

UNITED COMMUNITY BANKS INC

Form 10-Q

August 09, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2011
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____
Commission file number 001-39095
UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia

58-1807304

(State of Incorporation)

(I.R.S. Employer Identification No.)

**125 Highway 515 East
Blairsville, Georgia**

30512

Address of Principal Executive Offices

(Zip Code)

(706) 781-2265

(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Common stock, par value \$1 per share 41,568,707 shares voting and 15,914,209 shares non-voting outstanding as of July 31, 2011

INDEX

PART I Financial Information

Item 1. Financial Statements

| | |
|--|----------|
| <u>Consolidated Statement of Operations (unaudited) for the Three and Six Months Ended June 30, 2011 and 2010</u> | 2 |
|--|----------|

| | |
|--|----------|
| <u>Consolidated Balance Sheet at June 30, 2011 (unaudited), December 31, 2010 (audited) and June 30, 2010 (unaudited)</u> | 3 |
|--|----------|

| | |
|---|----------|
| <u>Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Six Months Ended June 30, 2011 and 2010</u> | 4 |
|---|----------|

| | |
|--|----------|
| <u>Consolidated Statement of Cash Flows (unaudited) for the Six Months Ended June 30, 2011 and 2010</u> | 5 |
|--|----------|

| | |
|--|----------|
| <u>Notes to Consolidated Financial Statements</u> | 6 |
|--|----------|

| | |
|---|-----------|
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 28 |
|---|-----------|

| | |
|--|-----------|
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 54 |
|--|-----------|

| | |
|---|-----------|
| <u>Item 4. Controls and Procedures</u> | 54 |
|---|-----------|

PART II Other Information

| | |
|---|-----------|
| <u>Item 1. Legal Proceedings</u> | 54 |
|---|-----------|

| | |
|-------------------------------------|-----------|
| <u>Item 1A. Risk Factors</u> | 54 |
|-------------------------------------|-----------|

| | |
|---|-----------|
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 55 |
|---|-----------|

| | |
|---|-----------|
| <u>Item 3. Defaults Upon Senior Securities</u> | 55 |
|---|-----------|

| | |
|--|-----------|
| <u>Item 4. (Removed and Reserved)</u> | 55 |
|--|-----------|

| | |
|---|-----------|
| <u>Item 5. Other Information</u> | 55 |
|---|-----------|

| | |
|--------------------------------|-----------|
| <u>Item 6. Exhibits</u> | 56 |
|--------------------------------|-----------|

Exhibit 3.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents**Part I Financial Information****Item 1 Financial Statements****UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Operations (Unaudited)**

| <i>(in thousands, except per share data)</i> | Three Months Ended | | Six Months Ended | |
|--|---------------------------|---------------|-------------------------|--------------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Interest revenue: | | | | |
| Loans, including fees | \$ 60,958 | \$ 70,611 | \$ 122,065 | \$ 142,826 |
| Investment securities, including tax exempt of \$251, \$295, \$510 and \$606 | 14,792 | 15,829 | 28,396 | 32,032 |
| Federal funds sold, commercial paper and deposits in banks | 752 | 759 | 1,571 | 1,697 |
| Total interest revenue | 76,502 | 87,199 | 152,032 | 176,555 |
| Interest expense: | | | | |
| Deposits: | | | | |
| NOW | 1,036 | 1,745 | 2,360 | 3,599 |
| Money market | 1,499 | 1,829 | 3,527 | 3,586 |
| Savings | 64 | 83 | 141 | 167 |
| Time | 10,995 | 17,718 | 22,727 | 37,916 |
| Total deposit interest expense | 13,594 | 21,375 | 28,755 | 45,268 |
| Federal funds purchased, repurchase agreements and other short-term borrowings | 1,074 | 1,056 | 2,116 | 2,094 |
| Federal Home Loan Bank advances | 570 | 974 | 1,160 | 1,951 |
| Long-term debt | 2,747 | 2,667 | 5,527 | 5,329 |
| Total interest expense | 17,985 | 26,072 | 37,558 | 54,642 |
| Net interest revenue | 58,517 | 61,127 | 114,474 | 121,913 |
| Provision for loan losses | 11,000 | 61,500 | 201,000 | 136,500 |
| Net interest revenue after provision for loan losses | 47,517 | (373) | (86,526) | (14,587) |
| Fee revenue: | | | | |
| Service charges and fees | 7,608 | 7,993 | 14,328 | 15,440 |
| Mortgage loan and other related fees | 952 | 1,601 | 2,446 | 3,080 |
| Brokerage fees | 691 | 586 | 1,368 | 1,153 |
| Securities gains, net | 783 | | 838 | 61 |
| Loss from prepayment of debt | (791) | | (791) | |
| Other | 4,662 | 1,399 | 7,554 | 3,511 |
| Total fee revenue | 13,905 | 11,579 | 25,743 | 23,245 |
| Total revenue | 61,422 | 11,206 | (60,783) | 8,658 |

Operating expenses:

| | | | | |
|---|-----------------|--------------------|---------------------|--------------------|
| Salaries and employee benefits | 26,436 | 23,590 | 51,360 | 47,950 |
| Communications and equipment | 3,378 | 3,511 | 6,722 | 6,784 |
| Occupancy | 3,805 | 3,836 | 7,879 | 7,650 |
| Advertising and public relations | 1,317 | 1,352 | 2,295 | 2,395 |
| Postage, printing and supplies | 1,085 | 765 | 2,203 | 1,990 |
| Professional fees | 2,350 | 2,178 | 5,680 | 4,121 |
| Foreclosed property | 1,891 | 14,540 | 66,790 | 25,353 |
| FDIC assessments and other regulatory charges | 3,644 | 3,566 | 9,057 | 7,192 |
| Amortization of intangibles | 760 | 794 | 1,522 | 1,596 |
| Other | 4,062 | 4,176 | 10,491 | 8,097 |
| Loss on sale of nonperforming assets | | 45,349 | | 45,349 |
| Total operating expenses | 48,728 | 103,657 | 163,999 | 158,477 |
| Income (loss) from continuing operations before income taxes | 12,694 | (92,451) | (224,782) | (149,819) |
| Income tax expense (benefit) | 5,077 | (32,919) | (89,913) | (55,829) |
| Net income (loss) from continuing operations | 7,617 | (59,532) | (134,869) | (93,990) |
| Loss from discontinued operations, net of income taxes | | | | (101) |
| Gain from sale of subsidiary, net of income taxes and selling costs | | | | 1,266 |
| Net income (loss) | 7,617 | (59,532) | (134,869) | (92,825) |
| Preferred stock dividends and discount accretion | 3,016 | 2,577 | 5,794 | 5,149 |
| Net income (loss) available to common shareholders | \$ 4,601 | \$ (62,109) | \$ (140,663) | \$ (97,974) |
| Earnings (loss) from continuing operations per common share Basic | \$.18 | \$ (3.29) | \$ (6.40) | \$ (5.25) |
| Earnings (loss) from continuing operations per common share Diluted | .08 | (3.29) | (6.40) | (5.25) |
| Earnings (loss) per common share Basic | .18 | (3.29) | (6.40) | (5.19) |
| Earnings (loss) per common share Diluted | .08 | (3.29) | (6.40) | (5.19) |
| Weighted average common shares outstanding Basic | 25,427 | 18,905 | 21,965 | 18,891 |
| Weighted average common shares outstanding Diluted | 57,543 | 18,905 | 21,965 | 18,891 |

See accompanying notes to consolidated financial statements.

Table of Contents**UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet**

| <i>(in thousands, except share and per share data)</i> | June 30, 2011 <i>(unaudited)</i> | December 31, 2010 <i>(audited)</i> | June 30, 2010 <i>(unaudited)</i> |
|---|--|--|--|
| ASSETS | | | |
| Cash and due from banks | \$ 163,331 | \$ 95,994 | \$ 115,088 |
| Interest-bearing deposits in banks | 41,863 | 111,901 | 105,183 |
| Federal funds sold, commercial paper and short-term investments | 174,996 | 441,562 | 148,227 |
| Cash and cash equivalents | 380,190 | 649,457 | 368,498 |
| Securities available for sale | 1,816,613 | 1,224,417 | 1,165,776 |
| Securities held to maturity (fair value \$379,231, 267,988 and \$327,497) | 371,578 | 265,807 | 322,148 |
| Mortgage loans held for sale | 19,406 | 35,908 | 22,705 |
| Loans, net of unearned income | 4,163,447 | 4,604,126 | 4,873,030 |
| Less allowance for loan losses | 127,638 | 174,695 | 174,111 |
| Loans, net | 4,035,809 | 4,429,431 | 4,698,919 |
| Assets covered by loss sharing agreements with the FDIC | 95,726 | 131,887 | 156,611 |
| Premises and equipment, net | 178,208 | 178,239 | 180,125 |
| Accrued interest receivable | 21,291 | 24,299 | 29,650 |
| Goodwill and other intangible assets | 9,922 | 11,446 | 223,600 |
| Foreclosed property | 47,584 | 142,208 | 123,910 |
| Net deferred tax asset | 261,268 | 166,937 | 111,485 |
| Other assets | 172,074 | 183,160 | 249,057 |
| Total assets | \$ 7,409,669 | \$ 7,443,196 | \$ 7,652,484 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Liabilities: | | | |
| Deposits: | | | |
| Demand | \$ 899,017 | \$ 793,414 | \$ 779,934 |
| NOW | 1,306,109 | 1,424,781 | 1,326,861 |
| Money market | 989,600 | 891,252 | 756,370 |
| Savings | 197,927 | 183,894 | 185,176 |
| Time: | | | |
| Less than \$100,000 | 1,508,444 | 1,496,700 | 1,575,211 |
| Greater than \$100,000 | 981,154 | 1,002,359 | 1,093,975 |
| Brokered | 300,964 | 676,772 | 611,985 |
| Total deposits | 6,183,215 | 6,469,172 | 6,329,512 |
| Federal funds purchased, repurchase agreements, and other short-term borrowings | 103,666 | 101,067 | 104,127 |
| Federal Home Loan Bank advances | 40,625 | 55,125 | 104,138 |
| Long-term debt | 150,186 | 150,146 | 150,106 |
| Unsettled securities purchases | 35,634 | | 20,941 |
| Accrued expenses and other liabilities | 36,368 | 32,171 | 39,243 |

| | | | |
|---|--------------|--------------|--------------|
| Total liabilities | 6,549,694 | 6,807,681 | 6,748,067 |
| Shareholders equity: | | | |
| Preferred stock, \$1 par value; 10,000,000 shares authorized; Series A; \$10 stated value; 21,700 shares issued and outstanding | 217 | 217 | 217 |
| Series B; \$1,000 stated value; 180,000 shares issued and outstanding | 176,392 | 175,711 | 175,050 |
| Series D; \$1,000 stated value; 16,613 shares issued and outstanding | 16,613 | | |
| Common stock, \$1 par value; 100,000,000 shares authorized; 41,554,874, 18,937,001 and 18,856,185 shares issued and outstanding | 41,555 | 18,937 | 18,856 |
| Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding | 15,914 | | |
| Common stock issuable; 83,575, 67,287 and 56,954 shares | 3,574 | 3,894 | 3,898 |
| Capital surplus | 1,051,607 | 741,244 | 739,261 |
| Accumulated deficit | (476,230) | (335,567) | (77,590) |
| Accumulated other comprehensive income | 30,333 | 31,079 | 44,725 |
| Total shareholders equity | 859,975 | 635,515 | 904,417 |
| Total liabilities and shareholders equity | \$ 7,409,669 | \$ 7,443,196 | \$ 7,652,484 |

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended June 30,

| <i>(Share and per share data)</i> | Preferred Stock | | | | Series G | Non-Voting Common Stock | | Common Stock Issuable | Capital Surplus | (Accumulated) |
|---|-----------------|------------|----------|----------|----------|-------------------------|--------------|-----------------------|-----------------|-------------------|
| | Series A | Series B | Series D | Series F | | Common Stock | Common Stock | | | Retained Earnings |
| June 30, 2009 | \$ 217 | \$ 174,408 | \$ | \$ | \$ | \$ 18,809 | \$ | \$ 3,597 | \$ 697,271 | \$ 20,384 |
| Change during the period: | | | | | | | | | | (92,825) |
| Issuance of common stock: | | | | | | | | | | |
| Issuance of common stock available for sale | | | | | | | | | | |
| Change in tax expense and benefit | | | | | | | | | | |
| Change in derivative financial instruments | | | | | | | | | | |
| Change in cash flow hedges, net | | | | | | | | | | |
| Change in investments in private equity | | | | | | | | | | (92,825) |
| Dividend Reinvestment Plan | | | | | | | | | 39,813 | |
| Employee benefit plans (41,818 shares) | | | | | | 42 | | | 898 | |
| Share repurchase and restricted stock | | | | | | | | | 1,428 | |
| Share repurchase (2,112 shares issued) | | | | | | | | | | |
| Share repurchase plan, net, including | | | | | | 2 | | 607 | (609) | |
| Deferred compensation plan | | | | | | | | 162 | | |
| Change in preferred stock | | | | | | 3 | | (468) | 460 | (7,512) |
| Change in preferred stock | | 642 | | | | | | | | (5,142) |
| June 30, 2010 | \$ 217 | \$ 175,050 | \$ | \$ | \$ | \$ 18,856 | \$ | \$ 3,898 | \$ 739,261 | \$ (77,590) |
| June 30, 2010 | \$ 217 | \$ 175,711 | \$ | \$ | \$ | \$ 18,937 | \$ | \$ 3,894 | \$ 741,244 | \$ (335,567) |
| Change during the period: | | | | | | | | | | (134,869) |
| Issuance of common stock: | | | | | | | | | | |
| Issuance of common stock available for sale | | | | | | | | | | |
| Change in tax expense and benefit | | | | | | | | | | |
| Change in derivative financial instruments | | | | | | | | | | |
| Change in cash flow hedges, net | | | | | | | | | | |

| | | | | | | | | | |
|------------------------------|-----------|------------|-----------|---------|-------|-----------|-----------|----------|--------------|
| | | | | | | | | | (134,869) |
| Complete private equity | | | | | | | | | |
| expense | | | | | | | | 2,375 | |
| equity exchange related to | | | | | | | | | |
| plan (1,551,126 | | | | | | | | | |
| | 16,613 | | | (1,551) | | | | (15,062) | |
| and Series G Preferred | | | | | | | | | |
| ing and 15,914,209 | | | | | | | | | |
| shares) | (195,872) | (151,185) | 20,618 | 15,914 | | | | 310,525 | |
| to dividend reinvestment | | | | | | | | | |
| profit plans (78,584 shares) | | | | 79 | | | | 665 | |
| stock issued (3,467,699 | | | | | | | | | |
| | 195,872 | 151,185 | 3,468 | | | | | 11,035 | |
| ptions and restricted | | | | | | | | | |
| | | | | | | | | 758 | |
| ck (1,417 shares issued, | | | | | | | | | |
| | | | | 1 | 54 | | | (55) | |
| plan, net, including | | | | | | | | | |
| | | | | | 127 | | | | |
| urred compensation plan | | | | | | | | | |
| | | | | 3 | (501) | | | 498 | |
| and restricted stock | | | | | | | | | |
| | | | | | | | | (376) | |
| preferred stock | | | | | | | | | (7) |
| preferred stock | 681 | | | | | | | | (5,200) |
| preferred stock | | | | | | | | | (587) |
| | \$ 217 | \$ 176,392 | \$ 16,613 | \$ | \$ | \$ 41,555 | \$ 15,914 | \$ 3,574 | \$ 1,051,607 |
| | | | | | | | | | \$ (476,230) |

Comprehensive income (loss) for the second quarters of 2011 and 2010 was \$10,454,000 and \$(60,133,000), respectively.

See accompanying notes to consolidated financial statements.

Table of Contents**UNITED COMMUNITY BANKS, INC.**
Consolidated Statement of Cash Flows (Unaudited)

| <i>(in thousands)</i> | Six Months Ended June 30, | |
|---|--------------------------------------|----------------|
| | 2011 | 2010 |
| Operating activities: | | |
| Net loss | \$ (134,869) | \$ (92,825) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 9,374 | 7,747 |
| Provision for loan losses | 201,000 | 136,500 |
| Stock based compensation | 758 | 1,428 |
| Securities gains, net | (838) | (61) |
| Losses and write downs on sales of other real estate owned | 60,505 | 19,289 |
| Gain from sale of subsidiary | | (2,110) |
| Loss on sale of nonperforming assets | | 45,349 |
| Loss on prepayment of borrowings | 791 | |
| Changes in assets and liabilities: | | |
| Other assets and accrued interest receivable | (49,255) | (55,249) |
| Accrued expenses and other liabilities | 1,078 | (6,888) |
| Mortgage loans held for sale | 16,502 | 7,521 |
| Net cash provided by operating activities | 105,046 | 60,701 |
| Investing activities: | | |
| Investment securities held to maturity: | | |
| Proceeds from maturities and calls | 34,742 | 12,059 |
| Purchases | (141,862) | (19,617) |
| Investment securities available for sale: | | |
| Proceeds from sales | 106,603 | 40,817 |
| Proceeds from maturities and calls | 220,018 | 432,436 |
| Purchases | (875,250) | (398,877) |
| Net decrease in loans | 64,778 | 50,600 |
| Proceeds from loan sales | 99,298 | 22,331 |
| Proceeds from sales of premises and equipment | 534 | 39 |
| Purchases of premises and equipment | (5,276) | (3,601) |
| Net cash received from sale of subsidiary | | 290 |
| Net cash received from sale of nonperforming assets | | 20,618 |
| Proceeds from sale of other real estate | 60,310 | 80,898 |
| Net cash (used in) provided by investing activities | (436,105) | 237,993 |
| Financing activities: | | |
| Net change in deposits | (285,957) | (295,729) |
| Net change in federal funds purchased, repurchase agreements, and other short-term borrowings | 2,599 | 2,738 |
| Repayments of FHLB advances | (15,291) | (10,000) |

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| | | |
|---|-------------------|-------------------|
| Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans | 744 | 935 |
| Proceeds from issuance of common and preferred stock, net of offering costs | 361,560 | |
| Proceeds from penalty on incomplete private equity transaction | 3,250 | |
| Cash dividends on preferred stock | (5,113) | (4,507) |
| Net cash provided by (used in) financing activities | 61,792 | (306,563) |
| Net change in cash and cash equivalents | (269,267) | (7,869) |
| Cash and cash equivalents at beginning of period | 649,457 | 376,367 |
| Cash and cash equivalents at end of period | \$ 380,190 | \$ 368,498 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 36,703 | \$ 60,083 |
| Income taxes | 1,527 | 819 |
| Unsettled securities purchases | 35,634 | 20,941 |

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1 Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (United) and its subsidiaries conform to accounting principles generally accepted in the United States of America (GAAP) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United s accounting policies is included in the 2010 annual report filed on Form 10-K.

In management s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less cost to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to operating expenses. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with the Financial Accounting Standards Board s (FASB) Accounting Standards Codification Topic 360, Subtopic 20, *Real Estate Sales* (ASC 360-20).

Note 2 Accounting Standards Updates

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU No. 2011-04). ASU No. 2011-04 primarily represents clarification to existing guidance. It does change the concepts of the valuation premise and highest and best use, stating that they are only relevant for nonfinancial assets. The guidance also changes the application of premiums and discounts and includes new disclosures. ASU No. 2011-04 is effective for United in the first quarter of 2012. Although evaluation of the impact is not complete, it is not expected to have a material impact on United s results of operations, financial position, or disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU No. 2011-05). ASU No. 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The guidance is effective for United for the first quarter of 2012, and will not have a material impact on United s results of operations or financial position. It will result in a change of disclosure, as United currently presents other comprehensive income in the statement of changes in shareholders equity. United will apply these disclosure changes retrospectively as required by the standard.

