued registration as a financial holding company (“FHC”) was unnecessary in light of the Corporation’s current and anticipated operations. As such, the Corporation is subject to the supervision, examination, and reporting requirements in the BHC Act and the regulations of the Federal Reserve. See discussion of the Gramm-Leach-Bliley Financial Services Modernization Act below.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire substantially all of the assets of any bank or control of any voting shares of any bank, if, after such acquisition, it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. The BHC Act requires the Federal Reserve to consider, among other things, anticompetitive effects, financial and managerial resources and community needs in reviewing such a transaction.

With the prior approval of the Superintendent of the Alabama State Department of Banking (“Superintendent”) and their primary federal regulators, state banks are entitled to expand by branching.

The Corporation is a legal entity separate and distinct from the Bank. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Corporation. Such transactions, including extensions of credit, sales of securities or assets and provision of services, also must be on terms and conditions consistent with safe and sound banking practices, including credit standards, that are substantially the same or at least as favorable to the Bank as prevailing at the time for transactions with unaffiliated companies. Also, as a subsidiary of a bank holding company, the Bank is generally prohibited from conditioning the extension of credit or other services, or conditioning the lease or sale of property, on the customer's agreement to obtain or furnish some additional credit, property or service from or to such subsidiary or an affiliate.

The Bank is a state bank, subject to state banking laws and regulation, supervision and regular examination by the Alabama State Department of Banking (the "Department"), and as a member of the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation (the "FDIC"), is also subject to FDIC regulation and examination. The Bank is not a member of the Federal Reserve System. Areas subject to federal and state regulation include dividend payments, reserves, investments, loans, interest rates, mergers and acquisitions, issuance of securities, borrowings, establishment of branches and other aspects of operation, including compliance with truth-in-lending and usury laws, and regulators have the right to prevent the development or continuance of unsafe or unsound banking practices regardless of whether the practice is specifically proscribed or otherwise violates law.

Dividends from United Bank constitute the major source of funds for the Corporation. United Bank is subject to state law restrictions on its ability to pay dividends, primarily that the prior written approval of the Superintendent is required if the total of all dividends declared in any calendar year exceeds the total of United Bank's net earnings of that year combined with its retained net earnings of the preceding two years, less any required transfers to surplus. United Bank is subject to restrictions under Alabama law which also prohibits any dividends from being made from surplus without the Superintendent's prior written approval and the general restriction that dividends in excess of 90% of United Bank's net earnings (as defined by statute), may not be declared or paid unless United Bank's surplus is at least equal to 20% of its capital. United Bank's surplus is significantly in excess of 20% of its capital. Federal bank regulatory agencies also have the general authority to limit the dividends paid by insured banks and bank holding companies if such payment is deemed to constitute an unsafe and unsound practice. Federal law provides that no dividends may be paid which would render the Bank undercapitalized. United Bank's ability to make funds available to the Corporation also is subject to restrictions imposed by federal law on the ability of a bank to extend credit to its parent company, to purchase the assets thereof, to issue a guarantee, acceptance or letter of credit on behalf thereof or to invest in the stock or securities thereof or to take such stock or securities as collateral for loans to any borrower. By agreement with its primary regulators, consistent with the Bank's determination to preserve capital, payments of dividends by the Bank to the Corporation are currently subject to prior review of the Alabama State Banking Department.

When the Corporation received a capital investment from the United States Department of the Treasury ("the Treasury") under the Troubled Assets Relief Program ("TARP") Capital Purchase Program on December 23, 2008 (see Note 9 to the Consolidated Financial Statements), the Corporation became subject to additional limitations on the payment of dividends. These limitations require, among other things, that (i) all dividends related to the securities purchased under the TARP Capital Purchase Program be paid before other dividends can be paid and (ii) the Treasury must approve any increases in common stock dividends for three years following the Treasury's investment, unless Treasury's investment is redeemed prior thereto. On September 3, 2010, as part of the Community Development Capital Initiative ("CDCI") established by the Treasury, the Corporation exchanged the preferred shares issued to the Treasury on December 23, 2008 pursuant to the Corporation's participation in the TARP Capital Purchase Program for preferred shares issued pursuant to the CDCI. The limitations under the TARP Capital Purchase Program described above remain in effect under the CDCI.

