

FNB UNITED CORP.
2009 ANNUAL REPORT



FNBUNITED

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MESSAGE TO SHAREHOLDERS

THE PAST YEAR HAS BEEN A YEAR OF CONTRAST.

The recession that began in late 2007 further battered the real estate economy, leading to the worst year of loan loss provisions, loan charge-offs and goodwill write downs in our Company's history. At the same time, we achieved absolutely our best year ever in both deposit growth and mortgage loan production. While we are by no means pleased with our overall financial performance, we are encouraged by the improvements in the Company's core businesses, and see opportunities to benefit when the economy recovers. In the meantime, we have taken steps to minimize future losses, control expenses and provide for growth in good quality credits.

WE ARE A REFLECTION OF THE COMMUNITIES WE SERVE.

In 2009, the unemployment rate in North Carolina was over 11%, and exceeds 15% in some of our markets. The prolonged downturn in the residential real estate market adversely affected our loan portfolio and required significant provisions to our Allowance for Loan Losses. As a result of these additional reserves, the write-down of our remaining goodwill and the establishment of a deferred tax asset valuation reserve during 2009, FNB United recorded a net loss of \$104.6 million, or \$9.16 per diluted share. 2008 also included significant provisions to our Allowance for Loan Losses and a write-down of our goodwill, which resulted in a net loss of \$59.8 million, or \$5.24 per diluted share. 2009 results included a \$61.7 million addition to our Allowance for Loan Losses, a \$52.4 million write-down of goodwill and the establishment of a valuation reserve of \$22.3 million for deferred tax assets. 2008 included a \$27.8 million addition to the Allowance for Loan Losses and a \$57.8 million write-down of goodwill.

CREDIT QUALITY REMAINS OUR GREATEST CHALLENGE.

In response to the real estate crisis and its impact on contractors, developers and property values, the Company has been aggressively and proactively identifying and working-out potential problem loans. In particular, the residential land development and construction loan portfolios were reviewed in depth during 2009, both internally and with the assistance of independent loan review analysts. This initiative and scrutiny have greatly improved the early recognition of actual and potential losses, and are reflected in our levels of non-performing loans and robust loan loss reserves set aside during this challenging economy. We believe our core operating performance will sufficiently sustain us while we seek partial or full recovery of loans charged down.

THERE IS MUCH ABOUT OUR CORE BUSINESS TO ENCOURAGE US.

We achieved some great things in 2009, not all of which show up immediately in profit and loss numbers, but which will have a positive long-term effect.

- Our residential mortgage business was very productive. CommunityONE closed \$263 million, a new production record, while Dover Mortgage had its most profitable year ever with \$541 million in production. In spite of daily news reports about people losing their homes, our foreclosure activity has been minimal. Out of the nearly 5,000 residential loans which we service for the Bank's portfolio and for Fannie Mae, we are managing only 15 foreclosures and have assisted almost 100 other families to avoid foreclosure altogether.
- Our three newest offices in Greensboro, Cornelius and Seven Lakes grew consistently, bringing over \$56 million in deposits and over 750 new households into the Bank since opening in late 2008.
- System-wide, we grew total deposits by over \$207 million, more than half of which were in core deposits such as Checking, NOW and Money Market accounts. That's more deposit growth than we realized during the Bank's first 85 years in business.
- The Wealth Management Division increased managed trust assets by 12% and did a great job of counseling its customers through the market turmoil at the beginning the year, and helping them reap the benefits of market recovery later in the year.

2009 FNB UNITED ANNUAL REPORT

- Marketplace Finance, our auto finance division, had a great year also, growing by 30% to just under \$10 million and keeping its past dues at a very low 1.14%.
- We created a stimulus loan program to battle the recession, making over \$22.5 million in lot loans and home loans to help the Bank and its customers sell property in this struggling market. To give the stimulus program an additional boost, we have listed our customers' properties on the Bank's website and have already seen actual sales from that effort. Details are at www.MyYesBank.com.
- We worked hard to control our non-interest overhead expense this past year. We've continued to staff "right," to watch expenditures of every type, to implement operating efficiencies and to invest in technologies like "office capture" that can save us money in the long run. The staff has helped to run a lean ship, with reductions in 401(k) match and freezing salary increases for all of 2009. Overall, the Bank has realized over \$900,000 in annualized non-interest expense savings through these efforts.
- In order to preserve capital, we suspended our quarterly cash dividend for the first time in memory. This decision, while painful, greatly contributed to the preservation of the Bank's capital.