Note 3 Mergers and Acquisitions

On June 19, 2009, United Community Bank (UCB or the Bank) purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank (SCB) from the Federal Deposit Insurance Corporation (FDIC), as Receiver of SCB. UCB and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share 80 percent of loss recoveries on the first \$109 million of losses and, absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding \$109 million. The term for loss sharing on 1-4 Family loans is ten years, while the term for loss sharing on all other loans is five years.

Under the loss sharing agreement, the portion of the losses expected to be indemnified by FDIC is considered an indemnification asset in accordance with ASC 805 *Business Combinations*. The indemnification asset, referred to as estimated loss reimbursement from the FDIC is included in the balance of Assets covered by loss sharing agreements with the FDIC on the Consolidated Balance Sheet. The indemnification asset was recognized at fair value, which was estimated at the acquisition date based on the terms of the loss sharing agreement. The indemnification asset is expected to be collected over a four-year average life. No valuation allowance was required.

Loans, foreclosed property and the estimated FDIC reimbursement resulting from the loss sharing agreements with the FDIC are reported as assets covered by loss sharing agreements with the FDIC in the consolidated balance sheet.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The table below shows the components of covered assets at June 30, 2011 (*in thousands*).

| <i>(in thousands)</i> | Purchased Impaired Loans | Other Purchased Loans | Other | Total |
|--|---|--------------------------------------|--------------|--------------|
| Commercial (secured by real estate) | \$ | \$ 43,179 | \$ | \$ 43,179 |
| Commercial (commercial and industrial) | | 3,133 | | 3,133 |
| Construction and land development | 1,729 | 13,505 | | 15,234 |
| Residential mortgage | 186 | 8,913 | | 9,099 |
| Installment | 6 | 188 | | 194 |
| Total covered loans | 1,921 | 68,918 | | 70,839 |
| Covered foreclosed property | | | 8,270 | 8,270 |
| Estimated loss reimbursement from the FDIC | | | 16,617 | 16,617 |
| Total covered assets | \$ 1,921 | \$ 68,918 | \$ 24,887 | \$ 95,726 |

Note 4 Securities

During the second quarter of 2010, securities available for sale with a fair value of \$315 million were transferred to held to maturity. The securities were transferred at their fair value on the date of transfer. The unrealized gain of \$7.1 million on the transferred securities on the date of transfer is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities. Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost.

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2011, December 31, 2010 and June 30, 2010 are as follows (*in thousands*).

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| As of June 30, 2011 | | | | |
| U.S. Government agencies | \$ 5,000 | \$ | \$ | \$ 5,000 |
| State and political subdivisions | 49,122 | 1,823 | 292 | 50,653 |
| Mortgage-backed securities ⁽¹⁾ | 317,456 | 6,184 | 62 | 323,578 |
| Total | \$ 371,578 | \$ 8,007 | \$ 354 | \$ 379,231 |
| As of December 31, 2010 | | | | |
| U.S. Government agencies | \$ 11,939 | \$ 79 | \$ | \$ 12,018 |
| State and political subdivisions | 47,007 | 416 | 1,005 | 46,418 |
| Mortgage-backed securities ⁽¹⁾ | 206,861 | 2,700 | 9 | 209,552 |
| Total | \$ 265,807 | \$ 3,195 | \$ 1,014 | \$ 267,988 |

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As of June 30, 2010

| | | | | |
|---|------------|----------|-------|------------|
| U.S. Government agencies | \$ 70,284 | \$ 1,076 | \$ | \$ 71,360 |
| State and political subdivisions | 26,246 | 252 | 7 | 26,491 |
| Mortgage-backed securities ⁽¹⁾ | 225,618 | 4,046 | 18 | 229,646 |
| Total | \$ 322,148 | \$ 5,374 | \$ 25 | \$ 327,497 |

⁽¹⁾ All are residential type mortgage-backed securities

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The cost basis, unrealized gains and losses, and fair value of securities available for sale at June 30, 2011, December 31, 2010 and June 30, 2010 are presented below (*in thousands*).

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| As of June 30, 2011 | | | | |
| U.S. Government agencies | \$ 77,930 | \$ 61 | \$ 514 | \$ 77,477 |
| State and political subdivisions | 25,569 | 1,207 | 4 | 26,772 |
| Mortgage-backed securities ⁽¹⁾ | 1,556,910 | 35,991 | 283 | 1,592,618 |
| Other | 121,473 | 100 | 1,827 | 119,746 |
| Total | \$ 1,781,882 | \$ 37,359 | \$ 2,628 | \$ 1,816,613 |
| As of December 31, 2010 | | | | |
| U.S. Government agencies | \$ 99,969 | \$ 67 | \$ 1,556 | \$ 98,480 |
| State and political subdivisions | 27,600 | 878 | 36 | 28,442 |
| Mortgage-backed securities ⁽¹⁾ | 963,475 | 29,204 | 1,671 | 991,008 |
| Other | 107,811 | 192 | 1,516 | 106,487 |
| Total | \$ 1,198,855 | \$ 30,341 | \$ 4,779 | \$ 1,224,417 |
| As of June 30, 2010 | | | | |
| U.S. Government agencies | \$ 216,759 | \$ 936 | \$ | \$ 217,695 |
| State and political subdivisions | 32,998 | 1,001 | 14 | 33,985 |
| Mortgage-backed securities ⁽¹⁾ | 864,141 | 37,730 | 1,103 | 900,768 |
| Other | 13,160 | 168 | | 13,328 |
| Total | \$ 1,127,058 | \$ 39,835 | \$ 1,117 | \$ 1,165,776 |

⁽¹⁾ All are residential type mortgage-backed securities

The following table summarizes held to maturity securities in an unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

| | Less than 12 Months Unrealized | | 12 Months or More Unrealized | | Total Unrealized | |
|----------------------------------|-----------------------------------|--------|---------------------------------|------|---------------------|--------|
| | Fair Value | Loss | Fair Value | Loss | Fair Value | Loss |
| As of June 30, 2011 | | | | | | |
| State and political subdivisions | \$ 10,160 | \$ 292 | \$ | \$ | \$ 10,160 | \$ 292 |
| Mortgage-backed securities | 25,160 | 60 | 1,937 | 2 | 27,097 | 62 |
| Total unrealized loss position | \$ 35,320 | \$ 352 | \$ 1,937 | \$ 2 | \$ 37,257 | \$ 354 |

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As of December 31, 2010

| | | | | | | |
|----------------------------------|-----------|----------|----|----|-----------|----------|
| State and political subdivisions | \$ 28,949 | \$ 1,005 | \$ | \$ | \$ 28,949 | \$ 1,005 |
| Mortgage-backed securities | 1,951 | 9 | | | 1,951 | 9 |
| Total unrealized loss position | \$ 30,900 | \$ 1,014 | \$ | \$ | \$ 30,900 | \$ 1,014 |

As of June 30, 2010

| | | | | | | |
|----------------------------------|----------|-------|----|----|----------|-------|
| State and political subdivisions | \$ 1,145 | \$ 7 | \$ | \$ | \$ 1,145 | \$ 7 |
| Mortgage-backed securities | 1,963 | 18 | | | 1,963 | 18 |
| Total unrealized loss position | \$ 3,108 | \$ 25 | \$ | \$ | \$ 3,108 | \$ 25 |

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The following table summarizes available for sale securities in an unrealized loss position as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

| | Less than 12 Months | | 12 Months or More | | Total | |
|---------------------------------------|---------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| As of June 30, 2011 | | | | | | |
| U.S. Government agencies | \$ 54,482 | \$ 514 | \$ | \$ | \$ 54,482 | \$ 514 |
| State and political subdivisions | 301 | | 10 | 4 | 311 | 4 |
| Mortgage-backed securities | 169,907 | 283 | | | 169,907 | 283 |
| Other | 97,145 | 1,827 | | | 97,145 | 1,827 |
| Total unrealized loss position | \$ 321,835 | \$ 2,624 | \$ 10 | \$ 4 | \$ 321,845 | \$ 2,628 |
| As of December 31, 2010 | | | | | | |
| U.S. Government agencies | \$ 68,412 | \$ 1,556 | \$ | \$ | \$ 68,412 | \$ 1,556 |
| State and political subdivisions | 1,082 | 30 | 12 | 6 | 1,094 | 36 |
| Mortgage-backed securities | 59,505 | 1,630 | 2,799 | 41 | 62,304 | 1,671 |
| Other | 69,985 | 1,516 | | | 69,985 | 1,516 |
| Total unrealized loss position | \$ 198,984 | \$ 4,732 | \$ 2,811 | \$ 47 | \$ 201,795 | \$ 4,779 |
| As of June 30, 2010 | | | | | | |
| State and political subdivisions | \$ 300 | \$ 2 | \$ 401 | \$ 12 | \$ 701 | \$ 14 |
| Mortgage-backed securities | 19,499 | 456 | 25,639 | 647 | 45,138 | 1,103 |
| Total unrealized loss position | \$ 19,799 | \$ 458 | \$ 26,040 | \$ 659 | \$ 45,839 | \$ 1,117 |

At June 30, 2011, there were 28 available for sale securities and 13 held to maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2011 were primarily attributable to changes in interest rates.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analyst's reports. During the six months ended June 30, 2010, United recorded impairment losses of \$950,000 on investments in financial institutions that showed evidence of other-than-temporary impairment. No impairment losses were identified in the first six months of 2011.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three and six month periods ended June 30, 2011 and 2010 (*in thousands*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Proceeds from sales | \$ 55,363 | \$ | \$ 106,603 | \$ 40,817 |
| Gross gains on sales | \$ 838 | \$ | \$ 1,169 | \$ 1,260 |
| Gross losses on sales | 55 | | 331 | 249 |
| Impairment losses | | | | 950 |
| Net gains on sales of securities | \$ 783 | \$ | \$ 838 | \$ 61 |
| Income tax expense attributable to sales | \$ 305 | \$ | \$ 326 | \$ 24 |

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Securities with a carrying value of \$2.11 billion, \$1.43 billion, and \$1.12 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at June 30, 2011, December 31, 2010 and June 30, 2010.

The amortized cost and fair value of held to maturity and available for sale securities at June 30, 2011, by contractual maturity, are presented in the following table (*in thousands*).

| | Available for Sale | | Held to Maturity | |
|---|--------------------|--------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| U.S. Government agencies: | | | | |
| 5 to 10 years | \$ 64,350 | \$ 64,034 | \$ | \$ |
| More than 10 years | 13,580 | 13,443 | 5,000 | 5,000 |
| | 77,930 | 77,477 | 5,000 | 5,000 |
| State and political subdivisions: | | | | |
| Within 1 year | 4,715 | 4,781 | | |
| 1 to 5 years | 14,682 | 15,485 | 2,025 | 2,078 |
| 5 to 10 years | 5,324 | 5,627 | 21,273 | 22,336 |
| More than 10 years | 848 | 879 | 25,824 | 26,239 |
| | 25,569 | 26,772 | 49,122 | 50,653 |
| Other: | | | | |
| 1 to 5 years | 18,475 | 17,962 | | |
| 5 to 10 years | 99,546 | 99,033 | | |
| More than 10 years | 3,452 | 2,751 | | |
| | 121,473 | 119,746 | | |
| Total securities other than mortgage-backed securities: | | | | |
| Within 1 year | 4,715 | 4,781 | | |
| 1 to 5 years | 33,157 | 33,447 | 2,025 | 2,078 |
| 5 to 10 years | 169,220 | 168,694 | 21,273 | 22,336 |
| More than 10 years | 17,880 | 17,073 | 30,824 | 31,239 |
| Mortgage-backed securities | 1,556,910 | 1,592,618 | 317,456 | 323,578 |
| | \$ 1,781,882 | \$ 1,816,613 | \$ 371,578 | \$ 379,231 |

Expected maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 5 Loans and Allowance for Loan Losses

Major classifications of loans as of June 30, 2011, December 31, 2010 and June 30, 2010, are summarized as follows (*in thousands*).

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|--|--------------------------|------------------------------|--------------------------|
| Commercial (secured by real estate) | \$ 1,741,754 | \$ 1,761,424 | \$ 1,780,142 |
| Commercial construction | 195,190 | 296,582 | 342,140 |
| Commercial (commercial and industrial) | 428,058 | 441,518 | 441,097 |
| Total commercial | 2,365,002 | 2,499,524 | 2,563,379 |
| Residential construction | 501,909 | 695,166 | 819,930 |
| Residential mortgage | 1,177,226 | 1,278,780 | 1,355,582 |
| Consumer installment | 119,310 | 130,656 | 134,139 |
| Total loans | 4,163,447 | 4,604,126 | 4,873,030 |
| Less allowance for loan losses | 127,638 | 174,695 | 174,111 |
| Loans, net | \$ 4,035,809 | \$ 4,429,431 | \$ 4,698,919 |

The Bank makes loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market. Changes in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 are summarized as follows (*in thousands*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Balance beginning of period | \$ 133,121 | \$ 173,934 | \$ 174,695 | \$ 155,602 |
| Provision for loan losses | 11,000 | 61,500 | 201,000 | 136,500 |
| Charge-offs: | | | | |
| Commercial (secured by real estate) | 3,433 | 9,791 | 52,140 | 12,727 |
| Commercial construction | 980 | 1,460 | 50,695 | 3,671 |
| Commercial (commercial and industrial) | 604 | 1,764 | 4,966 | 6,318 |
| Residential construction | 6,769 | 41,781 | 99,024 | 85,971 |
| Residential mortgage | 4,667 | 6,752 | 41,343 | 11,392 |
| Consumer installment | 883 | 1,417 | 1,979 | 2,546 |
| Total loans charged-off | 17,336 | 62,965 | 250,147 | 122,625 |
| Recoveries: | | | | |
| Commercial (secured by real estate) | 174 | 34 | 274 | 1,006 |
| Commercial construction | 111 | | 111 | 5 |
| Commercial (commercial and industrial) | 81 | 897 | 403 | 1,341 |
| Residential construction | 140 | 266 | 257 | 1,356 |

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| | | | | |
|-----------------------|------------|------------|------------|------------|
| Residential mortgage | 78 | 235 | 371 | 324 |
| Consumer installment | 269 | 210 | 674 | 602 |
| Total recoveries | 853 | 1,642 | 2,090 | 4,634 |
| Net charge-offs | 16,483 | 61,323 | 248,057 | 117,991 |
| Balance end of period | \$ 127,638 | \$ 174,111 | \$ 127,638 | \$ 174,111 |

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

At June 30, 2011, December 31, 2010 and June 30, 2010, loans with a carrying value of \$991 million, \$1.02 billion and \$1.50 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

The following table presents the balance and activity in the allowance for loan losses by portfolio segment and the recorded investment in loans by portfolio segment based on impairment method as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

| | Commercial (Secured by Real Estate) | Commercial Construction | Commercial and Industrial | Commercial Residential Construction | Residential Mortgage | Residential Installments | Consumer Unallocated | Total |
|--|---|----------------------------|---------------------------------|---|-------------------------|-----------------------------|-------------------------|------------|
| Six Months Ended June 30, 2011 | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | \$ 31,191 | \$ 6,780 | \$ 7,580 | \$ 92,571 | \$ 22,305 | \$ 3,030 | \$ 11,238 | \$ 174,695 |
| Charge-offs | (52,140) | (50,695) | (4,966) | (99,024) | (41,343) | (1,979) | | (250,147) |
| Recoveries | 274 | 111 | 403 | 257 | 371 | 674 | | 2,090 |
| Provision | 42,671 | 51,256 | 4,016 | 55,249 | 49,063 | 498 | (1,753) | 201,000 |
| Ending balance | \$ 21,996 | \$ 7,452 | \$ 7,033 | \$ 49,053 | \$ 30,396 | \$ 2,223 | \$ 9,485 | \$ 127,638 |
| Ending allowance attributable to loans: | | | | | | | | |
| Individually evaluated for impairment | \$ 78 | \$ 450 | \$ | \$ | \$ 639 | \$ | \$ | \$ 1,167 |
| Collectively evaluated for impairment | 21,918 | 7,002 | 7,033 | 49,053 | 29,757 | 2,223 | 9,485 | 126,471 |
| Total ending allowance balance | \$ 21,996 | \$ 7,452 | \$ 7,033 | \$ 49,053 | \$ 30,396 | \$ 2,223 | \$ 9,485 | \$ 127,638 |
| Loans: | | | | | | | | |
| Individually evaluated for impairment | \$ 14,780 | \$ 1,015 | \$ | \$ 12,611 | \$ 7,247 | \$ | \$ | \$ 35,653 |
| Collectively evaluated for impairment | 1,726,974 | 194,175 | 428,058 | 489,298 | 1,169,979 | 119,310 | | 4,127,794 |

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| | | | | | | | | |
|-------------|--------------|------------|------------|------------|--------------|------------|----|--------------|
| Total loans | \$ 1,741,754 | \$ 195,190 | \$ 428,058 | \$ 501,909 | \$ 1,177,226 | \$ 119,310 | \$ | \$ 4,163,447 |
|-------------|--------------|------------|------------|------------|--------------|------------|----|--------------|

**December 31,
2010**

Allowance for
loan losses:

Ending
allowance
attributable to
loans:

| | | | | | | | | |
|---|--------|-------|-------|--------|--------|-------|--------|----------|
| Individually evaluated for impairment | \$ 268 | \$ | \$ | \$ 644 | \$ 137 | \$ | \$ | \$ 1,049 |
| Collectively evaluated for impairment | 30,923 | 6,780 | 7,580 | 91,927 | 22,168 | 3,030 | 11,238 | 173,646 |

Total ending
allowance
balance

| | | | | | | | |
|-----------|----------|----------|-----------|-----------|----------|-----------|------------|
| \$ 31,191 | \$ 6,780 | \$ 7,580 | \$ 92,571 | \$ 22,305 | \$ 3,030 | \$ 11,238 | \$ 174,695 |
|-----------|----------|----------|-----------|-----------|----------|-----------|------------|

Loans:

Individually
evaluated for
impairment

| | | | | | | | |
|-----------|-----------|----------|-----------|-----------|----|----|------------|
| \$ 41,818 | \$ 20,311 | \$ 5,874 | \$ 39,505 | \$ 15,468 | \$ | \$ | \$ 122,976 |
|-----------|-----------|----------|-----------|-----------|----|----|------------|

Collectively
evaluated for
impairment

| | | | | | | | |
|-----------|---------|---------|---------|-----------|---------|--|-----------|
| 1,719,606 | 276,271 | 435,644 | 655,661 | 1,263,312 | 130,656 | | 4,481,150 |
|-----------|---------|---------|---------|-----------|---------|--|-----------|

| | | | | | | | | |
|-------------|--------------|------------|------------|------------|--------------|------------|----|--------------|
| Total loans | \$ 1,761,424 | \$ 296,582 | \$ 441,518 | \$ 695,166 | \$ 1,278,780 | \$ 130,656 | \$ | \$ 4,604,126 |
|-------------|--------------|------------|------------|------------|--------------|------------|----|--------------|

**Six Months
Ended June 30,
2010**

Allowance for
loan losses:

Beginning
balance

| | | | | | | | |
|-----------|----------|----------|-----------|-----------|----------|-----------|------------|
| \$ 19,208 | \$ 5,861 | \$ 6,892 | \$ 93,585 | \$ 17,266 | \$ 2,545 | \$ 10,245 | \$ 155,602 |
|-----------|----------|----------|-----------|-----------|----------|-----------|------------|

Charge-offs

| | | | | | | | |
|----------|---------|---------|----------|----------|---------|--|-----------|
| (12,727) | (3,671) | (6,318) | (85,971) | (11,392) | (2,546) | | (122,625) |
|----------|---------|---------|----------|----------|---------|--|-----------|

Recoveries

| | | | | | | | |
|-------|---|-------|-------|-----|-----|--|-------|
| 1,006 | 5 | 1,341 | 1,356 | 324 | 602 | | 4,634 |
|-------|---|-------|-------|-----|-----|--|-------|

Provision

| | | | | | | | |
|--------|-------|-------|--------|--------|-------|-----|---------|
| 11,726 | 6,209 | 7,365 | 95,794 | 13,005 | 2,171 | 230 | 136,500 |
|--------|-------|-------|--------|--------|-------|-----|---------|

| | | | | | | | | |
|----------------|-----------|----------|----------|------------|-----------|----------|-----------|------------|
| Ending balance | \$ 19,213 | \$ 8,404 | \$ 9,280 | \$ 104,764 | \$ 19,203 | \$ 2,772 | \$ 10,475 | \$ 174,111 |
|----------------|-----------|----------|----------|------------|-----------|----------|-----------|------------|

Ending
allowance
attributable to
loans:

| | | | | | | | | | | | | | | | | |
|---------------------------------------|----|-----------|---------|---------|---------|-----------|---------|-----------|---------|-----------|----|---------|----|---------|-----------|---------|
| Individually evaluated for impairment | \$ | \$ | 203 | \$ | 30 | \$ | 685 | \$ | 222 | \$ | \$ | 1,140 | | | | |
| Collectively evaluated for impairment | | 19,213 | 8,201 | 9,250 | 104,079 | 18,981 | 2,772 | 10,475 | 172,971 | | | | | | | |
| Total ending allowance balance | \$ | 19,213 | \$ | 8,404 | \$ | 9,280 | \$ | 104,764 | \$ | 19,203 | \$ | 2,772 | \$ | 10,475 | \$ | 174,111 |
| Loans: | | | | | | | | | | | | | | | | |
| Individually evaluated for impairment | \$ | 48,018 | \$ | 16,917 | \$ | 7,909 | \$ | 65,622 | \$ | 24,106 | \$ | \$ | \$ | 162,572 | | |
| Collectively evaluated for impairment | | 1,732,124 | 325,223 | 433,188 | 754,308 | 1,331,476 | 134,139 | 4,710,458 | | | | | | | | |
| Total loans | \$ | 1,780,142 | \$ | 342,140 | \$ | 441,097 | \$ | 819,930 | \$ | 1,355,582 | \$ | 134,139 | \$ | \$ | 4,873,030 | |

United reviews all loans that are on nonaccrual with a balance of \$500,000 or greater for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

In the first quarter 2011, United's Board of Directors adopted an accelerated problem asset disposition plan which included the bulk sale of \$267 million in classified loans. Those loans were classified as held for sale at the end of the first quarter and were written down to the expected proceeds from the sale. The charge-offs on the loans transferred to held for sale in anticipation of the bulk loan sale which closed on April 18, 2011, increased first quarter 2011 loan charge-offs by \$186 million. The actual loss on the bulk loan sale at closing was less than the amount charged-off in the first quarter, resulting in a \$7.27 million reduction of second quarter 2011 charge-offs.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The recorded investments in individually evaluated impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010 were as follows (*in thousands*).

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|--|--------------------------|------------------------------|--------------------------|
| Period-end loans with no allocated allowance for loan losses | \$ 32,791 | \$ 115,338 | \$ 150,083 |
| Period-end loans with allocated allowance for loan losses | 2,862 | 7,638 | 12,489 |
| Total | \$ 35,653 | \$ 122,976 | \$ 162,572 |

Amount of allowance for loan losses allocated \$ 1,167 \$ 1,049 \$ 1,140
The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three and six months ended June 30, 2011 and 2010 (*in thousands*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Average balance of individually evaluated impaired loans during period | \$ 42,099 | \$ 171,469 | \$ 68,631 | \$ 191,161 |
| Interest income recognized during impairment | | | | |
| Cash-basis interest income recognized | | | | |

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

| | June 30, 2011 | | | December 31, 2010 | | | June 30, 2010 | | |
|--|---|-------------------|------------------|---|-------------------|------------------|---|-------------------|------------------|
| | Allowance for Unpaid Principal Recorded Balance Investment | | | Allowance for Unpaid Principal Recorded Balance Investment | | | Allowance for Unpaid Principal Recorded Balance Investment | | |
| | Balance | Investment | Allocated | Balance | Investment | Allocated | Balance | Investment | Allocated |
| With no related allowance recorded: | | | | | | | | | |
| Commercial (secured by real estate) | \$ 19,653 | \$ 13,572 | \$ | \$ 60,238 | \$ 39,588 | \$ | \$ 63,663 | \$ 48,018 | \$ |
| Commercial construction | | | | 33,898 | 20,311 | | 21,563 | 11,810 | |
| Commercial (commercial and industrial) | | | | 10,115 | 5,874 | | 9,212 | 7,172 | |
| | 19,653 | 13,572 | | 104,251 | 65,773 | | 94,438 | 67,000 | |

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| | | | | | | | | | |
|--|-----------|-----------|----------|------------|------------|----------|------------|------------|----------|
| Total commercial | | | | | | | | | |
| Residential construction | 27,441 | 12,611 | | 59,502 | 34,597 | | 128,082 | 62,595 | |
| Residential mortgage | 10,006 | 6,608 | | 21,528 | 14,968 | | 28,026 | 20,488 | |
| Consumer installment | | | | | | | | | |
| Total with no related allowance recorded | 57,100 | 32,791 | | 185,281 | 115,338 | | 250,546 | 150,083 | |
| With an allowance recorded: | | | | | | | | | |
| Commercial (secured by real estate) | 1,398 | 1,208 | 78 | 2,230 | 2,230 | 268 | | | |
| Commercial construction | 1,441 | 1,015 | 450 | | | | 5,146 | 5,107 | 203 |
| Commercial (commercial and industrial) | | | | | | | 737 | 737 | 30 |
| Total commercial | 2,839 | 2,223 | 528 | 2,230 | 2,230 | 268 | 5,883 | 5,844 | 233 |
| Residential construction | | | | 14,480 | 4,908 | 644 | 3,197 | 3,027 | 685 |
| Residential mortgage | 639 | 639 | 639 | 500 | 500 | 137 | 3,618 | 3,618 | 222 |
| Consumer installment | | | | | | | | | |
| Total with an allowance recorded | 3,478 | 2,862 | 1,167 | 17,210 | 7,638 | 1,049 | 12,698 | 12,489 | 1,140 |
| Total | \$ 60,578 | \$ 35,653 | \$ 1,167 | \$ 202,491 | \$ 122,976 | \$ 1,049 | \$ 263,244 | \$ 162,572 | \$ 1,140 |

There were no loans more than 90 days past due and still accruing interest at June 30, 2011, December 31, 2010 or June 30, 2010. Nonaccrual loans at June 30, 2011, December 31, 2010 and June 30, 2010 were \$71.1 million, \$179 million and \$224 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The following table presents the recorded investment (unpaid principal less amounts charged-off) in nonaccrual loans by loan class as of June 30, 2011, December 31, 2010 and June 30, 2010 (*in thousands*).

| | Nonaccrual Loans | | |
|--|-------------------------|-----------------|-----------------|
| | June 30, | December | June 30, |
| | 2011 | 31, | 2010 |
| | | 2010 | 2010 |
| Commercial (secured by real estate) | \$ 17,764 | \$ 44,927 | \$ 56,013 |
| Commercial construction | 2,782 | 21,374 | 17,872 |
| Commercial (commercial and industrial) | 1,998 | 5,611 | 7,245 |
| Total commercial | 22,544 | 71,912 | 81,130 |
| Residential construction | 22,643 | 54,505 | 88,375 |
| Residential mortgage | 24,809 | 51,083 | 53,175 |
| Consumer installment | 1,069 | 1,594 | 1,655 |
| Total | \$ 71,065 | \$ 179,094 | \$ 224,335 |

Balance as a percentage of unpaid principal 64.5% 67.2% 69.4%

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011, December 31, 2010 and June 30, 2010 by class of loans (*in thousands*).

| As of June 30, 2011 | 30 - 59 | 60 - 89 | Greater | Total | Loans Not | Total |
|--|-----------------|-----------------|------------------|--------------|------------------|-----------------|
| | Days | Days | Than 90 | Past | Past Due | Total |
| | Past Due | Past Due | Days Past | Due | Past Due | Past Due |
| | | | Due | | | |
| Commercial (secured by real estate) | \$ 6,990 | \$ 2,001 | \$ 11,605 | \$ 20,596 | \$ 1,721,158 | \$ 1,741,754 |
| Commercial construction | 930 | 651 | 1,985 | 3,566 | 191,624 | 195,190 |
| Commercial (commercial and industrial) | 1,496 | 624 | 809 | 2,929 | 425,129 | 428,058 |
| Total commercial | 9,416 | 3,276 | 14,399 | 27,091 | 2,337,911 | 2,365,002 |
| Residential construction | 2,942 | 2,242 | 15,774 | 20,958 | 480,951 | 501,909 |
| Residential mortgage | 13,788 | 3,594 | 12,678 | 30,060 | 1,147,166 | 1,177,226 |
| Consumer installment | 1,234 | 353 | 273 | 1,860 | 117,450 | 119,310 |
| Total loans | \$ 27,380 | \$ 9,465 | \$ 43,124 | \$ 79,969 | \$ 4,083,478 | \$ 4,163,447 |
| As of December 31, 2010 | | | | | | |
| Commercial (secured by real estate) | \$ 10,697 | \$ 3,672 | \$ 19,457 | \$ 33,826 | \$ 1,727,598 | \$ 1,761,424 |

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| | | | | | | |
|--|-----------|-----------|------------|------------|--------------|--------------|
| Commercial construction | 4,616 | 2,917 | 9,189 | 16,722 | 279,860 | 296,582 |
| Commercial (commercial and industrial) | 2,016 | 2,620 | 3,092 | 7,728 | 433,790 | 441,518 |
| Total commercial | 17,329 | 9,209 | 31,738 | 58,276 | 2,441,248 | 2,499,524 |
| Residential construction | 13,599 | 5,158 | 34,673 | 53,430 | 641,736 | 695,166 |
| Residential mortgage | 24,375 | 7,780 | 38,209 | 70,364 | 1,208,416 | 1,278,780 |
| Consumer installment | 2,104 | 462 | 808 | 3,374 | 127,282 | 130,656 |
| Total loans | \$ 57,407 | \$ 22,609 | \$ 105,428 | \$ 185,444 | \$ 4,418,682 | \$ 4,604,126 |

As of June 30, 2010

| | | | | | | |
|--|-----------|-----------|------------|------------|--------------|--------------|
| Commercial (secured by real estate) | \$ 18,192 | \$ 8,636 | \$ 36,010 | \$ 62,838 | \$ 1,717,304 | \$ 1,780,142 |
| Commercial construction | 10,563 | 1,307 | 10,451 | 22,321 | 319,819 | 342,140 |
| Commercial (commercial and industrial) | 4,175 | 1,668 | 3,775 | 9,618 | 431,479 | 441,097 |
| Total commercial | 32,930 | 11,611 | 50,236 | 94,777 | 2,468,602 | 2,563,379 |
| Residential construction | 33,499 | 10,224 | 48,302 | 92,025 | 727,905 | 819,930 |
| Residential mortgage | 28,905 | 7,707 | 40,271 | 76,883 | 1,278,699 | 1,355,582 |
| Consumer installment | 2,776 | 618 | 754 | 4,148 | 129,991 | 134,139 |
| Total loans | \$ 98,110 | \$ 30,160 | \$ 139,563 | \$ 267,833 | \$ 4,605,197 | \$ 4,873,030 |

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

There were no specific reserves established for loans considered to be troubled debt restructurings at June 30, 2011 and June 30, 2010. As of December 31, 2010, \$173,000 of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. United committed to lend additional amounts totaling up to \$396,000, \$1.17 million, and \$1.19 million as of June 30, 2011 and December 31, 2010, and June 30, 2010 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment. Also included in the table are the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted (*dollars in thousands*).

| | Number of Contracts | Pre- | Post- | Troubled Debt Restructurings That Have Subsequently Defaulted | |
|--|---------------------------|---|---|--|------------------------|
| | | Modification Outstanding Recorded Investment | Modification Outstanding Recorded Investment | Number of Contracts | Recorded Investment |
| As of June 30, 2011 | | | | | |
| Commercial (secured by real estate) | 31 | \$ 24,946 | \$ 21,998 | 4 | \$ 1,580 |
| Commercial construction | 5 | 9,477 | 9,477 | | |
| Commercial (commercial and industrial) | 5 | 156 | 156 | | |
| Total commercial | 41 | 34,579 | 31,631 | 4 | 1,580 |
| Residential construction | 46 | 11,741 | 10,718 | 4 | 763 |
| Residential mortgage | 29 | 3,937 | 3,784 | 2 | 155 |
| Consumer installment | 6 | 111 | 111 | | |
| Total loans | 122 | \$ 50,368 | \$ 46,244 | 10 | \$ 2,498 |
| As of December 31, 2010 | | | | | |
| Commercial (secured by real estate) | 41 | \$ 40,649 | \$ 36,759 | 3 | \$ 1,402 |
| Commercial construction | 16 | 37,980 | 37,067 | 2 | 1,083 |
| Commercial (commercial and industrial) | 7 | 645 | 364 | 1 | 7 |
| Total commercial | 64 | 79,274 | 74,190 | 6 | 2,492 |
| Residential construction | 63 | 22,012 | 20,782 | 11 | 2,028 |
| Residential mortgage | 43 | 6,574 | 6,285 | 4 | 324 |
| Consumer installment | 7 | 124 | 124 | | |
| Total loans | 177 | \$ 107,984 | \$ 101,381 | 21 | \$ 4,844 |

As of June 30, 2010

| | | | | | | | | |
|--|-----|----|--------|----|--------|----|----|-------|
| Commercial (secured by real estate) | 44 | \$ | 34,629 | \$ | 32,986 | 1 | \$ | 103 |
| Commercial construction | 8 | | 18,437 | | 18,402 | | | |
| Commercial (commercial and industrial) | 7 | | 265 | | 265 | | | |
| Total commercial | 59 | | 53,331 | | 51,653 | 1 | | 103 |
| Residential construction | 44 | | 20,234 | | 18,758 | 7 | | 1,478 |
| Residential mortgage | 33 | | 6,980 | | 6,518 | 2 | | 639 |
| Consumer installment | 5 | | 987 | | 987 | | | |
| Total loans | 141 | \$ | 81,532 | \$ | 77,916 | 10 | \$ | 2,220 |

Risk Ratings

United categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. United uses the following definitions for its risk ratings:

Watch. Weakness exists 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.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Substandard. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful. Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss. Loans categorized as Loss have the same characteristics as Doubtful however probability of loss is certain. Loans classified as Loss are generally charged-off.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally deposit account overdrafts that have not been assigned a grade.

As of June 30, 2011, December 31, 2010 and June 30, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (*in thousands*).

| | Pass | Watch | Substandard | Doubtful / Loss | Not Rated | Total |
|--|--------------|------------|-------------|-----------------------|--------------|--------------|
| As of June 30, 2011 | | | | | | |
| Commercial (secured by real estate) | \$ 1,508,284 | \$ 98,175 | \$ 135,295 | \$ | \$ | \$ 1,741,754 |
| Commercial construction | 143,609 | 17,452 | 34,129 | | | 195,190 |
| Commercial (commercial and industrial) | 404,704 | 3,682 | 18,647 | | 1,025 | 428,058 |
| Total commercial | 2,056,597 | 119,309 | 188,071 | | 1,025 | 2,365,002 |
| Residential construction | 353,769 | 51,223 | 96,917 | | | 501,909 |
| Residential mortgage | 1,046,255 | 35,775 | 95,196 | | | 1,177,226 |
| Consumer installment | 114,718 | 608 | 3,984 | | | 119,310 |
| Total loans | \$ 3,571,339 | \$ 206,915 | \$ 384,168 | \$ | \$ 1,025 | \$ 4,163,447 |
| As of December 31, 2010 | | | | | | |
| Commercial (secured by real estate) | \$ 1,476,974 | \$ 82,762 | \$ 201,688 | \$ | \$ | \$ 1,761,424 |
| Commercial construction | 174,049 | 10,413 | 112,120 | | | 296,582 |
| Commercial (commercial and industrial) | 402,969 | 15,153 | 22,379 | | 1,017 | 441,518 |
| Total commercial | 2,053,992 | 108,328 | 336,187 | | 1,017 | 2,499,524 |
| Residential construction | 398,926 | 82,973 | 213,267 | | | 695,166 |
| Residential mortgage | 1,103,487 | 38,378 | 136,915 | | | 1,278,780 |
| Consumer installment | 125,134 | 650 | 4,872 | | | 130,656 |
| Total loans | \$ 3,681,539 | \$ 230,329 | \$ 691,241 | \$ | \$ 1,017 | \$ 4,604,126 |

As of June 30, 2010

| | | | | | | |
|--|--------------|------------|------------|------|----------|--------------|
| Commercial (secured by real estate) | \$ 1,500,246 | \$ 83,078 | \$ 196,818 | \$ | \$ | \$ 1,780,142 |
| Commercial construction | 210,471 | 35,360 | 96,309 | | | 342,140 |
| Commercial (commercial and industrial) | 402,795 | 7,858 | 29,285 | | 1,159 | 441,097 |
| Total commercial | 2,113,512 | 126,296 | 322,412 | | 1,159 | 2,563,379 |
| Residential construction | 485,047 | 97,208 | 237,675 | | | 819,930 |
| Residential mortgage | 1,173,580 | 49,337 | 132,665 | | | 1,355,582 |
| Consumer installment | 127,717 | 410 | 6,008 | 4 | | 134,139 |
| Total loans | \$ 3,899,856 | \$ 273,251 | \$ 698,760 | \$ 4 | \$ 1,159 | \$ 4,873,030 |

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 6 Foreclosed Property

Major classifications of foreclosed properties at June 30, 2011, December 31, 2010 and June 30, 2010 are summarized as follows (*in thousands*).