The Bank is also subject to the requirements of the Community Reinvestment Act of 1977 ("CRA"). The CRA and the regulations implementing the CRA are intended to encourage regulated financial institutions to help meet the credit needs of their local community, including low and moderate-income neighborhoods, consistent with the safe and sound operation of financial institutions. The regulatory agency's assessment of the Bank's CRA record is made available to the public.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") recapitalized the Bank Insurance Fund ("BIF") and included numerous revised statutory provisions. FDICIA established five capital tiers for insured depository institutions: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized", as defined by regulations adopted by the Federal Reserve, the FDIC and other federal depository institution regulatory agencies. At December 31, 2010, the Bank was "adequately capitalized" and was not subject to restrictions imposed for failure to satisfy applicable capital requirements. BIF premiums for each member financial institution depend upon the risk assessment classification assigned to the institution by the FDIC.

Banking is a business that primarily depends on interest rate differentials. In general, the difference between the interest rate paid by a bank on its deposits and other borrowings and the interest rate received by the bank on its loans and securities holdings constitutes the major portion of the bank's earnings. As a result, the earnings and business of the Corporation are and will be affected by economic conditions generally, both domestic and foreign, and also by the policies of various regulatory authorities having jurisdiction over the Corporation and the Bank, especially the Federal Reserve. The Federal Reserve, among other functions, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for those purposes influence in various ways the overall level of investments, loans and other extensions of credit and deposits and the interest rates paid on liabilities and received on assets.

The enactment of the Gramm-Leach-Bliley Financial Services Modernization Act (the "GLB Act") on November 12, 1999 represented an important development in the powers of banks and their competitors in the financial services industry by removing many of the barriers between commercial banking, investment banking, securities brokerages and insurance. Inter-affiliation of many of these formerly separated businesses is now common. The GLB Act includes significant provisions regarding the privacy of financial information. These financial privacy provisions generally require a financial institution to adopt a privacy policy regarding its practices for sharing nonpublic personal information and to disclose such policy to their customers, both at the time the customer relationship is established and at least annually during the relationship. These provisions also prohibit the Corporation from disclosing nonpublic personal financial information to third parties unless customers have the opportunity to opt out of the disclosure.

On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"). Among its provisions, the USA Patriot Act requires each financial institution: (i) to establish an anti-money laundering program, (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks and (iii) to avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. The USA Patriot Act has not had a significant impact on the financial condition or results of operations of the Corporation.

In July 2002 the Sarbanes-Oxley Act of 2002 (the "SOA") was enacted. The SOA established many new operational and disclosure requirements, with the stated goals of, among other things, increasing corporate responsibility and protecting investors by improving corporate disclosures. The SOA applies generally to companies that file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Exchange Act"). As an Exchange Act reporting company, the Corporation is subject to some SOA provisions. Other SOA requirements apply only to companies which, unlike the Corporation, have stock traded on a national stock exchange or the NASDAQ.

In 2006, federal deposit insurance reform legislation was enacted that (i) required the FDIC to merge the Bank Insurance Fund and the Savings Association Insurance Fund into a newly created Deposit Insurance Fund; (ii) increased the amount of deposit insurance coverage for retirement accounts; (iii) allowed for deposit insurance coverage on individual accounts to be indexed for inflation starting in 2010; (iv) provided the FDIC more flexibility in setting and imposing deposit insurance assessments; and (v) provided eligible institutions credits on future assessments.

Through the Troubled Asset Relief Program (the "TARP"), the Treasury has the ability to purchase or insure up to \$700 billion in troubled assets held by financial institutions. On October 14, 2008, the Treasury announced it would use up to \$350 billion of these funds to purchase equity stakes in financial institutions under a Capital Purchase Program (the "CPP"). As such, the CPP provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. For publicly traded companies, the CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. The Corporation applied for and received \$10.3 million in the CPP.