WE ARE WORKING HARD TO IMPROVE IN 2010.

We're starting with capital levels that exceed regulatory minimums, and we need to preserve and manage our capital through profits and by streamlining our balance sheet. Even though there are beginning signs of turn-around in the economy and real estate markets, challenges remain. We have dedicated additional Special Assets personnel to assist with larger and more complex loan workout volume, and our bankers are meeting regularly with customers who are experiencing difficulties.

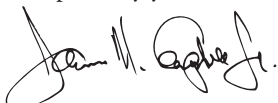
Loan collection and loan quality improvement, as opposed to loan growth, will be our top priority in 2010. We will continue the stimulus loan programs to help our current customers move their properties, and in so doing, we will create performing loans where non-performing loans now exist. Providing great customer service and growing deposits will also continue to be priorities. Expense control will have special focus and will be carefully balanced against the need for productive investments in bank staff, systems and business opportunities.

We're acutely aware of the painful losses the Company has endured, both for 2009 and 2008. Much of the negative performance we have reported are the result of the amount of reserves we have set aside against future possible loan losses, and at year-end 2009 the Company's loan loss reserves were 3.16% of total loans. If the economy strengthens, the Company may not necessarily experience all of the losses for which we have prepared. In that event, some of the money put into loan loss reserves can be recaptured, which will have a positive effect on our financial report.

WE ARE LOOKING TO THE FUTURE WITH CONFIDENCE.

Despite our losses, we feel optimistic about the future. We will not rest until we have done everything within our power to restore the success to which our Company has become accustomed – a restoration of profitability, cash dividends and a fair stock price.

Respectfully yours,



James M. Campbell, Jr.
Chairman



Michael C. Miller
President and CEO

THE YEAR IN REVIEW

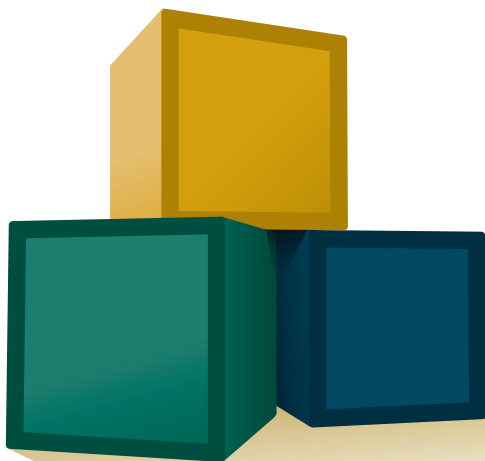


DEPOSIT SERVICES

The year opened with a new deposit campaign for CheckingONE. Inspired by the movies, the campaign jump-started the best year of deposit growth in the Bank's history: over 16,000 new deposit accounts and more than \$207 million in new deposits.

BUSINESS CHECKING & CASH MANAGEMENT

In 2009 the Bank introduced Growing Business Checking with 10,000 free transactions every month,* and grew commercial checking deposits by over \$6.2 million. Cash Management services such as Remote Deposit and Merchant Capture also continued to bloom.



TRUST AND INVESTMENTS

While the financial markets suffered their worst year since the Great Depression, the Wealth Management Division of CommunityONE exceeded its growth goals in non-deposit retail investments, while also increasing managed trust assets by nearly 12%.

LET'S BUILD A **RELATIONSHIP**
THAT BUILDS **WEALTH.**

**Terms and conditions apply.*

ANCILLARY ACCOUNTS

Customers were reminded that “Yes is more” through a variety of add-on services, including online banking, mobile banking, debit and credit cards, e-statements and others. For the year, the Bank added over 22,000 new ancillary accounts.



Yes! Home Equity season is here!

HOME EQUITY LINES OF CREDIT

CommunityONE greeted fall with two home equity specials featuring fixed rate terms for six months or three years and no closing costs.* Combined with variable rate HELOCs, outstanding balances increased by nearly \$28 million in 2009.

MORTGAGE LENDING

It was a busy year for mortgage lending at Dover and CommunityONE, which together closed nearly 5,000 home loans totaling over \$804 million. Additionally, the Bank worked closely with dozens of families to help them avoid foreclosure in a difficult economy.