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|-------------------------------------|--------------------------|----------------------------------|--------------------------|
| Commercial (secured by real estate) | \$ 11,944 | \$ 25,893 | \$ 14,390 |
| Commercial construction | 6,764 | 17,808 | 11,699 |
| Total commercial | 18,708 | 43,701 | 26,089 |
| Residential construction | 47,916 | 91,385 | 80,327 |
| Residential mortgage | 11,346 | 23,687 | 26,066 |
| Total foreclosed property | 77,970 | 158,773 | 132,482 |
| Less valuation allowance | 30,386 | 16,565 | 8,572 |
| Foreclosed property, net | \$ 47,584 | \$ 142,208 | \$ 123,910 |

Balance as a percentage of original loan unpaid principal 32.6% 64.4% 71.9%
Activity in the valuation allowance for foreclosed property is presented in the following table (*in thousands*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of year | \$ 53,023 | \$ 9,992 | \$ 16,565 | \$ 7,433 |
| Additions charged to expense | 3,118 | 6,094 | 51,703 | 10,673 |
| Direct write downs | (25,755) | (7,514) | (37,882) | (9,534) |
| Balance at end of period | \$ 30,386 | \$ 8,572 | \$ 30,386 | \$ 8,572 |

Expenses related to foreclosed assets include (*in thousands*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net (gain) loss on sales | \$ (3,218) | \$ 5,098 | \$ 8,802 | \$ 8,616 |
| Provision for unrealized losses | 3,118 | 6,094 | 51,703 | 10,673 |
| Operating expenses, net of rental income | 1,991 | 3,348 | 6,285 | 6,064 |
| Total foreclosed property expense | \$ 1,891 | \$ 14,540 | \$ 66,790 | \$ 25,353 |

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 7 Earnings Per Share

United is required to report on the face of the statement of operations, earnings (loss) per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. During the three and six months ended June 30, 2011 and 2010, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (*in thousands*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Series A 6% fixed | \$ 4 | \$ 4 | \$ 7 | \$ 7 |
| Series B 5% fixed until December 6, 2013, 9% thereafter | 2,598 | 2,573 | 5,200 | 5,142 |
| Series D LIBOR plus 9.6875%, resets quarterly | 414 | | 587 | |
| Total preferred stock dividends | \$ 3,016 | \$ 2,577 | \$ 5,794 | \$ 5,149 |

All preferred stock dividends are payable quarterly.

Series B preferred stock was issued at a discount. Dividend amounts shown include discount accretion for each period.

There is no dilution from potentially dilutive securities for the six months ended June 30, 2011 and the three and six months ended June 30, 2010, due to the antidilutive effect of the net loss for those periods.

The following table sets forth the computation of basic and diluted loss per share for the three and six months ended June 30, 2011 and 2010 (*in thousands, except per share data*).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net loss available to common shareholders | \$ 4,601 | \$ (62,109) | \$ (140,663) | \$ (97,974) |
| Weighted average shares outstanding: | | | | |
| Basic | 25,427 | 18,905 | 21,965 | 18,891 |
| Effect of dilutive securities | | | | |
| Convertible securities | 32,116 | | | |
| Stock options | | | | |
| Warrants | | | | |
| Diluted | 57,543 | 18,905 | 21,965 | 18,891 |
| Loss per common share: | | | | |
| Basic | \$.18 | \$ (3.29) | \$ (6.40) | \$ (5.19) |

Diluted \$.08 \$ (3.29) \$ (6.40) \$ (5.19)

At June 30, 2011, United had a number of potentially dilutive securities outstanding including a warrant to purchase 219,909 common shares at \$61.40 per share issued to the U.S. Treasury in connection with the issuance of United's Series B preferred stock; 129,670 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of \$100 per share; 606,112 shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$96.11; 390,947 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 shares issuable upon exercise of warrants exercisable at \$21.25 per share granted to Fletcher International in connection with a 2010 asset purchase and sale agreement; 2,476,191 shares issuable upon conversion of preferred stock if Fletcher International exercises its option to purchase \$65 million in convertible preferred stock, convertible at \$26.25 per share; 1,162,791 shares issuable upon exercise of warrants, exercisable at \$30.10 per share to be granted to Fletcher International upon exercise of its option to acquire preferred stock; and 1,551,126 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at \$12.50 per share.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 8 Derivatives and Hedging Activities**Risk Management Objective of Using Derivatives**

United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and through the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. United's derivative financial instruments are used to manage differences in the amount, timing, and duration of United's known or expected cash receipts and its known or expected cash payments principally related to United's loans and wholesale borrowings.

The table below presents the fair value of United's derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2011, December 31, 2010 and June 30, 2010.

Derivatives designated as hedging instruments under ASC 815 *Hedge Accounting* (in thousands).

| Interest Rate Products | Balance Sheet Location | June 30, 2011 | Fair Value December 31, 2010 | June 30, 2010 |
|-------------------------------|-------------------------------|----------------------|-------------------------------------|----------------------|
| Asset derivatives | Other assets | \$ | \$ | \$ 1,167 |

As of June 30, 2011, December 31, 2010 and June 30, 2010, United did not have any derivatives in a net liability position.

Cash Flow Hedges of Interest Rate Risk

United's objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United primarily uses interest rate swaps as part of its interest rate risk management strategy. For United's variable-rate loans, interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up front premium. United had no active derivative contracts outstanding at June 30, 2011 or December 31, 2010 that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated, and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2010, such derivatives were used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2011, \$2.81 million and \$4.11 million, respectively, in hedge ineffectiveness was recognized in other fee revenue. During the three and six months ended June 30, 2010, \$120,000 and \$642,000, respectively, in hedge ineffectiveness was recognized in other fee revenue.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United's prime-based, variable-rate loans. At June 30, 2011, the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three and six months ended June 30, 2011, United accelerated the reclassification of \$2.81 million and

\$4.11 million, respectively, in gains from terminated positions as a result of forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that an additional \$7.24 million of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in LIBOR, a benchmark interest rate. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of June 30, 2011 and December 31, 2010, United had no active derivatives designated as fair value hedges of interest rate risk.

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2011 and 2010, United recognized net gains of \$119,000 and \$207,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$1.38 million for the three months ended June 30, 2010 related to United's fair value hedges, which includes net settlements on the derivatives. For the six months ended June 30, 2010, United recognized a net reduction of interest expense of \$3.16 million, related to United's fair value hedges. There were no active fair value hedges during the first six months of 2011.

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of United's derivative financial instruments on the consolidated statement of operations for the three and six months ended June 30, 2011 and 2010.

Derivatives in Fair Value Hedging Relationships *(in thousands)*.

| Location of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative | | Amount of Gain (Loss) Recognized in Income on Hedged Item | |
|--|--|------------|---|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Three Months Ended June 30, | | | | |
| Other fee revenue | \$ | \$ (1,397) | \$ | \$ 1,516 |
| Six Months Ended June 30, | | | | |
| Other fee revenue | \$ | \$ (2,592) | \$ | \$ 2,799 |

Derivatives in Cash Flow Hedging Relationships *(in thousands)*.

| | Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) | | Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) | |
|--|---|--------|---|-----------|
| | 2011 | 2010 | Location 2011 | 2010 |
| Three Months Ended June 30, | | | | |
| | | | Interest revenue | \$ 4,922 |
| | | | Other income | 120 |
| Interest rate products | \$ | \$ 840 | Total | \$ 5,042 |
| Six Months Ended June 30, | | | | |
| | | | | \$ 10,934 |

| | | | | | | |
|------------------------|----|----|---------------------|-------|----|--------|
| | | | Interest revenue | | | |
| | | | Other income | 4,112 | | 643 |
| Interest rate products | \$ | \$ | 2,314 | Total | \$ | 9,624 |
| | | | | | \$ | 11,577 |

Credit-risk-related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bi-lateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. At June 30, 2011, United had no active derivative positions and therefore no credit support agreements remained in effect.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 9 Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as nonvested stock awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of June 30, 2011, 336,700 additional awards could be granted under the plan, subject to shareholder approval of a 400,000 increase in shares available under the plan. Through June 30, 2011, incentive stock options, nonqualified stock options, restricted stock awards and units and base salary stock grants had been granted under the plan.

The following table shows stock option activity for the first six months of 2011.

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (\$000) |
|----------------------------------|---------------|--|--|--|
| Outstanding at December 31, 2010 | 678,313 | \$ 92.99 | | |
| Forfeited | (6,527) | 42.59 | | |
| Expired | (65,674) | 69.26 | | |
| Outstanding at June 30, 2011 | 606,112 | 96.11 | 4.4 | \$ |
| Exercisable at June 30, 2011 | 548,453 | 100.77 | 4.0 | |

No options were granted during the first six months of 2011. The fair value of each option is estimated on the date of grant using the Black-Scholes model. Because United's option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the SEC in Staff Accounting Bulletin (SAB) No. 107 to determine the expected life of options.

The weighted average assumptions used to determine the fair value of stock options are presented in the table below.

| | Six Months Ended | June 30, |
|--------------------------|-------------------------|-----------------|
| | 2011 | 2010 |
| Expected volatility | NA | 55.00% |
| Expected dividend yield | NA | 0.00% |
| Expected life (in years) | NA | 6.14 |
| Risk-free rate | NA | 3.19% |

For 2010, expected volatility was determined using United's historical monthly volatility for over a period of 25 quarters ending December 31, 2009. Compensation expense relating to stock options of \$465,000 and \$1.1 million was included in earnings for the six months ended June 30, 2011 and 2010, respectively. Deferred tax benefits of \$181,000 and \$430,000, respectively, were included in the determination of income tax benefit for the six month

periods ended June 30, 2011 and 2010. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that are expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first six months of 2011 or 2010.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The table below presents the activity in restricted stock awards for the first six months of 2011.

| Restricted Stock | Shares | Weighted-Average Grant-Date Fair Value |
|----------------------------------|---------------|---|
| Outstanding at December 31, 2010 | 23,214 | \$ 59.67 |
| Granted | 375,532 | 10.25 |
| Vested | (7,799) | 51.86 |
| Outstanding at June 30, 2011 | 390,947 | 12.35 |

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the six months ended June 30, 2011 and 2010, compensation expense of \$293,000 and \$325,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was \$4.12 million at June 30, 2011.

As of June 30, 2011, there was \$5.18 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.51 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2011, was \$1.99 million.

Note 10 Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan (DRIP) that allows participants who already own United's common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. United's 401(k) retirement plan regularly purchases shares of United's common stock directly from United. In addition, United has an Employee Stock Purchase Program (ESPP) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the six months ended June 30, 2011 and 2010, United issued 78,584 and 41,818 shares, respectively, and increased capital by \$744,000 and \$940,000, respectively, through these programs. The DRIP program has been suspended until 2012 when United expects to regain its S-3 filing status.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At June 30, 2011 and 2010, 83,575 and 56,954 shares, respectively, were issuable under the deferred compensation plan.

On February 22, 2011, United entered into a share exchange agreement (the Share Exchange Agreement) with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively referred to as Elm Ridge Parties). Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company's common stock in exchange for 16,613 shares of the Company's cumulative perpetual preferred stock, Series D, and warrants to purchase 1,551,126 common shares with an exercise price of \$12.50 per share that expires on August 22, 2013. This exchange transaction did not result in a net increase or decrease to total shareholder's equity for the six months ended June 30, 2011.

During the first quarter of 2011, United entered into investment agreements (the Investment Agreements) with Corsair Georgia, L.P. (Corsair) and a group of institutional investors (the Additional Investors). United issued 3,467,699 of the Company's common stock for \$9.50 per share, 195,872 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the Series F Preferred Stock), and 151,185 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the Series G Preferred Stock). Under the terms of the

Investment Agreements and following receipt of required shareholder approvals which were received on June 16, 2011, at United's annual shareholders' meeting, the Series F Preferred Stock converted into 20,618,090 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. This private placement transaction resulted in an increase to shareholders' equity of \$362 million, net of \$18.4 million in issuance costs. Following conversion of the convertible preferred stock, Corsair owned approximately 22.5% of United's total outstanding common stock. The Additional Investors owned approximately 47.2% of United's outstanding common stock.

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 11 Reclassifications and Reverse Stock Split**

Certain 2010 amounts have been reclassified to conform to the 2011 presentation. On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United's common stock was reclassified into one share of common stock, and each 5 shares of United's non-voting common stock was reclassified into one share of non-voting common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

Note 12 Discontinued Operations

On March 31, 2010, United completed the sale of its consulting subsidiary, Brintech, Inc. (Brintech). The sales price was \$2.9 million with United covering certain costs related to the sale transaction resulting in a net, pre-tax gain of \$2.1 million. As a result of the sale, Brintech is presented in the consolidated financial statements as a discontinued operation with all revenue and expenses related to the sold operations deconsolidated from the consolidated statement of operations for all periods presented. The net results of operations from Brintech are reported on a separate line on the consolidated statement of operations titled Loss from discontinued operations, net of income taxes. The gain from the sale, net of income taxes and selling costs, is presented on a separate line titled Gain from sale of subsidiary, net of income taxes and selling costs.

Note 13 Transaction with Fletcher International

On April 1, 2010, United entered into a securities purchase agreement with Fletcher International, Ltd. and the Bank entered into an asset purchase and sale agreement with Fletcher International, Inc. and certain affiliates thereof. Under the terms of the agreements, the Bank sold \$103 million in nonperforming commercial and residential mortgage loans and foreclosed properties to Fletcher's affiliates with a nominal aggregate sales price equal to the Bank's carrying amount. The nonperforming assets sale transaction closed on April 30, 2010. The consideration for the sale consisted of \$20.6 million in cash and a loan for \$82.4 million. Fletcher formed six affiliated LLCs to purchase the nonperforming assets from United. A separate loan was made to each of the affiliated LLCs with the assets of each LLC cross pledged as collateral to each of the six loans. The loans each have a five year term with principal and interest payments required according to a 20-year amortization table. Interest accrues at a fixed rate of 3.5%. Additional principal payments are required prior to the release of properties serving as collateral for the loans as those properties are sold. The loans have paid according to their contractual terms since their inception.

As part of the agreement, Fletcher received a warrant to acquire 1,411,765 shares of United's common stock at a price of \$21.25 per share. The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. In accordance with the terms of the securities purchase agreement, Fletcher has the right during the next two years to purchase up to \$65 million in United's Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock pays a dividend equal to the lesser of 8% or LIBOR plus 4%. The Series C Convertible Preferred Stock is convertible by Fletcher into common stock at \$26.25 per share (2,476,191 shares). If Fletcher had not purchased all of the Series C Convertible Preferred Stock by May 31, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of the commitment amount not purchased by May 31, 2012. Fletcher has paid United \$3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 31, 2011. The payment was recorded directly in shareholders' equity, net of applicable income tax effects. Fletcher will receive an additional warrant to purchase \$35 million in common stock at \$30.10 per share (1,162,791 shares) when it purchases the last \$35 million of Series C Convertible Preferred Stock. All of the warrants settle on a cashless exercise basis and the net shares to be delivered upon cashless exercise will be less than what would have been issuable if the warrant had been exercised for cash.

All of the components of the transaction, including all equity instruments issued under the securities purchase agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of \$45.3 million on the transaction with Fletcher in the second quarter of 2010.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

| | Valuation Approach | Fair Value Heirarchy | Fair Value |
|--|----------------------------|---------------------------------|-----------------------|
| Warrants Issued / Assets Transferred to Fletcher at Fair Value: | | | |
| Warrant to purchase \$30 million in common stock at \$21.25 per share | Black-Scholes | Level 3 | \$ 17,577 |
| Option to purchase convertible preferred stock and warrant | Monte-Carlo Simulation | Level 3 | 22,236 |
| | | | 39,813 |
| Fair value of equity instruments recognized in capital surplus | | | |
| Foreclosed properties transferred under Asset Purchase Agreement | Appraised Value | Level 2 | 33,434 |
| Nonperforming loans transferred under Asset Purchase Agreement | Collateral Appraised Value | Level 2 | 69,655 |
| Total nonperforming assets transferred | | | 103,089 |
| Total value of assets and equity instruments transferred | | | 142,902 |
| Less Cash and Notes Receivable Received in Exchange at Fair Value: | | | |
| Cash down payment received from asset sale | NA | NA | 20,618 |
| Notes receivable (par value \$82,471, net of \$4,531 discount) | Discounted Cash Flows | Level 3 | 77,940 |
| Total value of cash and notes receivable received | | | 98,558 |
| Fair value of assets and equity instruments transferred in excess of cash and notes received | | | 44,344 |
| Transaction fees | | | 1,005 |
| Loss recognized on Fletcher transaction | | | \$ 45,349 |

The \$17.6 million value of the warrant to purchase \$30 million in common stock was determined as of April 1, 2010, the date the terms were agreed to. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price \$23.85; term 9 years; and volatility 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and

incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

The \$103 million of nonperforming assets sold were transferred at United's carrying amount which had previously been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

The \$82.5 million of notes receivable were recorded at their estimated fair value of \$77.9 million, net of a \$4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing time for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 14 Assets and Liabilities Measured at Fair Value**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of June 30, 2011, December 31, 2010 and June, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (*in thousands*).

| June 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|-----------------|---------------------|-----------------|---------------------|
| Assets | | | | |
| Securities available for sale: | | | | |
| U.S. Government agencies | \$ | \$ 77,477 | \$ | \$ 77,477 |
| State and political subdivisions | | 26,772 | | 26,772 |
| Mortgage-backed securities | | 1,588,489 | 4,129 | 1,592,618 |
| Other | | 119,396 | 350 | 119,746 |
| Deferred compensation plan assets | 3,025 | | | 3,025 |
| Total | \$ 3,025 | \$ 1,812,134 | \$ 4,479 | \$ 1,819,638 |
| Liabilities | | | | |
| Deferred compensation plan liability | \$ 3,025 | \$ | \$ | \$ 3,025 |
| Total liabilities | \$ 3,025 | \$ | \$ | \$ 3,025 |
| | | | | |
| December 31, 2010 | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Securities available for sale: | | | | |
| U.S. Government agencies | \$ | \$ 98,480 | \$ | \$ 98,480 |
| State and political subdivisions | | 28,442 | | 28,442 |
| Mortgage-backed securities | | 986,074 | 4,934 | 991,008 |
| Other | | 106,137 | 350 | 106,487 |
| Deferred compensation plan assets | 3,252 | | | 3,252 |
| Total | \$ 3,252 | \$ 1,219,133 | \$ 5,284 | \$ 1,227,669 |
| Liabilities | | | | |
| Deferred compensation plan liability | \$ 3,252 | \$ | \$ | \$ 3,252 |
| Total liabilities | \$ 3,252 | \$ | \$ | \$ 3,252 |
| | | | | |
| June 30, 2010 | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Securities available for sale: | | | | |
| U.S. Government agencies | \$ | \$ 179,172 | \$ 38,523 | \$ 217,695 |
| State and political subdivisions | | 33,985 | | 33,985 |

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| | | | | |
|-----------------------------------|-------|---------|--------|---------|
| Mortgage-backed securities | | 884,514 | 16,254 | 900,768 |
| Other | | 12,278 | 1,050 | 13,328 |
| Deferred compensation plan assets | 2,701 | | | 2,701 |
| Derivative financial instruments | | 1,167 | | 1,167 |

| | | | | |
|-------|----------|--------------|-----------|--------------|
| Total | \$ 2,701 | \$ 1,111,116 | \$ 55,827 | \$ 1,169,644 |
|-------|----------|--------------|-----------|--------------|

Liabilities

| | | | | |
|--------------------------------------|----------|----|----|----------|
| Deferred compensation plan liability | \$ 2,701 | \$ | \$ | \$ 2,701 |
|--------------------------------------|----------|----|----|----------|

| | | | | |
|-------------------|----------|----|----|----------|
| Total liabilities | \$ 2,701 | \$ | \$ | \$ 2,701 |
|-------------------|----------|----|----|----------|

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs that are classified as Level 3 values (*in thousands*).

| | Securities Available for Sale |
|------------------------------|-------------------------------------|
| Balance at December 31, 2010 | \$ 5,284 |
| Amounts included in earnings | (13) |
| Paydowns | (792) |
| | |
| Balance at June 30, 2011 | \$ 4,479 |

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United's assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2011, December 31, 2010 and June 30, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (*in thousands*).