As a participant in the CPP and subsequently the CDCI programs, the Corporation is subject to compensation and corporate governance standards and restrictions under applicable legislation and Treasury regulations, which include but are not limited to (1) restrictions on bonus, incentive and retention awards, (2) a prohibition on severance and change-in-control payments to the Corporation's executive officers and next five most highly-compensated employees, (3) ensuring that the Corporation's compensation programs do not encourage unnecessary and excessive risks, (4) requiring the recovery or "clawback" of any incentive compensation paid to the Corporation's executive officers and next 20 most highly-compensated employees if it is later determined that such payments were based on materially inaccurate financial or other performance criteria, (5) a prohibition on tax gross-ups paid to the Corporation's executive officers and next 20 most highly-compensated employees (6) adoption of an excessive or luxury expenditures policy, and (7) certifications as to various matters by the Corporation's CEO and CFO.

On October 22, 2009, the Federal Reserve issued a comprehensive proposal on incentive compensation policies (the "Incentive Compensation Proposal") intended to ensure that incentive compensation policies of banking organizations don't undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Proposal, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangement should (i) provide incentives that do not encourage risk-taking beyond the organization'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 organization's board of directors. Banking organizations were instructed to begin an immediate review of their incentive compensation policies to ensure that they do not encourage excessive risk-taking and implement corrective programs as needed.

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

In addition, on January 12, 2010, the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged at higher deposit assessment rates than such banks would otherwise be charged.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. The Dodd-Frank Act will have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council (“Council”), the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC.

The following items provide a brief description of certain provisions of the Dodd-Frank Act that may affect the Corporation.

- The Dodd-Frank Act made permanent the general \$250,000 deposit insurance limit for insured deposits. The Dodd-Frank Act also extended until January 1, 2013, federal deposit coverage for the full net amount held by depositors in non-interest bearing transaction accounts. Amendments to the FDIC Act also revised the assessment base against which an insured depository institution’s deposit insurance premiums paid to DIF will be calculated. Under the amendments, the assessment base would no longer be the institution’s deposit base, but would become its average consolidated total assets less its average tangible equity. Additionally, the Dodd-Frank Act changed the minimum designated reserve ratio of the DIF. The minimum reserve ratio increased from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Several of these provisions could increase the FDIC deposit insurance premiums paid by the Bank.
- The Dodd-Frank Act authorized the establishment of the Consumer Financial Protection Bureau (“the CFPB”), which was given the power to issue rules governing all financial institutions that offer financial services and products to consumers. The CFPB was also given the authority to monitor markets for consumer financial products to ensure that consumers would be protected from abusive practices. Financial institutions expect to be subject to increased compliance and enforcement costs associated with regulations established by the CFPB.
- The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that may affect most U.S. registered companies. The Dodd-Frank Act (1) granted stockholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhanced independence requirements for compensation committee members; (3) required companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers; (4) provided the SEC with authority to adopt proxy access rules that would allow stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company’s proxy materials; (5) prohibited uninstructed broker votes on election of directors, executive compensation matters (including say on pay advisory votes), and other significant matters, and (6) required disclosure on board leadership structure

Many of the requirements of the Dodd-Frank Act will be implemented over time and most will be subject to regulations implemented over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on the Corporation is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect the Corporation. These changes may also require the Corporation to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements may negatively impact the results of operations and financial condition of the Corporation.

In 2010 the Treasury initiated the CDCI Program for bank holding companies, savings and loan holding companies and stand alone thrifts and banks that have been certified by the Treasury as Community Development Financial Institutions ("CDFI"). To be certified as a CDFI, a financial institution must demonstrate that it serves an eligible target market and that at least 60% of its activities are directed to that target market. A target market may consist of one or more of the following: i) an investment area, ii) a low income targeted population, or iii) another targeted population. An example of an investment area would be a state, county, census tract, etc. that has at least one of the following: i) a population poverty rate of at least 20%, ii) for a metropolitan area, an unemployment rate at least 1.5 times the national average, iii) a median family income at or below 80% of the metropolitan area's or national metropolitan family income, iv) for counties outside of a metropolitan area, a county population loss during the period between the two most recent decennial censuses, or v) for counties outside of a metropolitan area, net migration loss during the 5-year period preceding the most recent decennial census of at least 5%. A qualifying financial institution may be eligible to apply for a CDCI capital investment of up to 5% of its total risk weighted assets (less any outstanding amount of CPP funding). If a financial institution has existing CPP funding, it may exchange that funding for CDCI funding. CDCI funding is in the form of preferred stock which will receive tier 1 capital treatment. The initial dividend rate is 2% and will increase to 9% after eight years. No additional warrants will be required. The financial institution will continue to be subject to the executive compensation restrictions of the TARP. In 2010 the Corporation applied for certification and was certified as a CDFI. As discussed above, the Treasury exchanged its CPP preferred shares for CDCI preferred shares in September of 2010.