**Terms and conditions apply.*

FINANCIAL HIGHLIGHTS

Years Ended December 31

FNB UNITED CORP. is the central North Carolina-based bank holding company for CommunityONE Bank, N.A. and the bank's subsidiary, Dover Mortgage Company. Opened in 1907, CommunityONE operates 45 offices in communities across central, southern, and western North Carolina. Dover joined FNB United in 2003 with a retail origination network in key growth markets across the state, in addition to wholesale operations. Through these companies, FNB United offers a complete line of personal and business banking services, including loans, deposits, cash management, wealth management and home mortgages. CommunityONE Bank is an Equal Housing Lender, Member FDIC.

	2009	2008	Change
FOR THE YEAR			
Interest income	\$ 103,171	\$ 114,035	(9.5) %
Interest expense	40,975	54,018	(24.1)
Net interest income	62,196	60,017	3.6
Provision for loan losses	61,741	27,759	122.4
Net interest income after provision for loan losses	455	32,258	(98.6)
Noninterest income	21,753	22,918	(5.1)
Goodwill impairment	52,395	57,800	(9.4)
Other noninterest expense	67,517	60,303	12.0
Income taxes	3,992	(3,118)	(228.0)
Net (loss) / income	(101,696)	(59,809)	70.0
Preferred stock dividends	(2,871)	—	n.m.
Net (loss) / income to common shareholders	\$ (104,567)	\$ (59,809)	74.8
PER COMMON SHARE DATA			
Net (loss) / income before impairment charges	\$ (4.57)	\$ (0.18)	2,494.8 %
Net (loss) / income, basic	(9.16)	(5.24)	74.8
Net (loss) / income, diluted	(9.16)	(5.24)	74.8
Cash dividends declared	0.05	0.45	(88.9)
Book value	4.05	12.94	(68.7)
Tangible book value	3.61	7.85	(54.0)
PERIOD END			
Total assets	\$ 2,101,296	\$ 2,044,434	2.8 %
Investment securities	326,189	233,220	39.9
Loans	1,563,021	1,585,195	(1.4)
Goodwill	—	52,395	(100.0)
Deposits	1,722,128	1,514,747	13.7
Borrowings	261,459	365,757	(28.5)
Shareholders' equity	98,359	147,917	(33.5)
AVERAGE BALANCES			
Total assets	\$ 2,158,123	\$ 2,040,204	5.8 %
Investment securities	330,931	204,890	61.5
Loans	1,583,213	1,577,038	0.4
Goodwill	39,045	109,193	(64.2)
Deposits	1,639,830	1,483,749	10.5
Borrowings	334,332	322,643	3.6
Shareholders' equity	172,217	215,571	(20.1)
STATISTICAL HIGHLIGHTS			
Return on average assets before impairment charges	(2.28) %	(0.10) %	
Return on average assets	(4.71)	(2.93)	
Return on average tangible assets	(4.81)	(3.11)	
Return on average equity before impairment charges	(28.63)	(0.93)	
Return on average equity	(59.05)	(27.74)	
Return on average tangible equity	(79.59)	(59.78)	
Net interest margin (tax equivalent)	3.11	3.40	
Dividend payout	n.m.	n.m.	

{n.m. Not meaningful}
{Dollars in thousands, except share data}

FIVE-YEAR FINANCIAL HISTORY

Years Ended December 31

	2009	2008	2007	2006	2005
SUMMARY OF OPERATIONS					
Interest income	\$ 103,171	\$ 114,035	\$ 126,640	\$ 103,369	\$ 54,415
Interest expense	40,975	54,018	63,028	47,155	20,050
Net interest income	62,196	60,017	63,612	56,214	34,365
Provision for loan losses	61,741	27,759	5,514	2,526	2,842
Net interest income after provision for loan losses	455	32,258	58,098	53,688	31,523
Noninterest income	21,753	22,918	21,593	19,215	14,926
Goodwill impairment	52,395	57,800	358	1,625	—
Other noninterest expense	67,517	60,303	60,686	51,816	31,678
(Loss) income before income taxes	(97,704)	(62,927)	18,647	19,462	14,771
Income taxes	3,992	(3,118)	6,286	7,275	4,834
Net (loss) / income	(101,696)	(59,809)	12,361	12,187	9,937
Preferred stock dividends	(2,871)	—	—	—	—
Net (loss) / income to common shareholders	\$ (104,567)	\$ (59,809)	\$ 12,361	\$ 12,187	\$ 9,937