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|---------|---------|------------|------------|
| June 30, 2011 | | | | |
| Assets | | | | |
| Loans | \$ | \$ | \$ 27,810 | \$ 27,810 |
| Foreclosed properties | | | 41,922 | 41,922 |
| | | | | |
| Total | \$ | \$ | \$ 69,732 | \$ 69,732 |
| | | | | |
| December 31, 2010 | | | | |
| Assets | | | | |
| Loans | \$ | \$ | \$ 106,904 | \$ 106,904 |
| Foreclosed properties | | | 85,072 | 85,072 |
| | | | | |
| Total | \$ | \$ | \$ 191,976 | \$ 191,976 |
| | | | | |
| June 30, 2010 | | | | |
| Assets | | | | |
| Loans | \$ | \$ | \$ 140,807 | \$ 140,807 |
| Foreclosed properties | | | 70,686 | 70,686 |
| | | | | |
| Total | \$ | \$ | \$ 211,493 | \$ 211,493 |

Assets and Liabilities Not Measured at Fair Value

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

The short maturity of United's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet value. As of June 30, 2010 the fair value of interest rate contracts used for balance sheet management was an asset of approximately \$1.17 million. United did not have any active derivative contracts outstanding at June 30, 2011 or December 31, 2010.

Table of Contents

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect the premium or discount on any particular financial instrument that could result from the sale of United's entire holdings. Because no ready market exists for a significant portion of United's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have significant effect on fair value estimates and have not been considered in the estimates.

Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

The carrying amount and fair values for other financial instruments that are not measured at fair value in United's balance sheet at June 30, 2011, December 31, 2010, and June 30, 2010 are as follows (*in thousands*).

| | June 30, 2011 | | December 31, 2010 | | June 30, 2010 | |
|---------------------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | | | |
| Securities held to maturity | \$ 371,578 | \$ 379,231 | \$ 265,807 | \$ 267,988 | \$ 322,148 | \$ 327,497 |
| Loans, net | 4,035,809 | 3,889,669 | 4,429,431 | 4,196,142 | 4,698,919 | 4,407,376 |
| Liabilities: | | | | | | |
| Deposits | 6,183,215 | 6,174,117 | 6,469,172 | 6,481,867 | 6,329,512 | 6,350,449 |
| Federal Home Loan Bank advances | 40,625 | 43,763 | 55,125 | 59,498 | 104,138 | 110,964 |
| Long-term debt | 150,186 | 140,771 | 150,146 | 93,536 | 150,106 | 122,949 |

Note 15 Bulk Sale of Loans

On April 18, 2011, United completed the bulk sale of \$80.6 million of loans that were reported as held for sale at March 31, 2011. The proceeds from the bulk sale were \$87.9 million which resulted in a reduction of charge-offs in the second quarter of 2011.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as believes, expects, may, will, could, should, projects, plans, goal, targets, p
 forma, seeks, intends, or anticipates or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carryforwards;
- the condition of the banking system and financial markets;
- the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy was to continue to deteriorate;
- our ability to raise capital as may be necessary;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- the accounting and reporting policies of United;
- if our allowance for loan losses is not sufficient to cover actual loan losses;
- we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- competition from financial institutions and other financial service providers;
- the United States Department of Treasury may change the terms of our Series B Preferred Stock;
- risks with respect to future expansion and acquisitions;
- conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the Federal Deposit Insurance Corporation (FDIC) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings; and
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to

place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United Community Bank, Inc. (United) and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

Table of Contents

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At June 30, 2011 United had total consolidated assets of \$7.41 billion, total loans of \$4.16 billion, excluding the loans acquired from Southern Community Bank (SCB) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of \$6.18 billion and stockholders' equity of \$860 million.

United's activities are primarily conducted by its wholly owned Georgia banking subsidiary (the Bank). The Bank operations are conducted under a community bank model that operates 27 community banks with local bank presidents and boards in north Georgia, the Atlanta-Sandy Springs-Marietta, Georgia metropolitan statistical area (the Atlanta MSA), the Gainesville, Georgia metropolitan statistical area (the Gainesville MSA), coastal Georgia, western North Carolina, and east Tennessee.

On March 31, 2010, United sold Brintech, Inc., (Brintech) a consulting services firm for the financial services industry, resulting in a pre-tax gain of \$2.1 million, net of selling costs. The income statements for all periods presented reflect Brintech as a discontinued operation with revenue, expenses and income taxes related to Brintech removed from revenue, expenses, income taxes and loss from continuing operations. The balance sheet and cash flow statement have not been adjusted to reflect Brintech as a discontinued operation as Brintech's assets and contribution to cash flows were not material.

On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United's common stock was reclassified into one share of common stock, and each 5 shares of United's non-voting common stock was reclassified into one share of non-voting common stock. All prior periods presented have been adjusted to reflect the reclassification.

Operating income (loss) from continuing operations and operating income (loss) from continuing operations per diluted share are non-GAAP performance measures. United's management believes that operating performance is useful in analyzing United's financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 35.

United reported net operating income from continuing operations of \$7.62 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of \$59.5 million for the second quarter of 2010. Diluted operating income from continuing operations per common share was \$.08 for the second quarter of 2011, compared to a diluted operating loss from continuing operations per common share of \$3.29 for the second quarter of 2010. The loss on sale of nonperforming assets to Fletcher added approximately \$1.59 per share to the diluted operating loss from continuing operations for the second quarter of 2010.

For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of \$135 million. This compared to a net operating loss from continuing operations of \$94.0 million for the first six months of 2010, which included the \$30.0 million after-tax loss from the Fletcher transaction. Net loss for the six months ended June 30, 2010, which includes discontinued operations, totaled \$92.8 million. Diluted operating loss from continuing operations per common share was \$6.40 for the six months ended June 30, 2011, compared with diluted operating loss from continuing operations per common share of \$5.25 for the same period in 2010.

United's operating provision for loan losses was \$11.0 million for the three months ended June 30, 2011, compared to \$61.5 million for the same period in 2010. Net charge-offs for the second quarter of 2011 were \$16.5 million, compared to \$61.3 million for the second quarter of 2010. For the six months ended June 30, 2011, United's operating provision for loan losses was \$201 million, compared to \$137 million for the same period of 2010. Net charge-offs for the first six months of 2011 were \$248 million, compared to \$118 million for the first six months of 2010. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of \$166 million and nonperforming loans with a pre-charge down carrying amount of \$101 million were collectively written down to the expected sales proceeds of \$80.6 million, in conjunction with a bulk transaction (the Bulk Loan Sale). United recognized net charge-offs of \$186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of \$7.27 million. As of June 30, 2011, United's allowance for loan losses was \$128 million, or 3.07% of loans, compared to \$174 million, or 3.57% of loans, at

June 30, 2010. Nonperforming assets of \$119 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 1.60% of total assets at June 30, 2011, compared to 4.32% as of December 31, 2010 and 4.55% as of June 30, 2010. The decrease in this ratio was due to the execution of a plan to sell approximately \$293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately \$142 million in foreclosed properties (the Problem Asset Disposition Plan) as well as a general improving trend in credit quality indicators.

Taxable equivalent net interest revenue was \$58.9 million for the second quarter of 2011, compared to \$61.6 million for the same period of 2010. The decrease in net interest revenue was primarily the result of a 19 basis point decrease in the net interest margin offset by a \$69.3 million increase in average interest earning assets. Average loans for the quarter declined \$745 million from the second quarter of 2010. Net interest margin decreased from 3.60% for the three months ended June 30, 2010 to 3.41% for the same period in 2011. For the six months ended June 30, 2011, taxable equivalent net interest revenue was \$115 million, compared to \$123 million for the same period of 2010. Net interest margin decreased from 3.55% for the six months ended June 30, 2010 to 3.36% for the same period in 2011. Interest reversals on performing loans that were moved to held for sale accounted for 6 basis points of the 19 basis points decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in the first six months of 2011 and lowered the margin by approximately 49 basis points in the first quarter and 76 basis points in the second quarter. In order to reduce the amount of excess liquidity, United has called its callable brokered deposits and does not plan to replace any maturing brokered deposits. Additionally, United has lowered rates on retail certificates of deposit and other deposit products which is expected to result in some balance attrition.

Table of Contents

Operating fee revenue increased \$2.33 million, or 20%, and \$2.50 million, or 11% from the second quarter and first six months of 2010, respectively. The increase was primarily attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges. This helped to offset a decline in service charges and fees, which were down \$385,000 and \$1.11 million, respectively, for the three and six month periods, due to regulatory changes.

For the second quarter of 2011, operating expenses of \$48.7 million were down \$54.9 million from the second quarter of 2010. The loss on sale of nonperforming assets in 2010 represented \$45.3 million of the decrease. Lower foreclosed property costs accounted for \$12.6 million of the decrease. For the six months ended June 30, 2011, operating expenses of \$164 million were up \$5.52 million from the same period of 2010. The increase was primarily due to an increase in foreclosed property costs, in anticipation of the Bulk Loan Sale and other accelerated asset dispositions. Foreclosed property costs were up \$41.4 million from the first six months of 2010.

Recent Developments

On June 16, 2011 shareholders approved the conversion of \$195.9 million of Series F and \$151.2 million of Series G Mandatorily Convertible Perpetual Preferred Stock into 20,618,090 shares of United's common stock and 15,914,209 shares of United's non-voting common stock, respectively. The conversion occurred as of the close of business on June 20, 2011 pursuant to the March 30, 2011 private placement agreements with a group of institutional investors.

On February 22, 2011, the Company entered into a share exchange agreement with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the Elm Ridge Parties). Under the share exchange agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company's common stock in exchange for 16,613 shares of the Company's cumulative perpetual preferred stock, Series D and warrants to purchase 1,551,126 common shares. See Note 10 to the consolidated financial statements for further details of the share exchange agreement.

Also during the first quarter of 2011, the Board of Directors approved the Problem Asset Disposition Plan. Accordingly, substandard and nonperforming loans were sold by the Bank for an aggregate purchase price of approximately \$87.9 million in the Bulk Loan Sale on April 18, 2011 pursuant to an asset purchase and sale agreement (the Asset Purchase Agreement) entered into by the Bank, CF Southeast LLC (CF Southeast) and CF Southeast Trust 2011-1 (CF Trust) and together with CF Southeast, the Purchasers).

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with accounting principles generally accepted in the United States of America (GAAP) and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for the allowance for loan losses, fair value measurements, and income taxes. In particular, United's accounting policies related to allowance for loan losses, fair value measurements and income taxes involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United's consolidated financial position or consolidated results of operations. See Asset Quality and Risk Elements herein for additional discussion of United's accounting methodologies related to the allowance for loan losses.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: operating provision for loan losses, operating fee revenue, operating revenue, operating expense, operating (loss) income from continuing operations, operating (loss) income, operating earnings (loss) from continuing operations per share, operating earnings (loss) per share, operating earnings (loss) from continuing operations per diluted share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A

reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 35.

Table of Contents**Discontinued Operations**

Effective March 31, 2010, United sold its Brintech subsidiary. As a result, the operations of Brintech are being accounted for as a discontinued operation. All revenue, including the gain from the sale, expenses and income taxes relating to Brintech have been deconsolidated from the consolidated statement of operations and are presented on one line titled "Loss from discontinued operations" for all periods presented. Because Brintech's assets, liabilities and cash flows were not material to the consolidated balance sheet and statement of cash flows, no such adjustments have been made to those financial statements.

Transaction with Fletcher International***Description of Transaction***

On April 1, 2010, the Bank entered into an asset purchase and sale agreement (the "Asset Purchase Agreement") with Fletcher International Inc. ("Fletcher Inc.") and five separate limited liability companies ("LLCs") affiliates of Fletcher Inc. for the purpose of acquiring nonperforming assets under the Asset Purchase Agreement. United has no ownership interest in the LLCs. The asset sale transaction was completed on April 30, 2010 with the Bank transferring nonperforming commercial and residential construction loans and foreclosed properties having a carrying value of \$103 million in exchange for cash of \$20.6 million and notes receivable for \$82.5 million.

The loans made to the LLCs in connection with their respective purchases are the same for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are all cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. According to the terms of the agreements, at least one year of estimated cash flow requirements must be held in cash. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher Inc. without United's consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to provide sufficient cash flow to service the loans beyond the first three years and through the remainder of the loan terms. While recent news articles and other sources have questioned the financial health of Fletcher and its affiliates, the loans to the LCCs have performed according to their contractual terms since inception and there have been no delinquencies to date. As a result, even though these loans represent our largest loan relationship, we consider these loans performing and have not established specific reserves related to them. Should our assessment of this loan relationship change, we would then take appropriate action.

Also on April 1, 2010, United and Fletcher International Ltd ("Fletcher Ltd.", together with Fletcher Inc. and their affiliates, "Fletcher"), entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United's Series C convertible preferred stock, par value \$1.00 per share (the "Convertible Preferred Stock"), at a purchase price of \$1,000 per share, for an aggregate purchase price of \$65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd.'s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. had not purchased all of the Convertible Preferred Stock by May 31, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of any commitment amount not purchased by May 31, 2012. Fletcher has paid United \$3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 31, 2011. As such penalty payment is associated with Fletcher's option to purchase preferred stock and is therefore considered an equity transaction, it was recorded as an increase to capital surplus in shareholders' equity.

The Convertible Preferred Stock is redeemable by Fletcher Ltd. at any time into common stock or non-voting Common Stock Equivalent Junior Preferred Stock ("Junior Preferred Stock") of United, at an equivalent price of \$26.25 per share of common stock (equal to 2,476,190 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United's common stock is above \$60.20, United has the right to require

conversion and it is United's intent to convert all of the then outstanding Convertible Preferred Stock into an equivalent amount of common stock or Junior Preferred Stock.

Table of Contents

Concurrently with the payment of the \$10 million deposit under the Asset Purchase Agreement by Fletcher, United granted a warrant to Fletcher to purchase Junior Preferred Stock. The warrant was initially equal to \$15 million and was increased to \$30 million upon the completion of the asset sale pursuant to the Asset Purchase Agreement. An additional \$35 million warrant will be issued on a dollar for dollar basis by the aggregate dollar amount of the Convertible Preferred Stock purchased under the Securities Purchase Agreement in excess of \$30 million. The \$30 million warrant price is equivalent to \$21.25 per common share (cash exercise equal to 1,411,765 shares of common stock). The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. The \$35 million warrant price is equivalent to \$30.10 per common share (cash exercise equal to 1,162,791 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from April 1, 2010, subject to limited extension upon certain events specified in the warrant agreement. All of the warrants settle on a cashless basis and the net shares to be issued to Fletcher Ltd. upon exercise of the warrants will be less than the total shares that would have been issuable if the warrants had been exercised for cash payments.

Also, as part of the transaction, United and Fletcher entered into a servicing agreement whereby United will act as servicer of the nonperforming assets for Fletcher in exchange for a servicing fee of 20 basis points. Because the servicing arrangement is considered a normal servicing arrangement and the fee is appropriate for the services provided, United did not recognize a servicing asset or liability related to the servicing agreement.

Accounting Treatment

Although the Asset Purchase Agreement and the Securities Purchase Agreement are two separate agreements, they were accounted for as part of one transaction because they were entered into simultaneously and the Securities Purchase Agreement was dependent upon the sale of nonperforming assets. United evaluated this transaction to determine whether the transfer should be accounted for as a sale or a secured borrowing and whether the Fletcher LLCs should be consolidated with United. When evaluating whether the transfer should be accounted for as a sale, United primarily evaluated whether control had been surrendered, the rights of Fletcher to exchange and pledge the assets, and whether United retains effective control, which included evaluating any continuing involvement in the assets. Based on the evaluation, the transfer of assets under the Asset Purchase Agreement meets the definition as a sale under current accounting standards and was accounted for as such. United further evaluated whether the Fletcher LLCs should be consolidated which included evaluating whether United has a controlling financial interest and is therefore the primary beneficiary. This evaluation principally included determining whether United directs the activities that have the most significant impact on the LLCs economic performance and whether United has an obligation to absorb losses or the right to receive benefits that could be significant to the LLCs. Based on that evaluation, the LLCs have not been included as part of the consolidated group of subsidiaries in United's consolidated financial statements.

In addition to evaluating the accounting for the transfer of assets, United considered whether the warrant and the option to purchase convertible preferred stock with an additional warrant should be accounted for as liabilities or equity instruments. In making this evaluation, United considered whether Fletcher or any subsequent holders of the instruments could require settlement of the instruments in cash or other assets rather than common or preferred stock. Because the transaction was structured so that the warrants and option to purchase convertible preferred stock and the additional warrant can only be settled through the issuance of common or preferred stock, United concluded that the warrant and option to purchase convertible preferred stock with an additional warrant should be accounted for as equity instruments.

All of the components of the transaction, including all equity instruments issued under the Securities Purchase Agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of \$45.3 million on the transaction with Fletcher.