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation's financial institutions. The Corporation cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which the Bank's business may be affected by any new regulation or statute

Selected Statistical Information - The following tables set forth certain selected statistical information concerning the business and operations of the Corporation and its wholly-owned subsidiary, United Bank, as of December 31, 2010, 2009 and 2008. Averages referred to in the following statistical information are generally average daily balances.

Analysis of Net Interest Earnings: The following table sets forth interest earned and the average yield on the major categories of the Corporation's interest-earning assets and interest-bearing liabilities (dollars in thousands).

	Average Balance	Interest Income Expense	Average Rates Earned Paid	
2010				
Loans, net (1)	\$278,792	\$16,581	5.98	%
Taxable securities	67,354	1,692	2.51	%
Tax exempt securities (2)	18,463	741	5.90	%
Federal funds sold and repurchase agreements	74	1	0.19	%
Interest-bearing deposits with other financial institutions	61,910	156	0.25	%
Total interest-earning assets	\$426,593	\$19,171	4.60	%
Saving deposits and demand deposits interest-bearing	\$99,398	\$534	0.54	%
Time deposits	184,045	3,914	2.13	%
Other borrowed funds	12,206	289	2.35	%
Total interest-bearing liabilities	\$295,649	\$4,737	1.60	%
Net interest income/net yield on interest earning assets		\$14,434	3.47	%
2009				
Loans, net (1)	\$286,548	\$17,014	5.96	%
Taxable securities	65,760	2,284	3.47	%
Tax exempt securities (2)	30,579	1,232	6.10	%
Federal funds sold and repurchase agreements	14,141	39	0.28	%
Interest-bearing deposits with other financial institutions	38,594	208	0.54	%
Total interest-earning assets	\$435,622	\$20,777	4.93	%
Saving deposits and demand deposits interest-bearing	\$106,441	\$703	0.66	%
Time deposits	196,591	6,067	3.09	%
Repurchase agreements	5	-	0.00	%
Other borrowed funds	12,210	359	2.94	%
Total interest-bearing liabilities	\$315,247	\$7,129	2.26	%
Net interest income/net yield on interest earning assets		\$13,648	3.28	%

	Average Balance	Interest Income Expense	Average Rates Earned Paid	
2008				
Loans, net (1)	\$287,491	\$19,557	6.80	%
Taxable securities	84,813	3,062	3.61	%
Tax exempt securities (2)	33,903	1,360	6.08	%
Federal funds sold and repurchase agreements	9,204	179	1.94	%
Interest-bearing deposits with other financial institutions	14,766	343	2.32	%
Total interest-earning assets	\$430,177	\$24,501	5.86	%
Saving deposits and demand deposits interest-bearing	\$99,969	\$1,429	1.43	%
Time deposits	194,524	7,944	4.08	%
Repurchase agreements	68,257	834	1.22	%
Other borrowed funds	12,648	672	5.31	%
Total interest-bearing liabilities	\$375,398	\$10,879	2.90	%
Net interest income/net yield on interest earning assets		\$13,622	3.33	%

(1) Loans on nonaccrual status have been included in the computation of average balances.

(2) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2010, 2009, and 2008

Analysis of Changes in Interest Income and Interest Expense: The following is an analysis of the dollar amounts of changes in interest income and interest expense due to changes in rates and volume for the periods indicated.