PER COMMON SHARE DATA

Net (loss) / income before impairment charges	\$ (4.57)	\$ (0.18)	\$ 1.12	\$ 1.44	\$ 1.73
Net (loss) / income, basic	(9.16)	(5.24)	1.09	1.27	1.73
Net (loss) / income, diluted	(9.16)	(5.24)	1.09	1.25	1.69
Cash dividends declared	0.05	0.45	0.60	0.62	0.62
Book value	4.05	12.94	18.93	18.39	16.06
Tangible book value	3.61	7.85	8.71	8.56	11.13

BALANCE SHEET INFORMATION

Total assets	\$ 2,101,296	\$ 2,044,434	\$ 1,906,506	\$ 1,814,905	\$ 1,102,085
Investment securities	326,189	233,220	182,799	171,815	159,806
Loans	1,563,021	1,585,195	1,446,116	1,301,840	795,051
Goodwill	—	52,395	110,195	110,956	31,381
Deposits	1,722,128	1,514,747	1,441,042	1,421,013	841,609
Borrowings	261,459	365,757	231,125	167,018	146,567
Shareholders' equity	98,359	147,917	216,256	207,688	102,315

RATIOS (AVERAGES)

Return on average assets before impairment charges	(2.28) %	(0.10) %	0.68 %	0.88 %	1.06 %
Return on average assets	(4.71)	(2.93)	0.66	0.77	1.06
Return on average tangible assets	(4.81)	(3.11)	0.71	0.82	1.09
Return on average equity before impairment charges	(28.63)	(0.93)	5.98	7.93	11.25
Return on average equity	(59.05)	(27.74)	5.81	7.00	11.25
Return on average tangible equity	(79.59)	(59.78)	12.99	14.75	14.58
Net interest margin (tax equivalent)	3.11	3.40	4.01	4.18	4.16
Dividend payout	n.m.	n.m.	55.21	51.17	36.32
Average equity to average assets	7.98	10.57	11.43	11.05	9.46
Average loans to average deposits	96.55	106.29	95.58	93.79	99.26

{n.m. Not meaningful}
{Dollars in thousands, except share data}

CONSOLIDATED BALANCE SHEETS

Years Ended December 31

	2009	2008
ASSETS		
Cash and due from banks	\$ 27,600	\$ 28,743
Interest-bearing bank balances	98	404
Federal funds sold	—	206
Investment securities:		
Available for sale, at estimated fair value (amortized cost of \$232,905 in 2009 and \$206,072 in 2008)	237,630	205,426
Held to maturity (estimated fair value of \$91,521 in 2009 and \$27,580 in 2008)	88,559	27,794
Loans held for sale	58,219	36,138
Loans held for investment	1,563,021	1,585,195
Less: Allowance for loan losses	(49,461)	(34,720)
Net loans held for investments	1,513,560	1,550,475
Premises and equipment, net	48,115	50,947
Goodwill	—	52,395
Core deposit premiums	4,968	5,762
Other assets	122,547	86,144
TOTAL ASSETS	\$ 2,101,296	\$ 2,044,434
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	\$ 152,522	\$ 150,273
Interest-bearing deposits:		
Demand, savings, and money market deposits	594,377	479,223
Time deposits of \$100,000 or more	425,858	407,539
Other time deposits	549,371	477,712
Total deposits	1,722,128	1,514,747
Retail repurchase agreements	13,592	18,145
Federal Home Loan Bank advances	166,165	238,910
Federal funds purchased	10,000	37,000
Subordinated debt	15,000	15,000
Junior subordinated debentures	56,702	56,702
Other liabilities	19,350	16,013
TOTAL LIABILITIES	\$ 2,002,937	\$ 1,896,517
SHAREHOLDERS' EQUITY:		
Preferred stock, \$10.00 par value; authorized 200,000 shares, non-issued 51,500 shares issued and outstanding at \$1,000 stated value	48,205	—
Common stock warrant	3,891	—
Common stock, \$2.50 par value; authorized 50,000,000 shares, issued 11,426,413 shares in 2009 and 11,428,003 shares in 2008	28,566	28,570
Surplus	115,039	114,772
Retained earnings	(96,234)	8,904
Accumulated other comprehensive loss	(1,108)	(4,329)
TOTAL SHAREHOLDERS' EQUITY	\$ 98,359	\$ 147,917
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,101,296	\$ 2,044,434