Table of Contents

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

| | Valuation Approach | Fair Value Heirarchy | Fair Value |
|--|----------------------------|-----------------------------|--------------------------|
| Warrants Issued / Assets Transferred to Fletcher at Fair Value: | | | |
| Warrant to purchase \$30 million in common stock at \$21.25 per share | Black-Scholes | Level 3 | \$ 17,577 ⁽¹⁾ |
| Option to purchase convertible preferred stock and warrant | Monte-Carlo Simulation | Level 3 | 22,236 ⁽²⁾ |
| Fair value of equity instruments recognized in capital surplus | | | 39,813 |
| Foreclosed properties transferred under Asset Purchase Agreement | Appraised Value | Level 2 | 33,434 ⁽³⁾ |
| Nonperforming loans transferred under Asset Purchase Agreement | Collateral Appraised Value | Level 2 | 69,655 ⁽³⁾ |
| Total nonperforming assets transferred | | | 103,089 |
| Total value of assets and equity instruments transferred | | | 142,902 |
| Cash and Notes Receivable Received in Exchange at Fair Value: | | | |
| Cash down payment received from asset sale | NA | NA | 20,618 |
| Notes receivable (par value \$82,471, net of \$4,531 discount) | Discounted Cash Flows | Level 3 | 77,940 ⁽⁴⁾ |
| Total value of cash and notes receivable received | | | 98,558 |
| Fair value of assets and equity instruments transferred in excess of cash and notes received | | | 44,344 |
| Transaction fees | | | 1,005 |
| Loss recognized on Fletcher transaction | | | 45,349 |
| Tax benefit | | | (15,367) |
| After tax loss | | | \$ 29,982 |

Notes

- (1) The \$17.6 million value of the \$30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price \$23.85; term 9 years; and volatility 33%. Although most of the modeling

assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

- (2) The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.
- (3) The \$103 million of nonperforming assets sold were transferred at United's carrying value which had been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.
- (4) The \$82.5 million of notes receivable were recorded at their estimated fair value of \$77.9 million, net of a \$4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing times for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

Table of Contents**Table 1 Financial Highlights
Selected Financial Information**

| Thousands, except per share (taxable equivalent) | 2011 | | | 2010 | | Second Quarter | For the Six Months Ended | | 2011 |
|--|-------------------|------------------|-------------------|------------------|-------------------|-------------------|-----------------------------|-------------|-------|
| | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | Change | 2011 | 2010 | 2011 |
| NET REVENUE | | | | | | | | | |
| Interest revenue | \$ 76,931 | \$ 75,965 | \$ 81,215 | \$ 84,360 | \$ 87,699 | | \$ 152,896 | \$ 177,548 | |
| Interest expense | 17,985 | 19,573 | 21,083 | 24,346 | 26,072 | | 37,558 | 54,642 | |
| Net interest revenue | 58,946 | 56,392 | 60,132 | 60,014 | 61,627 | (4)% | 115,338 | 122,906 | |
| Provision for loan losses | 11,000 | 190,000 | 47,750 | 50,500 | 61,500 | | 201,000 | 136,500 | |
| Other revenue (2) | 13,905 | 11,838 | 12,442 | 12,861 | 11,579 | 20 | 25,743 | 23,245 | |
| Operating revenue (1)(2) | 61,851 | (121,770) | 24,824 | 22,375 | 11,706 | | (59,919) | 9,651 | |
| Operating expenses (3) | 48,728 | 115,271 | 64,918 | 64,906 | 58,308 | (16) | 163,999 | 113,128 | |
| Gain on sale of nonperforming assets | | | | | 45,349 | | | 45,349 | |
| Operating income (loss) from continuing operations before income taxes | 13,123 | (237,041) | (40,094) | (42,531) | (91,951) | | (223,918) | (148,826) | |
| Operating income tax expense (benefit) | 5,506 | (94,555) | (16,520) | (16,706) | (32,419) | | (89,049) | (54,836) | |
| Operating income from continuing operations (1)(2)(3) | 7,617 | (142,486) | (23,574) | (25,825) | (59,532) | | (134,869) | (93,990) | |
| Goodwill impairment | | | | (210,590) | | | | | |
| Reversal of fraud loss | | | | | | | | | |
| Gain on sale of subsidiary, net of income tax | | | 7,179 | | | | | | (101) |
| Gain on sale of subsidiary, net of income tax | | | | | | | | | 1,266 |
| Income (loss) available to common shareholders | 7,617 | (142,486) | (16,395) | (236,415) | (59,532) | | (134,869) | (92,825) | |
| Preferred dividends and accretion | 3,016 | 2,778 | 2,586 | 2,581 | 2,577 | | 5,794 | 5,149 | |
| Income (loss) available to common shareholders | \$ 4,601 | \$ (145,264) | \$ (18,981) | \$ (238,996) | \$ (62,109) | | \$ (140,663) | \$ (97,974) | |

**PERFORMANCE
MEASURES**

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| | | | | | | | | |
|---|-----------|-----------|------------|------------|------------|------|-----------|------------|
| Common share: | | | | | | | | |
| Adjusted operating income from continuing operations ⁽¹⁾⁽²⁾⁽³⁾ | \$.08 | \$ (7.87) | \$ (1.38) | \$ (1.50) | \$ (3.29) | | \$ (6.40) | \$ (5.25) |
| Adjusted income (loss) from continuing operations | .08 | (7.87) | (1.00) | (12.62) | (3.29) | | (6.40) | (5.25) |
| Adjusted income (loss) per share | .08 | (7.87) | (1.00) | (12.62) | (3.29) | | (6.40) | (5.19) |
| Book value | 11.59 | 14.78 | 24.18 | 25.70 | 38.55 | (70) | 11.59 | 38.55 |
| Book value ⁽⁵⁾ | 11.47 | 14.44 | 23.78 | 25.26 | 26.95 | (57) | 11.47 | 26.95 |
| Performance ratios: | | | | | | | | |
| Return on equity ⁽⁴⁾⁽⁶⁾ | 5.34% | (147.11)% | (17.16)% | (148.04)% | (35.89)% | | (76.07)% | (27.87)% |
| Return on assets ⁽⁶⁾ | .40 | (7.61) | (.89) | (12.47) | (3.10) | | (3.57) | (2.39) |
| Interest margin ⁽⁶⁾ | 3.41 | 3.30 | 3.58 | 3.57 | 3.60 | | 3.36 | 3.55 |
| Operating efficiency ratio from continuing operations ⁽²⁾⁽³⁾ | 66.88 | 169.08 | 89.45 | 89.38 | 141.60 | | 116.28 | 108.48 |
| Ratio to assets | 11.21 | 8.82 | 8.85 | 11.37 | 11.84 | | 10.02 | 11.87 |
| Book value to assets ⁽⁵⁾ | 11.13 | 8.73 | 8.75 | 9.19 | 9.26 | | 9.94 | 9.32 |
| Book value to common equity to assets ⁽⁵⁾ | 4.79 | 5.51 | 6.35 | 6.78 | 6.91 | | 5.15 | 7.02 |
| Book value to common equity to weighted assets ⁽⁵⁾ | 14.26 | 6.40 | 9.05 | 9.60 | 9.97 | | 14.26 | 9.97 |
| ASSET QUALITY * | | | | | | | | |
| Performing loans | \$ 71,065 | \$ 83,769 | \$ 179,094 | \$ 217,766 | \$ 224,335 | | \$ 71,065 | \$ 224,335 |
| Foreclosed properties | 47,584 | 54,378 | 142,208 | 129,964 | 123,910 | | 47,584 | 123,910 |
| Non-performing assets | | | | | | | | |
| Non-performing assets to performing loans | 118,649 | 138,147 | 321,302 | 347,730 | 348,245 | | 118,649 | 348,245 |
| Provision for loan losses | 127,638 | 133,121 | 174,695 | 174,613 | 174,111 | | 127,638 | 174,111 |
| Provision for net charge-offs ⁽¹⁾ | 16,483 | 231,574 | 47,668 | 49,998 | 61,323 | | 248,057 | 117,991 |
| Provision for loan losses to performing loans | 3.07% | 3.17% | 3.79% | 3.67% | 3.57% | | 3.07% | 3.57% |
| Provision for net charge-offs to performing loans ⁽¹⁾⁽⁶⁾ | 1.58 | 20.71 | 4.03 | 4.12 | 4.98 | | 11.46 | 4.75 |
| Provision for net charge-offs to loans and foreclosed properties | 2.82 | 3.25 | 6.77 | 7.11 | 6.97 | | 2.82 | 6.97 |
| Provision for net charge-offs to total assets | 1.60 | 1.73 | 4.32 | 4.96 | 4.55 | | 1.60 | 4.55 |
| EQUITY BALANCES (\$ in thousands) | | | | | | | | |
| Total equity | \$ 4,266 | \$ 4,599 | \$ 4,768 | \$ 4,896 | \$ 5,011 | (15) | \$ 4,432 | \$ 5,091 |
| Government securities | 2,074 | 1,625 | 1,354 | 1,411 | 1,532 | 35 | 1,851 | 1,525 |
| Other assets | 6,924 | 6,902 | 6,680 | 6,676 | 6,854 | 1 | 6,913 | 6,969 |
| Other liabilities | 7,624 | 7,595 | 7,338 | 7,522 | 7,704 | (1) | 7,609 | 7,825 |
| Other assets | 6,372 | 6,560 | 6,294 | 6,257 | 6,375 | | 6,465 | 6,472 |
| Commoners equity | 854 | 670 | 649 | 855 | 912 | (6) | 763 | 929 |
| Common shares basic (in thousands) | 25,427 | 18,466 | 18,984 | 18,936 | 18,905 | | 21,965 | 18,891 |
| Common shares diluted (in thousands) | 57,543 | 18,466 | 18,984 | 18,936 | 18,905 | | 21,965 | 18,891 |

PERIOD END (\$ in

| | | | | | | | | | | | | | | | | |
|-----------------------|----|--------|----|--------|----|--------|----|--------|----|--------|------|-----|-------|--------|-------|--------|
| *) | \$ | 4,163 | \$ | 4,194 | \$ | 4,604 | \$ | 4,760 | \$ | 4,873 | (15) | \$ | 4,163 | \$ | 4,873 | |
| ment securities | | 2,188 | | 1,884 | | 1,490 | | 1,310 | | 1,488 | | 47 | | 2,188 | | 1,488 |
| assets | | 7,410 | | 7,974 | | 7,443 | | 7,013 | | 7,652 | | (3) | | 7,410 | | 7,652 |
| its | | 6,183 | | 6,598 | | 6,469 | | 5,999 | | 6,330 | | (2) | | 6,183 | | 6,330 |
| holders equity | | 860 | | 850 | | 636 | | 662 | | 904 | | (5) | | 860 | | 904 |
| on shares outstanding | | | | | | | | | | | | | | | | |
| ands) | | 57,469 | | 20,903 | | 18,937 | | 18,887 | | 18,856 | | | | 57,469 | | 18,856 |

- (1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of \$11.8 million, net of tax expense of \$4.6 million in the fourth quarter of 2010. Operating charge-offs also exclude the \$11.8 million related partial recovery of the previously charged off amount.
- (2) Excludes revenue generated by discontinued operations in the first quarter of 2010.
- (3) Excludes the goodwill impairment charge of \$211 million in the third quarter of 2010 and expenses relating to discontinued operations in the first quarter of 2010.
- (4) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss).
- (5) Excludes effect of acquisition related intangibles and associated amortization.
- (6) Annualized.
- * Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Table of Contents**Table 1 Continued Operating Earnings to GAAP Earnings Reconciliation
Selected Financial Information**

| <i>(in thousands, except per share data; taxable equivalent)</i> | 2011 | | | 2010 | | For the Six Months Ended | |
|---|----------------|---------------|----------------|---------------|----------------|--------------------------|------------|
| | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | 2011 | 2010 |
| Interest revenue reconciliation | | | | | | | |
| Interest revenue taxable equivalent | \$ 76,931 | \$ 75,965 | \$ 81,215 | \$ 84,360 | \$ 87,699 | \$ 152,896 | \$ 177,548 |
| Taxable equivalent adjustment | (429) | (435) | (497) | (511) | (500) | (864) | (993) |
| Interest revenue (GAAP) | \$ 76,502 | \$ 75,530 | \$ 80,718 | \$ 83,849 | \$ 87,199 | \$ 152,032 | \$ 176,555 |
| Net interest revenue reconciliation | | | | | | | |
| Net interest revenue taxable equivalent | \$ 58,946 | \$ 56,392 | \$ 60,132 | \$ 60,014 | \$ 61,627 | \$ 115,338 | \$ 122,906 |
| Taxable equivalent adjustment | (429) | (435) | (497) | (511) | (500) | (864) | (993) |
| Net interest revenue (GAAP) | \$ 58,517 | \$ 55,957 | \$ 59,635 | \$ 59,503 | \$ 61,127 | \$ 114,474 | \$ 121,913 |
| Provision for loan losses reconciliation | | | | | | | |
| Operating provision for loan losses | \$ 11,000 | \$ 190,000 | \$ 47,750 | \$ 50,500 | \$ 61,500 | \$ 201,000 | \$ 136,500 |
| Partial reversal of special fraud-related provision for loan loss | | | (11,750) | | | | |
| Provision for loan losses (GAAP) | \$ 11,000 | \$ 190,000 | \$ 36,000 | \$ 50,500 | \$ 61,500 | \$ 201,000 | \$ 136,500 |
| Total revenue reconciliation | | | | | | | |
| Total operating revenue | \$ 61,851 | \$ (121,770) | \$ 24,824 | \$ 22,375 | \$ 11,706 | \$ (59,919) | \$ 9,651 |
| Taxable equivalent adjustment | (429) | (435) | (497) | (511) | (500) | (864) | (993) |
| Partial reversal of special fraud-related provision for loan loss | | | 11,750 | | | | |
| Total revenue (GAAP) | \$ 61,422 | \$ (122,205) | \$ 36,077 | \$ 21,864 | \$ 11,206 | \$ (60,783) | \$ 8,658 |

Expense reconciliation

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| | | | | | | | |
|------------------------------------|-----------|------------|-----------|------------|------------|------------|------------|
| Operating expense | \$ 48,728 | \$ 115,271 | \$ 64,918 | \$ 64,906 | \$ 103,657 | \$ 163,999 | \$ 158,477 |
| Noncash goodwill impairment charge | | | | 210,590 | | | |
| Operating expense (GAAP) | \$ 48,728 | \$ 115,271 | \$ 64,918 | \$ 275,496 | \$ 103,657 | \$ 163,999 | \$ 158,477 |

Income (loss) from continuing operations before taxes reconciliation

| | | | | | | | |
|---|-----------|--------------|-------------|-------------|-------------|--------------|--------------|
| Operating income (loss) from continuing operations before taxes | \$ 13,123 | \$ (237,041) | \$ (40,094) | \$ (42,531) | \$ (91,951) | \$ (223,918) | \$ (148,826) |
| Taxable equivalent adjustment | (429) | (435) | (497) | (511) | (500) | (864) | (993) |
| Noncash goodwill impairment charge | | | | (210,590) | | | |
| Partial reversal of special fraud-related provision for loan loss | | | 11,750 | | | | |

| | | | | | | | |
|--|-----------|--------------|-------------|--------------|-------------|--------------|--------------|
| Income (loss) from continuing operations before taxes (GAAP) | \$ 12,694 | \$ (237,476) | \$ (28,841) | \$ (253,632) | \$ (92,451) | \$ (224,782) | \$ (149,819) |
|--|-----------|--------------|-------------|--------------|-------------|--------------|--------------|

Income tax expense (benefit) reconciliation

| | | | | | | | |
|---|----------|-------------|-------------|-------------|-------------|-------------|-------------|
| Operating income tax expense (benefit) | \$ 5,506 | \$ (94,555) | \$ (16,520) | \$ (16,706) | \$ (32,419) | \$ (89,049) | \$ (54,836) |
| Taxable equivalent adjustment | (429) | (435) | (497) | (511) | (500) | (864) | (993) |
| Partial reversal of special fraud-related provision for loan loss | | | 4,571 | | | | |

| | | | | | | | |
|-------------------------------------|----------|-------------|-------------|-------------|-------------|-------------|-------------|
| Income tax expense (benefit) (GAAP) | \$ 5,077 | \$ (94,990) | \$ (12,446) | \$ (17,217) | \$ (32,919) | \$ (89,913) | \$ (55,829) |
|-------------------------------------|----------|-------------|-------------|-------------|-------------|-------------|-------------|

Diluted earnings (loss) from continuing operations per common share reconciliation

| | | | | | | | |
|---|--------|-----------|-----------|-----------|-----------|-----------|-----------|
| Diluted operating earnings (loss) from continuing operations per common share | \$.08 | \$ (7.87) | \$ (1.38) | \$ (1.50) | \$ (3.29) | \$ (6.40) | \$ (5.25) |
| Noncash goodwill impairment charge | | | | (11.12) | | | |
| Partial reversal of special fraud-related provision for loan loss | | | .38 | | | | |

| | | | | | | | |
|--|--------|-----------|-----------|------------|-----------|-----------|-----------|
| Diluted earnings (loss) from continuing operations per | \$.08 | \$ (7.87) | \$ (1.00) | \$ (12.62) | \$ (3.29) | \$ (6.40) | \$ (5.25) |
|--|--------|-----------|-----------|------------|-----------|-----------|-----------|

common share (GAAP)

Book value per common share reconciliation

| | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|----------|
| Tangible book value per common share | \$ 11.47 | \$ 14.44 | \$ 23.78 | \$ 25.26 | \$ 26.95 | \$ 11.47 | \$ 26.95 |
| Effect of goodwill and other intangibles | .12 | .34 | .40 | .44 | 11.60 | .12 | 11.60 |
| Book value per common share (GAAP) | \$ 11.59 | \$ 14.78 | \$ 24.18 | \$ 25.70 | \$ 38.55 | \$ 11.59 | \$ 38.55 |

Efficiency ratio from continuing operations reconciliation

| | | | | | | | |
|---|--------|---------|--------|---------|---------|---------|---------|
| Operating efficiency ratio from continuing operations | 66.88% | 169.08% | 89.45% | 89.38% | 141.60% | 116.28% | 108.48% |
| Noncash goodwill impairment charge | | | | 290.00 | | | |
| Efficiency ratio from continuing operations (GAAP) | 66.88% | 169.08% | 89.45% | 379.38% | 141.60% | 116.28% | 108.48% |

Average equity to assets reconciliation

| | | | | | | | |
|--|--------|-------|-------|--------|--------|--------|--------|
| Tangible common equity to assets | 4.79% | 5.51% | 6.35% | 6.78% | 6.91% | 5.15% | 7.02% |
| Effect of preferred equity | 6.34 | 3.22 | 2.40 | 2.41 | 2.35 | 4.79 | 2.30 |
| Tangible equity to assets | 11.13 | 8.73 | 8.75 | 9.19 | 9.26 | 9.94 | 9.32 |
| Effect of goodwill and other intangibles | .08 | .09 | .10 | 2.18 | 2.58 | .08 | 2.55 |
| Equity to assets (GAAP) | 11.21% | 8.82% | 8.85% | 11.37% | 11.84% | 10.02% | 11.87% |

Actual tangible common equity to risk-weighted assets reconciliation

| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| Tangible common equity to risk-weighted assets | 14.26% | 6.40% | 9.05% | 9.60% | 9.97% | 14.26% | 9.97% |
| Effect of other comprehensive income | (.65) | (.58) | (.62) | (.81) | (.87) | (.65) | (.87) |
| Effect of deferred tax limitation | (5.04) | (5.10) | (3.34) | (2.94) | (2.47) | (5.04) | (2.47) |
| Effect of trust preferred | 1.14 | 1.12 | 1.06 | 1.06 | 1.03 | 1.14 | 1.03 |
| Effect of preferred equity | 4.17 | 5.97 | 3.52 | 3.51 | 3.41 | 4.17 | 3.41 |
| Tier I capital ratio (Regulatory) | 13.88% | 7.81% | 9.67% | 10.42% | 11.07% | 13.88% | 11.07% |

Net charge-offs reconciliation

| | | | | | | | |
|---|-----------|------------|-----------|-----------|-----------|------------|------------|
| Operating net charge-offs | \$ 16,483 | \$ 231,574 | \$ 47,668 | \$ 49,998 | \$ 61,323 | \$ 248,057 | \$ 117,991 |
| Subsequent partial recovery of fraud-related charge-off | | | (11,750) | | | | |
| Net charge-offs (GAAP) | \$ 16,483 | \$ 231,574 | \$ 35,918 | \$ 49,998 | \$ 61,323 | \$ 248,057 | \$ 117,991 |

Net charge-offs to average loans reconciliation

| | | | | | | | |
|---|-------|--------|--------|-------|-------|--------|-------|
| Operating net charge-offs to average loans | 1.58% | 20.71% | 4.03% | 4.12% | 4.98% | 11.46% | 4.75% |
| Subsequent partial recovery of fraud-related charge-off | | | (1.00) | | | | |
| Net charge-offs to average loans (GAAP) | 1.58% | 20.71% | 3.03% | 4.12% | 4.98% | 11.46% | 4.75% |

Table of Contents**Results of Operations**

United reported net operating income from continuing operations of \$7.62 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of \$59.5 million for the same period in 2010, which included an after-tax loss of \$30.0 million resulting from the sale of nonperforming assets to a private equity firm. For the second quarter of 2011, diluted operating income from continuing operations per share was \$.08. This compared to diluted operating loss from continuing operations per share of \$3.29 for the second quarter of 2010, which included \$1.59 in loss per share related to the sale of nonperforming assets. For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of \$135 million compared to a net operating loss from continuing operations of \$94.0 million for the same period in 2010. The operating loss for the six months ended June 30, 2011 reflects the Board of Director's decision in the first quarter to adopt the Problem Asset Disposition Plan to quickly dispose of problem assets following United's successful Private Placement at the end of the first quarter.

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Taxable equivalent net interest revenue for the three months ended June 30, 2011 was \$58.9 million, down \$2.68 million, or 4%, from the second quarter of 2010. The decrease in net interest revenue for the second quarter of 2011 compared to the second quarter of 2010 was mostly due to lower average loan balances. United continues its intense focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

Average loans decreased \$745 million, or 15%, from the second quarter of last year. The decrease in the loan portfolio was a result of the weak economy as well as the Bulk Loan Sale completed in April 2011. Loan charge-offs, foreclosure activity and management's efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have all contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During the second quarter of 2011, United funded \$105 million in new loans, primarily commercial and small business loans in north Georgia, the Atlanta MSA and coastal Georgia.