(Dollars in Thousands)

Average Balances			Interest Income Expense			Variance as to	
2010	2009		2010	2009	Variance	Rate	Volume
\$ 278,792	\$ 286,548	Loans (Net)	\$ 16,581	\$ 17,014	\$ (433)	\$ 133	\$ (566)
		Taxable Securities AFS					
67,354	65,760	(1)	1,692	2,284	(592)	(361)	(231)
		Tax Exempt Securities AFS					
18,463	30,579	(2)	741	1,232	(491)	(4)	(487)
74	14,141	Fed Funds Sold	1	39	(38)	(10)	(28)
		Interest Bearing Deposits					
61,910	38,594		156	208	(52)	(143)	91
		Total Earning Assets					
\$ 426,593	\$ 435,622		\$ 19,171	\$ 20,777	\$ (1,606)	\$ (385)	\$ (1,221)
		Savings and Interest Bearing Demand Deposits					
\$ 99,398	\$ 106,441		\$ 534	\$ 703	\$ (169)	\$ (115)	\$ (54)
184,045	196,591	Time Deposits	3,914	6,067	(2,153)	(1,866)	(287)
		Repurchase Agreements					
-	5		-	-	-	-	-
		Other Borrowed Funds					
12,206	12,210		289	359	(70)	(60)	(10)
		Total Interest Bearing Liabilities					
\$ 295,649	\$ 315,247		\$ 4,737	\$ 7,129	\$ (2,392)	\$ (2,041)	\$ (351)

The variance of interest due to both rate and volume has been allocated proportionately to the rate and the volume components based on the relationship of the absolute dollar amounts of the change in each.

(1) Available for Sale (AFS)

(2) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2010 and 2009.

Analysis of Changes in Interest Income and Interest Expense - The following is an analysis of the dollar amounts of changes in interest income and interest expense due to changes in rates and volume for the periods indicated.

(Dollars in Thousands)

Average Balances		Interest Income Expense			Variance as to		
2009	2008		2009	2008	Variance	Rate	Volume
\$286,548	\$287,491	Loans (Net)	\$17,014	\$19,557	\$(2,543)	\$(219)	\$(2,324)
		Taxable Securities					
65,760	84,813	AFS (1)	2,284	3,062	(778)	(801)	23
		Tax Exempt					
30,579	33,903	Securities AFS (2)	1,232	1,360	(128)	(137)	9
14,141	9,204	Fed Funds Sold	39	179	(140)	59	(199)
		Interest Bearing					
38,594	14,766	Deposits	208	343	(135)	281	(416)
		Total Earning					
\$435,622	\$430,177	Assets	\$20,777	\$24,501	\$(3,724)	\$(817)	\$(2,907)
		Savings and					
		Interest Bearing					
\$106,441	\$99,969	Demand Deposits	\$703	\$1,429	\$(726)	\$56	\$(782)
196,591	194,524	Time Deposits	6,067	7,944	(1,877)	764	(2,641)
		Repurchase					
5	68,257	Agreements	-	834	(834)	(416)	(418)
		Other Borrowed					
12,210	12,648	Funds	359	672	(313)	3	(316)
		Total Interest					
\$315,247	\$375,398	Bearing Liabilities	\$7,129	\$10,879	\$(3,750)	\$407	\$(4,157)

The variance of interest due to both rate and volume has been allocated proportionately to the rate and the volume components based on the relationship of the absolute dollar amounts of the change in each.

(1) Available for Sale (AFS)

(2) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2009 and 2008.

Investments - The investment policy of United Bank provides that funds not otherwise needed to meet the loan demand of United Bank's market area can best be invested to earn maximum return for the Bank, yet still maintain sufficient liquidity to meet fluctuations in the Bank's loan demand and deposit structure. The Bank has identified that it will maintain a core investment portfolio, not needed to meet liquidity requirements, which will be accounted for as Held-to Maturity and, under this accounting, will reduce the volatility of total capital. The Bank will establish limits as to the holdings in this portfolio. At the time of purchase, the Bank designates whether a particular security will be accounted for as Held-to-Maturity or Available-for-Sale. The ratio of total loans to deposits as of December 31, 2010 was 62.77%. Growth in the loan portfolio is impacted by among other things, general economic conditions, the ability to accurately determine the current and future value of collateral and the availability of loans meeting the Bank's credit quality standards. Management expects that funding for any growth in the loan portfolio would come from deposit growth and reallocation of liquid funds or maturing investments.