{Dollars in thousands}

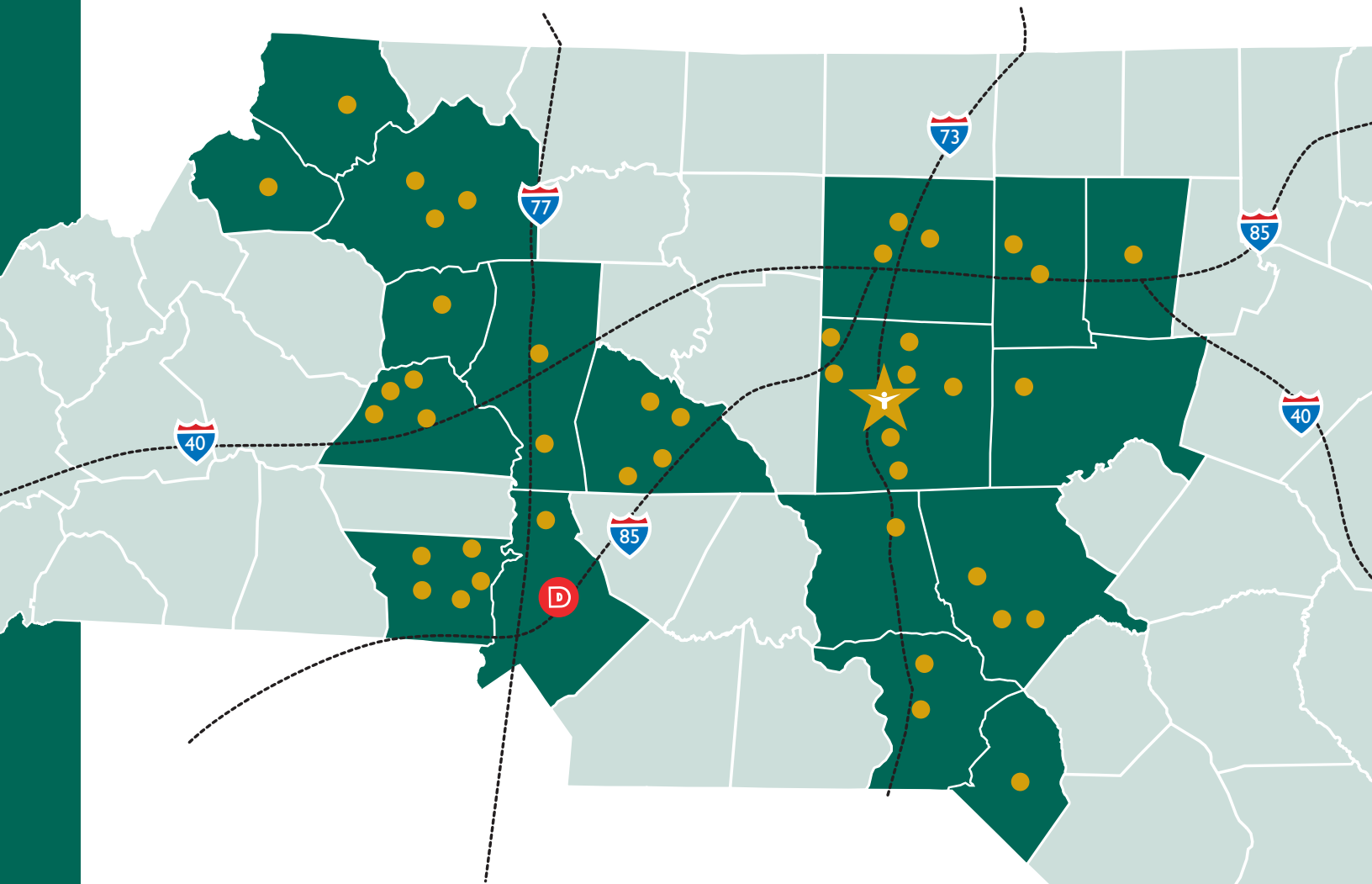
CONSOLIDATED STATEMENTS OF INCOME





Years Ended December 31

	2009	2008	2007
INTEREST INCOME			
Interest and fees on loans	\$ 84,261	\$ 103,365	\$ 114,880
Interest and dividends on investment securities:			
Taxable income	16,256	7,820	7,613
Non-taxable income	2,256	2,040	2,096
Other interest income	398	810	2,051
Total interest income	103,171	114,035	126,640
INTEREST EXPENSE			
Deposits	32,490	42,211	52,594
Retail repurchase agreements	127	651	1,317
Federal Home Loan Bank advances	5,933	7,223	3,468
Federal funds purchased	156	501	162
Other borrowed funds	2,269	3,432	5,487
Total interest expense	40,975	54,018	63,028
NET INTEREST INCOME	62,196	60,017	63,612
Provision for loan losses	61,741	27,759	5,514
Net Interest Income After Provision for Loan Losses	455	32,258	58,098
NONINTEREST INCOME			
Service charges on deposit accounts	8,956	9,167	9,012
Mortgage loan sales	9,888	6,340	4,543
Cardholder and merchant services income	2,514	2,395	1,878
Trust and investment services	1,741	1,827	1,686
Bank-owned life insurance	1,068	983	945
Other service charges, commissions, and fees	1,147	796	998
Gain (loss) on sale of assets, net	(3,930)	646	1,302
Other income	369	764	1,229
Total noninterest income	21,753	22,918	21,593
NONINTEREST EXPENSE			
Personnel expense	32,932	33,081	33,169
Net occupancy expense	5,522	5,343	5,303
Furniture, equipment, and data processing expense	7,121	6,705	6,556
Goodwill impairment	52,395	57,800	358
FDIC Insurance	4,170	894	166
Other expense	17,772	14,280	15,492
Total noninterest expense	119,912	118,103	61,044
Income before income taxes	(97,704)	(62,927)	18,647
Income taxes	3,992	(3,118)	6,286
NET INCOME	\$ (101,696)	\$ (59,809)	\$ 12,361
Preferred stock dividends	(2,871)	—	—
NET (LOSS) / INCOME TO COMMON SHAREHOLDERS	\$ (104,567)	(59,809)	12,361
Net income per common share:			
Basic	\$ (9.16)	\$ (5.24)	\$ 1.09
Diluted	\$ (9.16)	\$ (5.24)	\$ 1.09
Weighted average number of shares outstanding:			
Basic	11,416,977	11,407,616	11,321,908
Diluted	11,416,977	11,407,616	11,336,321

{Dollars in thousands, except share data}

LOCATIONS MAP



-  CommunityONE Offices
-  Major Interstates
-  Dover Headquarters
-  Company Headquarters

CONTACT US



CommunityONE

www.MyYesBank.com

ALAMANCE COUNTY

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West Hickory

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Seagrove

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Lawrence Street

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Rockingham Road