Average interest-earning assets for the second quarter of 2011 increased \$69.3 million, or 1%, from the same period in 2010. The decrease of \$745 million in average loans was offset by increases of \$542 million in the investment securities portfolio and \$272 million in other interest-earning assets which is mostly made up of short-term commercial paper. Loan demand has been weak due to the poor economy and management's efforts to reduce United's exposure to residential construction loans. The increase in the securities portfolio and other interest-earning assets was due to purchases of floating rate mortgage-backed securities and short-term commercial paper in an effort to temporarily invest excess liquidity, including the proceeds from the new capital raised at the end of the first quarter of 2011. Average interest-bearing liabilities decreased \$183 million, or 3%, from the second quarter of 2010 due to the rolling off of higher-cost brokered deposits and certificates of deposit as funding needs decreased. The average yield on interest earning assets for the three months ended June, 2011, was 4.45%, down 68 basis points from 5.13% for the same period of 2010. A significant contributing factor to the decrease in the yield on interest earning assets was due to the build-up of excess liquidity resulting in a shift in earning asset mix from loans, which generally yield a higher rate than other asset classes, to temporary investments which have relatively low yields. The change in mix more than offset an 8 basis point increase in the average loan yield from the second quarter of 2010. In light of the weak economic environment, United maintained above normal levels of liquidity by entering into brokered deposit arrangements and temporarily investing the proceeds in short-term commercial paper and floating rate mortgage-backed securities at a slightly negative spread. Following the first quarter capital transaction, management has sought to reduce liquidity levels and will continue to do so.

The average cost of interest-bearing liabilities for the second quarter of 2011 was 1.24% compared to 1.75% for the same period of 2010, reflecting the effect of falling rates on United's floating rate liabilities and United's ability to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United's shrinking balance sheet also permitted the reduction of more expensive wholesale borrowings.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's investments, and is defined as net interest revenue as a percent of average total interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with customers' non-interest bearing deposits and stockholders' equity.

For the three months ended June 30, 2011 and 2010, the net interest spread was 3.21% and 3.38%, respectively, while the net interest margin was 3.41% and 3.60%, respectively. The reduction in average loan balances and build-up of excess liquidity negatively impacted the margin.

Table of Contents

For the first six months of 2011, net interest revenue was \$115 million, a decrease of \$7.57 million, or 6%, from the first six months of 2010. Average earning assets decreased \$56.3 million, or 1%, during the first six months of 2011 compared to the same period a year earlier. The yield on earning assets decreased 68 basis points from 5.13% for the six months ended June 30, 2010 to 4.45% for the six months ended June 30, 2011 due to declining average loan balances, an increase in excess liquidity invested in short-term low rate assets, and interest reversals on performing loans classified as held for sale as part of the Bulk Loan Sale. The transfer reduced net interest margin by 6 basis points in the first six months of 2011. The cost of interest bearing liabilities over the same period decreased 53 basis points. The combined effect of the lower yield on interest-earning assets, partially offset by the lower cost of interest-bearing liabilities resulted in the net interest margin decreasing 19 basis points from the six months ended June 30, 2010 to the six months ended June 30, 2011.

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2011 and 2010.

Table 2 Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended June 30,

| <i>(dollars in thousands, taxable equivalent)</i> | 2011 | | | 2010 | | |
|--|----------------------------|-----------------|----------------------|----------------------------|-----------------|----------------------|
| | Average Balance | Interest | Avg. Rate | Average Balance | Interest | Avg. Rate |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income ⁽¹⁾⁽²⁾ | \$ 4,266,211 | \$ 60,958 | 5.73% | \$ 5,010,937 | \$ 70,640 | 5.65% |
| Taxable securities ⁽³⁾ | 2,048,683 | 14,541 | 2.84 | 1,503,162 | 15,534 | 4.13 |
| Tax-exempt securities ⁽¹⁾⁽³⁾ | 25,044 | 411 | 6.56 | 28,920 | 482 | 6.67 |
| Federal funds sold and other interest-earning assets | 583,832 | 1,021 | .70 | 311,475 | 1,043 | 1.34 |
| Total interest-earning assets | 6,923,770 | 76,931 | 4.45 | 6,854,494 | 87,699 | 5.13 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (139,744) | | | (193,998) | | |
| Cash and due from banks | 119,801 | | | 100,931 | | |
| Premises and equipment | 178,949 | | | 181,064 | | |
| Other assets ⁽³⁾ | 540,943 | | | 761,803 | | |
| Total assets | \$ 7,623,719 | | | \$ 7,704,294 | | |
| Liabilities and Shareholders Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | \$ 1,310,441 | 1,036 | .32 | \$ 1,325,099 | 1,745 | .53 |
| Money market | 979,432 | 1,499 | .61 | 746,039 | 1,829 | .98 |
| Savings | 195,946 | 64 | .13 | 186,628 | 83 | .18 |
| Time less than \$100,000 | 1,541,909 | 4,990 | 1.30 | 1,605,308 | 7,887 | 1.97 |
| Time greater than \$100,000 | 988,810 | 3,873 | 1.57 | 1,110,010 | 6,102 | 2.20 |
| Brokered | 473,161 | 2,132 | 1.81 | 642,954 | 3,729 | 2.33 |
| Total interest-bearing deposits | 5,489,699 | 13,594 | .99 | 5,616,038 | 21,375 | 1.53 |

| | | | | | | |
|---|---------------------|---------------|-------------|---------------------|---------------|-------------|
| Federal funds purchased and other borrowings | 103,156 | 1,074 | 4.18 | 104,637 | 1,056 | 4.05 |
| Federal Home Loan Bank advances | 52,735 | 570 | 4.34 | 107,948 | 974 | 3.62 |
| Long-term debt | 150,178 | 2,747 | 7.34 | 150,097 | 2,667 | 7.13 |
| Total borrowed funds | 306,069 | 4,391 | 5.75 | 362,682 | 4,697 | 5.19 |
| Total interest-bearing liabilities | 5,795,768 | 17,985 | 1.24 | 5,978,720 | 26,072 | 1.75 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 882,151 | | | 758,558 | | |
| Other liabilities | 91,353 | | | 54,931 | | |
| Total liabilities | 6,769,272 | | | 6,792,209 | | |
| Shareholders' equity | 854,447 | | | 912,085 | | |
| Total liabilities and shareholders' equity | \$ 7,623,719 | | | \$ 7,704,294 | | |

| | | | | | | |
|---|------------------|--|-------|------------------|--|-------|
| Net interest revenue | \$ 58,946 | | | \$ 61,627 | | |
| Net interest-rate spread | | | 3.21% | | | 3.38% |
| Net interest margin ⁽⁴⁾ | | | 3.41% | | | 3.60% |

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$32.2 million in 2011 and \$43.6 million in 2010 are included in other assets for purposes of this presentation.
- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

Table of Contents

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2011 and 2010.

Table 3 Average Consolidated Balance Sheets and Net Interest Analysis

For the Six Months Ended June 30,

| <i>(dollars in thousands, taxable equivalent)</i> | 2011 | | | 2010 | | |
|--|----------------------------|-----------------|----------------------|----------------------------|-----------------|----------------------|
| | Average Balance | Interest | Avg. Rate | Average Balance | Interest | Avg. Rate |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income ⁽¹⁾⁽²⁾ | \$ 4,431,617 | \$ 122,028 | 5.55% | \$ 5,091,445 | \$ 142,859 | 5.66% |
| Taxable securities ⁽³⁾ | 1,825,322 | 27,886 | 3.06 | 1,495,447 | 31,426 | 4.20 |
| Tax-exempt securities ⁽¹⁾⁽³⁾ | 25,434 | 835 | 6.57 | 29,482 | 991 | 6.72 |
| Federal funds sold and other interest-earning assets | 630,384 | 2,147 | .68 | 352,683 | 2,272 | 1.29 |
| Total interest-earning assets | 6,912,757 | 152,896 | 4.45 | 6,969,057 | 177,548 | 5.13 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (154,347) | | | (190,662) | | |
| Cash and due from banks | 127,031 | | | 102,728 | | |
| Premises and equipment | 179,150 | | | 181,493 | | |
| Other assets ⁽³⁾ | 544,625 | | | 762,014 | | |
| Total assets | \$ 7,609,216 | | | \$ 7,824,630 | | |
| Liabilities and Shareholders Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | \$ 1,341,618 | 2,360 | .35 | \$ 1,343,297 | 3,599 | .54 |
| Money market | 954,128 | 3,527 | .75 | 734,817 | 3,586 | .98 |
| Savings | 191,708 | 141 | .15 | 183,555 | 167 | .18 |
| Time less than \$100,000 | 1,541,130 | 10,441 | 1.37 | 1,648,739 | 16,778 | 2.05 |
| Time greater than \$100,000 | 989,840 | 8,024 | 1.63 | 1,132,767 | 12,872 | 2.29 |
| Brokered | 585,103 | 4,262 | 1.47 | 689,717 | 8,266 | 2.42 |
| Total interest-bearing deposits | 5,603,527 | 28,755 | 1.03 | 5,732,892 | 45,268 | 1.59 |
| Federal funds purchased and other borrowings | | | | | | |
| | 102,132 | 2,116 | 4.18 | 103,355 | 2,094 | 4.09 |
| Federal Home Loan Bank advances | 53,923 | 1,160 | 4.34 | 111,150 | 1,951 | 3.54 |
| Long-term debt | 150,169 | 5,527 | 7.42 | 150,088 | 5,329 | 7.16 |
| Total borrowed funds | 306,224 | 8,803 | 5.80 | 364,593 | 9,374 | 5.18 |

| | | | | | | |
|--|---------------------|--------|------|---------------------|--------|------|
| Total interest-bearing liabilities | 5,909,751 | 37,558 | 1.28 | 6,097,485 | 54,642 | 1.81 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 861,864 | | | 738,876 | | |
| Other liabilities | 75,083 | | | 59,605 | | |
| Total liabilities | 6,846,698 | | | 6,895,966 | | |
| Shareholders equity | 762,518 | | | 928,664 | | |
| Total liabilities and shareholders equity | \$ 7,609,216 | | | \$ 7,824,630 | | |

| | | | | | | |
|---|--|------------|-------|--|------------|-------|
| Net interest revenue | | \$ 115,338 | | | \$ 122,906 | |
| Net interest-rate spread | | | 3.17% | | | 3.32% |
| Net interest margin ⁽⁴⁾ | | | 3.36% | | | 3.55% |

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$29.7 million in 2011 and \$43.4 million in 2010 are included in other assets for purposes of this presentation.
- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

Table of Contents

The following table shows the relative effect on net interest revenue for changes in the average outstanding amounts (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 4 Change in Interest Revenue and Expense on a Taxable Equivalent Basis*(in thousands)*

| | Three Months Ended June 30, 2011 | | | Six Months Ended June 30, 2011 | | |
|--|----------------------------------|----------------|-------------------|--------------------------------|-----------------|-------------------|
| | Compared to 2010 | | | Compared to 2010 | | |
| | Increase (decrease) | | | Increase (decrease) | | |
| | Due to Changes in | | | Due to Changes in | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest-earning assets: | | | | | | |
| Loans | \$ (10,629) | \$ 947 | \$ (9,682) | \$ (18,212) | \$ (2,619) | \$ (20,831) |
| Taxable securities | 4,690 | (5,683) | (993) | 6,086 | (9,626) | (3,540) |
| Tax-exempt securities | (64) | (7) | (71) | (133) | (23) | (156) |
| Federal funds sold and other interest-earning assets | 630 | (652) | (22) | 1,262 | (1,387) | (125) |
| Total interest-earning assets | (5,373) | (5,395) | (10,768) | (10,997) | (13,655) | (24,652) |
| Interest-bearing liabilities: | | | | | | |
| NOW accounts | (19) | (690) | (709) | (4) | (1,235) | (1,239) |
| Money market accounts | 474 | (804) | (330) | 927 | (986) | (59) |
| Savings deposits | 4 | (23) | (19) | 7 | (33) | (26) |
| Time deposits less than \$100,000 | (300) | (2,597) | (2,897) | (1,035) | (5,302) | (6,337) |
| Time deposits greater than \$100,000 | (613) | (1,616) | (2,229) | (1,482) | (3,366) | (4,848) |
| Brokered deposits | (866) | (731) | (1,597) | (1,117) | (2,887) | (4,004) |
| Total interest-bearing deposits | (1,320) | (6,461) | (7,781) | (2,704) | (13,809) | (16,513) |
| Federal funds purchased & other borrowings | (15) | 33 | 18 | (25) | 47 | 22 |
| Federal Home Loan Bank advances | (569) | 165 | (404) | (1,162) | 371 | (791) |
| Long-term debt | 1 | 79 | 80 | 3 | 195 | 198 |
| Total borrowed funds | (583) | 277 | (306) | (1,184) | 613 | (571) |
| Total interest-bearing liabilities | (1,903) | (6,184) | (8,087) | (3,888) | (13,196) | (17,084) |
| Increase in net interest revenue | \$ (3,470) | \$ 789 | \$ (2,681) | \$ (7,109) | \$ (459) | \$ (7,568) |

Provision for Loan Losses

The provision for loan losses is based on management's evaluation of losses inherent in the loan portfolio and corresponding analysis of the allowance for loan losses at quarter-end. The provision for loan losses was \$11.0 million and \$201 million for the second quarter and the first six months of 2011, respectively, compared to \$61.5 million and \$137 million for the same period in 2010. The amount of provision recorded in the second quarter was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover inherent losses in the loan portfolio. For the six months ended June 30, 2011, the increase in the provision for loan losses compared to a year ago was primarily due to the increased level of charge-offs in the first quarter of 2011 recorded in conjunction with the Problem Asset Disposition Plan and transfer of loans to the held for sale category in anticipation of the Bulk Loan Sale. This also had the impact of lowering the second quarter provision for loan losses due to the lower level of nonperforming loans and net charge-offs. For the three and six months ended June 30, 2011, net loan charge-offs as an annualized percentage of average outstanding loans were 1.58% and 11.46%, compared to 4.98% and 4.75%, respectively, for the same periods in 2010. When charge-offs specifically related to loans transferred to the held for sale classification are excluded, the charge-off rate for the first six months of 2011 was 3.20%.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to obtain cash flow from selling lots and houses needed to service debt. This deterioration of the residential construction and housing market was the primary factor that resulted in higher credit losses and increases in non-performing assets over the last three years. Although a majority of the charge-offs have been within the residential construction and development portion of the portfolio, credit quality deterioration has migrated to other loan categories as unemployment levels have remained high throughout United's markets. Additional discussion on credit quality and the allowance for loan losses is included in the Asset Quality and Risk Elements section of this report on page 44.

Table of Contents**Fee Revenue**

Operating fee revenue for the three and six months ended June 30, 2011 was \$13.9 million and \$25.7 million, respectively, an increase of \$2.33 million, or 20%, and \$2.50 million, or 11%, from the same period of 2010. Fee revenue from continuing operations excludes consulting fees earned by United's Brintech subsidiary which was sold on March 31, 2010. All periods are presented on a continuing operations basis.

The following table presents the components of fee revenue for the second quarters and first six months of 2011 and 2010.

Table 5 Fee Revenue*(dollars in thousands)*

| | Three Months Ended | | | Six Months Ended | | |
|--------------------------------------|--------------------|-----------|--------|------------------|-----------|--------|
| | June 30, | | Change | June 30, | | Change |
| | 2011 | 2010 | | 2011 | 2010 | |
| Overdraft fees | \$ 3,657 | \$ 4,652 | (21)% | \$ 7,168 | \$ 8,969 | (20)% |
| ATM and debit card fees | 3,279 | 2,595 | 26 | 5,809 | 4,948 | 17 |
| Other service charges and fees | 672 | 746 | (10) | 1,351 | 1,523 | (11) |
| Service charges and fees | 7,608 | 7,993 | (5) | 14,328 | 15,440 | (7) |
| Mortgage loan and related fees | 952 | 1,601 | (41) | 2,446 | 3,080 | (21) |
| Brokerage fees | 691 | 586 | 18 | 1,368 | 1,153 | 19 |
| Securities gains, net | 783 | | | 838 | 61 | |
| Losses from prepayment of borrowings | (791) | | | (791) | | |
| Hedge ineffectiveness | 2,809 | 239 | | 4,112 | 850 | |
| Other | 1,853 | 1,160 | 60 | 3,442 | 2,661 | 29 |
| Total fee revenue | \$ 13,905 | \$ 11,579 | 20 | \$ 25,743 | \$ 23,245 | 11 |

Service charges and fees of \$7.61 million were down \$385,000, or 5%, from the second quarter of 2010. For the first six months of 2011, service charges and fees of \$14.3 million were down \$1.11 million, or 7%, from the same period in 2010. The decrease was primarily due to lower overdraft fees resulting from decreased utilization of our courtesy overdraft services with the changes to Regulation E in 2010 requiring customers to opt in to such services. The decrease in overdraft fees was partially offset by higher ATM and debit card interchange revenue.

Mortgage loans and related fees for the second quarter and first six months of 2011 were down \$649,000, or 41%, and \$634,000, or 21%, respectively, from the same period in 2010. In the second quarter of 2011, United closed 349 loans totaling \$50.5 million compared with 475 loans totaling \$70.2 million in the second quarter of 2010. Year-to-date mortgage production in 2011 amounted to 830 loans totaling \$125 million, compared to 887 loans totaling \$135 million for the same period in 2010.

United recognized net securities gains of \$783,000 and \$838,000, respectively, for the three and six months ended June 30, 2011. There were no securities gains or losses in the second quarter of 2010 and \$61,000 for the first six months of 2010. The 2010 net gain included \$950,000 in impairment charges on trust preferred securities of a bank whose financial condition had deteriorated. The impairment charge was more than offset by realized gains from securities sales.

In the second quarter of 2011, United recognized \$2.81 million in income from hedge ineffectiveness compared with \$239,000 in income from hedge ineffectiveness in the second quarter of 2010. For the first six months of 2011, United recognized \$4.11 million in income from hedge ineffectiveness compared with \$850,000 in income for the same period of 2010. Most of the hedge ineffectiveness in 2010 and all of the hedge ineffectiveness in 2011 relates to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the original

term of the derivative instrument. The ineffectiveness, which is caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains.

Table of Contents**Operating Expenses**

The following table presents the components of operating expenses for the three and six months ended June 30, 2011 and 2010. The table is presented to reflect Brintech as a discontinued operation, and accordingly, operating expenses associated with Brintech have been excluded from the table for all periods presented.