Securities Portfolio - The Bank's investment policy, as approved by the Board of Directors, dictates approved types of securities and the conditions under which they may be held. Attention is paid to the maturity and risks associated with each investment. The distribution reflected in the tables below could vary with economic conditions, which could shorten or lengthen maturities. Management believes the level of credit and interest rate risks inherent in the securities portfolio is low.

The following table sets forth the distribution of contractual maturities of investment securities available for sale and their associated yields:

Maturity Distribution of Investment Securities Available for Sale

December 31, 2010, 2009, and 2008

(Dollars in Thousands)

	2010		2009		2008			
U.S. Treasury securities								
Within one year	\$4,036	0.98	% \$-	0.00	% \$-	0.00	%	
1-5 years	11,238	1.24	% 3,027	1.06	% -	0.00	%	
5-10 years	3,955	2.04	% -	0.00	% -	0.00	%	
After 10 years	-	0.00	% -	0.00	% -	0.00	%	
Total	\$19,229	1.35	% \$3,027	1.06	% \$-	0.00	%	
US Government sponsored agencies								
Within one year	\$-	0.00	% \$-	0.00	% \$16,520	0.99	%	
1-5 years	18,377	2.24	% 24,997	3.12	% 7,662	4.63	%	
5-10 years	16,791	2.73	% 11,472	3.93	% 15,371	5.35	%	
After 10 years	-	0.00	% -	0.00	% -	0.00	%	
Total	\$35,168	2.47	% \$36,469	3.37	% \$39,553	3.39	%	
Mortgage Backed Securities								
Within one year	\$-	0.00	% \$-	0.00	% \$170	3.23	%	
1-5 years	-	0.00	% -	0.00	% 4,302	3.93	%	
5-10 years	-	0.00	% -	0.00	% 1,519	4.57	%	
After 10 years	5,038	3.74	% -	0.00	% 6,860	4.57	%	
Total	\$5,038	3.74	% \$-	0.00	% \$12,851	4.35	%	
State & Municipal (1)								
Within one year	\$152	3.38	% \$1,499	3.98	% \$1,460	3.51	%	
1-5 years	768	4.11	% 6,727	3.86	% 7,063	3.88	%	
5-10 years	2,485	3.94	% 11,275	4.03	% 13,118	4.08	%	
After 10 years	5,962	4.04	% 9,213	4.16	% 11,481	4.03	%	
Total	\$9,367	4.01	% \$28,714	4.03	% \$33,122	3.99	%	
Equity Securities								
Within one year	\$7	1.00	% \$3	1.00	% \$-	0.00	%	
Total	\$7	1.00	% \$3	1.00	% \$-	0.00	%	
Totals	\$68,809	2.19	% \$68,213	3.55	% \$85,526	4.52	%	

(1) Yields on tax-exempt obligations have been computed on a full federal tax-equivalent basis using an income tax rate of 34% for 2010, 2009 and 2008.

The following table sets forth the distribution of maturities of investment securities held to maturity as of December 31, 2010, 2009 and 2008, respectively, and their associated yields:

Maturity Distribution of Investment Securities Held to Maturity
December 31, 2010, 2009 and 2008
(Dollars in Thousands)

	2010		2009		2008	
US Government sponsored agencies						
Within one year	\$ -	0.00 %	\$ -	0.00 %	\$ -	0.00 %
1-5 years	7,469	2.28 %	6,025	2.97 %	3,050	4.34 %
5-10 years	9,834	2.53 %	9,399	3.52 %	3,000	4.48 %
After 10 years	-	0.00 %	-	0.00 %	-	0.00 %
Total	\$ 17,303	2.42 %	\$ 15,424	3.31 %	\$ 6,050	4.41 %
Other domestic debt securities						
Within one year	\$ -	0.00 %	\$ 235	5.25 %	\$ -	0.00 %
1-5 years	-	0.00 %	-	0.00 %	500	5.25 %
5-10 years	-	0.00 %	-	0.00 %	-	0.00 %
After 10 years	-	0.00 %	-	0.00 %	-	0.00 %
Total	\$ -	0.00 %	\$ 235	5.25 %	\$ 500	5.25 %
Totals	\$ 17,303	2.42 %	\$ 15,659	3.33 %	\$ 6,550	4.47 %