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ROWAN COUNTY

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SCOTLAND COUNTY

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WATAUGA COUNTY

Boone

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336-903-0610 phone
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www.DoverMortgage.com

DOVER MORTGAGE COMPANY

Corporate Office

711 E. Morehead Street
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704-331-9880 phone
704-331-9775 fax

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*Executive Vice President
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Brooke E. Cox

Assistant Secretary

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SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

FNB United Corp.
150 S. Fayetteville Street
Post Office Box 1328
Asheboro, NC 27204
336-626-8300
www.MyYesBank.com

COMMON STOCK

FNB United Corp. common stock is traded on the NASDAQ Global Select Market under the symbol FNBN. As of March 18, 2010 there were 6,719 shareholders of record.

MARKET MAKERS

Automated Trading Desk Financial Services, LLC
Bloomberg Tradebook LLC
Citadel Derivatives Group, LLC
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Scott & Stringfellow, Inc.
Susquehanna Financial Group LLP
Susquehanna Capital Group
Timber Hill LLC
UBS Securities LLC

ANNUAL MEETING

The Annual Meeting of Shareholders of FNB United Corp. will be held at AVS Banquet Centre, 2045 N. Fayetteville Street, Asheboro, North Carolina, on Tuesday, May 25, 2010 at 9:30 a.m.

FORM 10-K

Copies of the FNB United Corp. Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained by any shareholder upon written request to FNB United Corp. Investor Relations.

EQUAL OPPORTUNITY EMPLOYER

FNB United Corp. and CommunityONE Bank, N.A., including its subsidiary Dover Mortgage Company, are equal opportunity employers. All matters regarding recruiting, hiring, training, compensation, benefits, promotions, transfers and all other personnel policies will continue to be free from all discriminatory practices.

STOCK TRANSFER AGENT AND REGISTRAR DIVIDEND REINVESTMENT SERVICES

Registrar and Transfer Company
Attn: Investor Relations
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Cranford, NJ 07016
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AT FNB UNITED CORP. CONTACT:

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INDEPENDENT AUDITORS

Dixon Hughes PLLC
Raleigh, North Carolina



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