Relative Lending Risk - United Bank serves both rural and suburban markets. The rural market is composed primarily of lower to middle income families. The rural market economy is heavily influenced by timber and agricultural production. The suburban market is faster growing, more commercial and is composed of a higher income mix than the rural market. The Bank's loan portfolio mix is reflective of these markets. As of December 31, 2010, the Bank's ratio of loans to assets of 54.93% was lower than its peer banks serving similar markets (65.78%).

The risks associated with the Bank's lending are primarily 1) credit risks from economic conditions and concentrations of a loans secured by particular types of collateral or in a particular geographic area and 2) interest rate risk.

Small banks located in one community experience a much higher risk due to the dependence on the economic viability of that single community. United Bank is more geographically diverse than some of its local community banking competitors. With offices in fifteen communities, risks associated with the effects of major economic disruptions in one community are somewhat mitigated. This geographic diversity affects all types of loans and plays a part in the Bank's risk management.

One component of the management of interest rate risk regards the maturity distribution of the loan portfolio and method of pricing. The Bank's loan maturity distribution reflects 39.5% of the portfolio maturing in one year or less. In addition, 32.61% of all loans float with an interest rate index. The maturity distribution and floating rate loans are a component of interest rate risk management that helps protect the Bank from unexpected interest rate fluctuations.

Credit risk results from the inability of the borrower to repay the principal and interest on the loan. This inability could result from loss of employment, reduction in liquidity from adverse market movements or adverse changes in the cash flow from the business being financed.

The majority of all types of loans offered by the Bank are collateralized. Concentrations in loans secured by a particular type of collateral increase the Bank's exposure to reductions in value of that collateral type. Additionally, the ability to accurately determine the value of any collateral currently, and over time, has an impact on the management of the portfolio of loans.

Loan concentrations present different risk profiles depending on the type of loan. Regardless of the type of loan, the repayment ability of the borrower and the value of any collateral are important considerations in a loan decision. The loan policy, as approved by the Board of Directors of the Bank, establishes collateral guidelines for each type of loan.

Each type of loan exhibits unique profiles of risk that could threaten repayment.

Commercial lending requires an understanding of the customers' business and financial performance. The Bank's commercial customers are primarily small to middle market enterprises. The larger commercial accounts are managed by Senior Commercial lenders. Risks in this category are primarily economic. Shifts in local and regional conditions could have an effect on individual borrowers; but as previously mentioned, the Bank attempts to spread this risk by serving multiple communities. As with the other categories, these loans are typically collateralized by assets of the borrower. In most situations, the personal assets of the business owners also collateralize the credit.

Agricultural lending is a specialized type of lending for the Bank. Due to the unique characteristics in this type of loan, the Bank has loan officers dedicated to this market. Collateral valuation and the experience of the borrower play heavily into the approval process. This loan category includes financing equipment, crop production, timber, dairy operations and others. Given the broad range of loans offered, it is difficult to generalize risks in agricultural lending. The area of greatest attention and risk is crop production loans. Risks associated with catastrophic crop losses are mitigated by crop insurance, government support programs, experience of the borrower, collateral other than the crop and the borrower's other financial resources. Routine visitations and contact with the borrower help inform the Bank about crop conditions.

Real estate loans, whether they are construction or mortgage, historically have had lower delinquency rates than other types of loans in the portfolio. This is no longer the case with the change in the real estate market. The Bank makes very few long term, fixed rate mortgage loans; however, it does offer loans with repayment terms based on amortization of up to 30 years with balloon payments of principal at a shorter term, such as three or five years. The Bank also offers several different long-term mortgage programs provided by third party processors.

Installment loans are generally collateralized. Given the small dollar exposure on each loan, the risk of a significant loss on any one credit is limited. Pricing and close monitoring of past due loans enhance the Bank's returns from this type of loan and minimize risks.

The average size loan in the loan portfolio at December 31, 2010 was \$60,750, a decrease of \$2,104 from the 2009 level of \$62,854.

LOAN PORTFOLIO MATURITIES

Maturities and loan re-pricing indices in the Corporation's loan portfolio are as follows:

Remaining Maturity
December 31, 2010
(Dollars in Thousands)

	One year or less	One - five years	After five years	Total
Real estate:				
Construction, land developmnt, and other land loans	\$21,405	\$15,185	\$236	\$36,826
Farmland	10,694	18,058	1,518	30,270
1-4 family residential mortgage	12,425	39,207	6,711	58,343
Multifamily	1,022	864	1,196	3,082
Commercial	23,249	48,182	2,369	73,800
Agriculture	5,619	6,667	348	12,634
Commercial	14,530	14,399	484	29,413
Consumer	5,921	7,510	167	13,598
States and political subdivisions	1,553	819	1,363	3,735
Other loans	52	18		70
Totals	\$96,470	\$150,909	\$14,392	\$261,771

Variable Rate Loans by Re-pricing Index

(Dollars in Thousands)

	Index		Total
	Prime	LIBOR	
Real estate:			
Construction, land developmnt, and other land loans	\$19,885	\$-	\$19,885
Farmland	10,341	-	10,341
1-4 family residential mortgage	17,764	-	17,764
Multifamily	-	-	-
Commercial	14,592	2,915	17,507
Agriculture	4,420	-	4,420
Commercial	12,994	2,230	15,224
Consumer	100	-	100
States and political subdivisions	50	70	120
Other loans	1	-	1
Totals	\$80,147	\$5,215	\$85,362

For additional information regarding interest rate sensitivity see INTEREST RATE RISK included in Item 1A below.

Impaired Loans - Management considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered impaired, the amount of impairment is measured based on the net present value of expected future cash flows discounted at the note's effective interest rate, or, if the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impaired loans are covered by the allowance for loan losses through a charge to the provision for loan losses. Subsequent recoveries are added to the allowance. Because of the severe economic downturn and the effect on borrowers' ability to pay and collateral values, the Bank expanded the scope of its analysis of the loan portfolio beginning in 2009. At December 31, 2010, the Bank identified 39 impaired loans (as defined by FASB ASC 310) aggregating \$21,600,559, compared with 66 impaired loans aggregating \$49,039,811 as of December 31, 2009. Of the loans identified as impaired as of December 31, 2010, specific reserves in the amount of \$2,275,207 were allocated.

Because of the severe economic downturn and the effect on borrowers' ability to pay and collateral values, the Bank expanded the scope of its analysis of the loan portfolio during the fourth quarter of 2009. As a result the amount of impaired loans increased from \$20,683,163 as of September 30, 2009 to \$49,039,811 as of December 31, 2009. During the fourth quarter of 2010, \$17,407,139 of impaired loans was removed from the impaired loan list due to improved financial performance throughout 2010.

Of the loans impaired as of December 31, 2009 approximately \$4,179,000 was charged off against the allowance, \$3,120,000 was foreclosed and recorded as ORE, and \$3,600,000 was repaid. The remainder was not considered impaired in the 2010 analysis.

Non-performing Assets - Under the Corporation's nonaccrual policy, a loan is placed on nonaccrual status when the ability to collect the principal and interest is in doubt or when principal and interest is 90 days or more past due, unless, after analysis, it is determined that the interest is well secured and in the process of collection. Credit cards continue to accrue interest.

The following table sets forth the Corporation's non-performing assets at December 31, 2010, 2009, and 2008 (dollars in thousands).

	Descriptions	2010	2009	2008
A	Loans accounted for on a nonaccrual basis	\$ 17,545	\$ 18,993	\$ 14,700
B	Loans which are contractually past due ninety days or more as to interest or principal payments (excluding balances included in (A) above)	538	210	28
C	Loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.	383	1,657	1,106