Table 6 Operating Expenses (dollars in thousands)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|--------------------------------|------------|--------|------------------------------|------------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Salaries and employee benefits | \$ 26,436 | \$ 23,590 | 12% | \$ 51,360 | \$ 47,950 | 7% |
| Communications and equipment | 3,378 | 3,511 | (4) | 6,722 | 6,784 | (1) |
| Occupancy | 3,805 | 3,836 | (1) | 7,879 | 7,650 | 3 |
| Advertising and public relations | 1,317 | 1,352 | (3) | 2,295 | 2,395 | (4) |
| Postage, printing and supplies | 1,085 | 765 | 42 | 2,203 | 1,990 | 11 |
| Professional fees | 2,350 | 2,178 | 8 | 5,680 | 4,121 | 38 |
| FDIC assessments and other regulatory charges | 3,644 | 3,566 | 2 | 9,057 | 7,192 | 26 |
| Amortization of intangibles | 760 | 794 | (4) | 1,522 | 1,596 | (5) |
| Other | 4,062 | 4,176 | (3) | 10,491 | 8,097 | 30 |
| Total excluding foreclosed property expenses and loss on NPA sale | 46,837 | 43,768 | 7 | 97,209 | 87,775 | 11 |
| Net (gains) losses on sales of foreclosed properties | (3,218) | 5,098 | | 8,802 | 8,616 | |
| Foreclosed property write downs | 3,118 | 6,094 | | 51,703 | 10,673 | |
| Foreclosed property maintenance expenses | 1,991 | 3,348 | (41) | 6,285 | 6,064 | 4 |
| Loss on sale of nonperforming assets | | 45,349 | | | 45,349 | |
| Total operating expenses | \$ 48,728 | \$ 103,657 | (53) | \$ 163,999 | \$ 158,477 | 3 |

Operating expenses for the second quarter of 2011 totaled \$48.7 million, down \$54.9 million, or 53%, from the second quarter of 2010. For the six months ended June 30, 2011, operating expenses totaled \$164 million, up \$5.52 million, or 3% from the same period in 2010, mostly reflecting an increase in foreclosed property losses incurred in connection with United's classified asset disposition plans. Excluding foreclosed property costs and the loss on sale of nonperforming assets in the second quarter of 2010, total operating expenses were \$46.8 million, and \$97.2 million for the three and six months ended June 30, 2011, up \$3.07 million, or 7%, and \$9.43 million, or 11%, respectively, from a year ago.

Salaries and employee benefits for the second quarter of 2011 were \$26.4 million, up \$2.85 million, or 12%, from the same period of 2010. For the first six months of 2011, salaries and employee benefits of \$51.4 million were up \$3.41 million, or 7%, from the first six months of 2010. Severance costs for eliminated staff positions accounted for \$1.20 million of the increase in both periods. The increase was also due to higher group medical insurance costs and a lower level of deferred direct loan origination costs. Headcount totaled 1,767 at June 30, 2011, compared to 1,821 at

June 30, 2010.

Occupancy expense of \$3.81 million and \$7.88 million, respectively, for the second quarter and first six months of 2011 was down \$31,000, or 1%, and up \$229,000, or 3%, respectively, compared to the same periods of 2010. The increase for the six month period was due to higher costs for utilities, real estate taxes and insurance premiums.

Postage, printing and supplies expense for the second quarter of 2011 totaled \$1.09 million, up \$320,000, or 42%, from the same period of 2010. For the six months ended June 30, 2011 and 2010, postage, printing and supplies expense totaled \$2.20 million and \$1.99 million, respectively. The increase was primarily due to higher postage costs and outside courier expenses.

Professional fees for the second quarter of 2011 of \$2.35 million were up \$172,000, or 8%, from the same period in 2010. For the six months ended June 30, 2011 professional fees of \$5.68 million were up \$1.56 million, or 38%, primarily due to professional service costs associated with the Private Placement and Bulk Loan Sale.

FDIC assessments and other regulatory charges of \$3.64 million and \$9.06 million for the second quarter and first six months of 2011, increased \$78,000 and \$1.87 million, respectively, from the second quarter and first six months of 2010. The increase was due to an increase in United's assessment rate as well as an increase in insured deposits. The assessment rate came down late in the second quarter of 2011, primarily due to the FDIC's new asset based formula.

Other expense of \$4.06 million for the second quarter of 2011 decreased \$114,000 from the second quarter of 2010. Year-to-date, other expense of \$10.5 million increased \$2.39 million from the first six months of 2010. The year-to-date increase was primarily due to \$2.60 million of property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale.

Table of Contents

Gains on sale of foreclosed property totaled \$3.22 million for the second quarter of 2011, compared to losses on sale of \$5.10 million for the second quarter of 2010. For the six months ended June 30, 2011, losses on sale were \$8.80 million compared to losses on sale of \$8.37 million for the same period of the prior year. Foreclosed property write downs for the second quarter and first six months of 2011 were \$3.12 million and \$51.7 million compared to \$6.09 million and \$10.9 million a year ago. The year to date increase reflected higher write downs in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan. Foreclosed property maintenance expenses include legal fees, property taxes, marketing costs, utility services, maintenance and repair charges that totaled \$1.99 million and \$6.29 million for the second quarter and first six months of 2011 compared with \$3.35 million and \$6.06 million a year ago.

Income Taxes

Income tax expense for the second quarter of 2011 was \$5.08 million as compared with income tax benefit of \$32.9 million for the second quarter of 2010, representing an effective tax rate of approximately 40.0% and 35.6%, respectively. For the first six months of 2011, income tax benefit was \$89.9 million as compared with income tax benefit of \$55.8 million for the same period in 2010, representing an effective tax rate of 40.0% and 37.3%, respectively. The effective tax rates were different from the statutory tax rates primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes, tax exempt fee revenue, tax credits received on affordable housing investments, and the change in valuation allowance on deferred tax assets as discussed below.

United was profitable during the second quarter of 2011. The change from a pre-tax loss to pre-tax earnings will affect the effective tax rate going forward to the extent profitability continues. Because in aggregate, United's permanent tax differences are generally in United's favor, they tend to reduce the effective tax rate below the blended statutory rate of 38.9% when United has pre-tax earnings and they increase the effective tax rate above the blended statutory rate when United has a pre-tax loss. The effective tax rates can be volatile as earnings or losses approach a break-even point since United would report a tax benefit even if it were to break even as a result of the permanent tax differences. Therefore some volatility in the effective tax rate is expected as United moves from a loss position to positive earnings.

Management determined that it is more likely than not that approximately \$5.20 million at June 30, 2011 and \$5.16 million at June 30, 2010, net of Federal benefit, in state tax credits will expire unused due to their very short three to five year carry forward period and a valuation allowance has been established for these benefits. At June 30, 2011, United had net deferred tax assets of \$261 million, net of the valuation allowance of \$5.20 million. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. At June 30, 2011, management believes that it is more likely than not that, with the exception of those state tax credits that are expected to expire unused due to a relatively short carryforward period of only three to five years, it will be able to fully realize its deferred tax benefits through its ability to carry losses forward to future profitable years. Despite recent losses and the challenging economic environment, United has a history of strong earnings, is well-capitalized, continues to grow its core customer deposit base while maintaining very high customer satisfaction scores, and has expectations regarding future taxable income that are in excess of the amount required to utilize United's net operating losses prior to their expiration. The deferred tax assets are analyzed quarterly for changes affecting realizability. United's most recent analysis, which management believes is based on conservative assumptions, indicated that the deferred tax assets will be fully utilized well in advance of the twenty-year carryforward period allowed for net operating losses; however, there can be no guarantee that a valuation allowance will not be necessary in future periods. Inherent in management's assertion that it is more likely than not that United will be able to fully utilize its deferred tax assets is an assumption that United return to profitability within a short period of time following the execution of the Private Placement and the Problem Asset Disposition Plan. The Company experienced a return to profitability in the second quarter of 2011. Also important at arriving at that conclusion is the assumption that an ownership change as defined by Section 382 of

the Internal Revenue Code of 1986, as amended, and related Internal Revenue Service pronouncements (Section 382) did not occur as a result of the first quarter Private Placement. Management believes that no such change of control has occurred.

While United's recent losses and informal Memorandum of Understanding (MOU) with the FDIC are considered negative evidence with regard to United's ability to use its deferred tax assets, the losses were primarily the result of the collapse in the housing market and United's concentration of residential construction loans rather than a fundamental problem with its underlying business approach. United has reduced its concentration of residential construction loans from a high of 35% of its portfolio to 12% as of June 30, 2011. With the recent capital transaction and disposition of problem assets, United's credit measures have significantly improved leading management to the expectation that it is at or near a point of sustainable profitability. At June 30, 2011, nonperforming assets represent only 1.60% of total assets, down from a high of 5.32% of total assets at the end of the first quarter of 2010 and the improving trend is expected to continue. During the weak economic cycle, United was able to improve its already high customer satisfaction scores and achieve national recognition from JD Power & Associates for superior customer service. United was also able to increase core customer deposits (non-CD, non-public) by \$450 million since December 2009. Perhaps the strongest evidence supporting United's ability to fully utilize its deferred tax asset was its ability to raise \$380 million in new capital from private equity investors. These investors performed extensive due diligence prior to investing in United. Their investment in United was made with the expectation, based on their objective analysis, that United would provide an attractive return on their investment. United's management has therefore concluded that it is more likely than not that it will be able to fully utilize its deferred tax assets.

As of February 22, 2011, United adopted a tax benefits preservation plan designed to protect its ability to utilize its substantial tax assets. Those tax assets include net operating losses that it could utilize in certain circumstances to offset taxable income and reduce its federal income tax liability and the future tax benefits from potential net unrealized built in losses. United's ability to use its tax benefits would be substantially limited if it were to experience an ownership change as defined under Section 382. In general, an ownership change would occur if United's 5-percent shareholders, as defined under Section 382, collectively increase their ownership in United by more than 50% over a rolling three-year period. The tax benefits preservation plan is designed to reduce the likelihood that United will experience an ownership change by discouraging any person or group from becoming a beneficial owner of 4.99% or more of United's common stock then outstanding.

In connection with the tax benefits preservation plan, on February 22, 2011, United entered into a share exchange agreement with the Elm Ridge Parties to transfer to the Company 1,551,126 shares of United's common stock, in exchange for 16,613 shares of the Company's series D preferred shares and warrants to purchase 1,551,126 shares of common stock. Prior to entering into the share exchange agreement, collectively, the Elm Ridge Parties were United's largest shareholder. By exchanging the Elm Ridge Parties' common stock for the Series D Preferred Shares and warrants, United eliminated its only 5-percent shareholder and, as a result, obtained further protection against an ownership change under Section 382.

Table of Contents

Additional information regarding income taxes can be found in Note 15 to the consolidated financial statements filed with United's 2010 Form 10-K.

Balance Sheet Review

Total assets at June 30, 2011, December 31, 2010 and June 30, 2010 were \$7.41 billion, \$7.44 billion and \$7.65 billion, respectively. Average total assets for the second quarter of 2011 were \$7.62 billion, down from \$7.70 billion in the second quarter of 2010.

Loans

The following table presents a summary of the loan portfolio.

Table 7 Loans Outstanding (excludes loans covered by loss share agreement)

(dollars in thousands)

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|--|------------------|----------------------|------------------|
| By Loan Type | | | |
| Commercial (secured by real estate) | \$ 1,741,754 | \$ 1,761,424 | \$ 1,780,142 |
| Commercial construction | 195,190 | 296,582 | 342,140 |
| Commercial (commercial and industrial) | 428,058 | 441,518 | 441,097 |
| Total commercial | 2,365,002 | 2,499,524 | 2,563,379 |
| Residential construction | 501,909 | 695,166 | 819,930 |
| Residential mortgage | 1,177,226 | 1,278,780 | 1,355,582 |
| Installment | 119,310 | 130,656 | 134,139 |
| Total loans | \$ 4,163,447 | \$ 4,604,126 | \$ 4,873,030 |
| As a percentage of total loans: | | | |
| Commercial (secured by real estate) | 42% | 38% | 36% |
| Commercial construction | 5 | 6 | 7 |
| Commercial (commercial and industrial) | 10 | 10 | 9 |
| Total commercial | 57 | 54 | 52 |
| Residential construction | 12 | 15 | 17 |
| Residential mortgage | 28 | 28 | 28 |
| Installment | 3 | 3 | 3 |
| Total | 100% | 100% | 100% |
| By Geographic Location | | | |
| Atlanta MSA | \$ 1,188,262 | \$ 1,310,222 | \$ 1,373,631 |
| Gainesville MSA | 274,744 | 312,049 | 343,351 |
| North Georgia | 1,499,687 | 1,688,586 | 1,807,704 |
| Western North Carolina | 626,230 | 701,798 | 737,639 |
| Coastal Georgia | 325,650 | 335,020 | 355,719 |
| East Tennessee | 248,874 | 256,451 | 254,986 |
| Total loans | \$ 4,163,447 | \$ 4,604,126 | \$ 4,873,030 |

Substantially all of United's loans are to customers (including customers who have a seasonal residence in United's market areas) located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee, and more than 85% of the loans are secured by real estate. At June 30, 2011, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were \$4.16 billion, a decrease of \$710 million, or 15%, from June 30, 2010. The rate of loan growth began to decline in the first quarter of 2007 and the balances have continued to decline. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. This deterioration resulted in part in an oversupply of lot inventory, houses and land within United's markets, which further slowed construction activities and acquisition and development projects. The resulting recession that began in the housing market led to high rates of unemployment that resulted in stress in the other segments of United's loan portfolio. Despite the weak economy and lack of loan demand, United has continued to pursue lending opportunities which resulted in \$105 million in new loans that were funded in the second quarter of 2011.

Table of Contents**Asset Quality and Risk Elements**

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit administration function is responsible for monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banks. Additional information on the credit administration function is included in Item 1 under the heading *Loan Review and Non-performing Assets* in United's Annual Report on Form 10-K.

United classifies performing loans as substandard when there is a well-defined weakness or weaknesses that jeopardize the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected. The table below presents performing substandard loans for the last five quarters.

Table 8 Performing Substandard Loans*(dollars in thousands)*

| | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 | June 30, 2010 |
|--------------------------|------------------|-------------------|-------------------------|--------------------------|------------------|
| By Category | | | | | |
| Commercial (sec. by RE) | \$ 117,525 | \$ 119,651 | \$ 156,765 | \$ 157,245 | \$ 140,805 |
| Commercial construction | 31,347 | 34,887 | 90,745 | 102,592 | 78,436 |
| Commercial & industrial | 16,645 | 16,425 | 16,767 | 22,251 | 22,052 |
| Total commercial | 165,517 | 170,963 | 264,277 | 282,088 | 241,293 |
| Residential construction | 74,277 | 80,534 | 158,770 | 177,381 | 149,305 |
| Residential mortgage | 70,396 | 69,119 | 86,143 | 86,239 | 79,484 |
| Installment | 2,923 | 2,352 | 2,957 | 4,218 | 4,364 |
| Total | \$ 313,113 | \$ 322,968 | \$ 512,147 | \$ 549,926 | \$ 474,446 |
| By Market | | | | | |
| Atlanta MSA | \$ 97,931 | \$ 100,200 | \$ 185,327 | \$ 214,676 | \$ 183,612 |
| Gainesville MSA | 14,957 | 17,417 | 33,962 | 27,097 | 22,602 |
| North Georgia | 140,886 | 148,228 | 212,992 | 229,845 | 199,498 |
| North Carolina | 30,202 | 27,280 | 42,335 | 37,085 | 34,742 |
| Coastal Georgia | 22,945 | 23,104 | 29,223 | 32,341 | 25,329 |
| East Tennessee | 6,192 | 6,739 | 8,308 | 8,882 | 8,663 |
| Total loans | \$ 313,113 | \$ 322,968 | \$ 512,147 | \$ 549,926 | \$ 474,446 |

At June 30, 2011, performing substandard loans totaled \$313 million and decreased \$9.86 million from the prior quarter-end, and decreased \$161 million from a year ago. Most of the decrease occurred in United's Atlanta and north Georgia markets and was primarily the result of our Bulk Loan Sale which was completed on April 18, 2011, however the overall trend in performing substandard loans has been declining. Residential construction and commercial construction loans showed the most significant decreases as they represented more than 60% of the pre-charge down carrying amount of the aggregate loans included in the loan sale.

Reviews of substandard performing and non-performing loans, past due loans and larger credits, are conducted on a regular basis with management each quarter and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are performed by the responsible lending officers and the loan review department and also consider such factors as the financial strength of borrowers, the value of the applicable collateral,

past loan loss experience, anticipated loan losses, changes in risk profile, prevailing economic conditions and other factors. In addition to United's internal loan review, United also uses external loan review to ensure the independence of the loan review process.

Table of Contents

The following table presents a summary of the changes in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010.

Table 9 Allowance for Loan Losses*(in thousands)*

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | | | |
|--|--|----------|------------|---------------------------|--|----------|------------|------------|
| | 2011 | | 2010 | 2011 | | 2010 | | |
| | Problem Asset Disposition Plan ⁽¹⁾ | Other | Total | Total | Problem Asset Disposition Plan ⁽¹⁾ | Other | Total | Total |
| Balance beginning of period | | | \$ 133,121 | \$ 173,934 | | | \$ 174,695 | \$ 155,602 |
| Provision for loan losses | | | 11,000 | 61,500 | | | 201,000 | 136,500 |
| Charge-offs: | | | | | | | | |
| Commercial (secured by real estate) | \$ (1,713) | \$ 5,146 | 3,433 | 9,791 | \$ 44,052 | \$ 8,088 | 52,140 | 12,727 |
| Commercial construction | (1,332) | 2,312 | 980 | 1,460 | 47,237 | 3,458 | 50,695 | 3,671 |
| Commercial (commercial and industrial) | (116) | 720 | 604 | 1,764 | 3,411 | 1,555 | 4,966 | 6,318 |
| Residential construction | (2,842) | 9,611 | 6,769 | 41,781 | 78,653 | 20,371 | 99,024 | 85,971 |
| Residential mortgage | (1,255) | 5,922 | 4,667 | 6,752 | 30,139 | 11,204 | 41,343 | 11,392 |
| Consumer installment | (11) | 894 | 883 | 1,417 | 297 | 1,682 | 1,979 | 2,546 |
| Total loans charged-off | (7,269) | 24,605 | 17,336 | 62,965 | 203,789 | 46,358 | 250,147 | 122,625 |
| Recoveries: | | | | | | | | |
| Commercial (secured by real estate) | | 174 | 174 | 34 | | 274 | 274 | 1,006 |
| Commercial construction | | 111 | 111 | | | 111 | 111 | 5 |
| Commercial (commercial and industrial) | | 81 | 81 | 897 | | 403 | 403 | 1,341 |
| Residential construction | | 140 | 140 | 266 | | 257 | 257 | 1,356 |
| Residential mortgage | | 78 | 78 | 235 | | 371 | 371 | 324 |
| | | 269 | 269 | 210 | | 674 | 674 | 602 |

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Consumer
installment

| | | | | | | | | |
|--|------------|--------------|--------------|--------|--------------|--------------|---------|---------|
| Total recoveries | 853 | 853 | 1,642 | 2,090 | 2,090 | 4,634 | | |
| Net charge-offs | \$ (7,269) | \$ 23,752 | 16,483 | 61,323 | \$ 203,789 | \$ 44,268 | 248,057 | 117,991 |
| Balance end of period | | \$ 127,638 | \$ 174,111 | | \$ 127,638 | \$ 174,111 | | |
| Total loans: * | | | | | | | | |
| At period-end | | \$ 4,163,447 | \$ 4,873,030 | | \$ 4,163,447 | \$ 4,873,030 | | |
| Average | | 4,196,375 | 4,934,224 | | 4,364,401 | 5,012,415 | | |
| Allowance as a percentage of period-end loans | | 3.07% | 3.57% | | 3.07 | 3.57% | | |
| As a percentage of average loans: | | | | | | | | |
| Net charge-offs | | 1.58 | 4.98 | | 11.46 | 4.75 | | |
| Provision for loan losses | | 1.05 | 5.00 | | 9.29 | 5.49 | | |
| Allowance as a percentage of non-performing loans | | | | | | | | |
| As reported | | 180 | 78 | | 180 | 78 | | |
| Excluding impaired loans with no allocated reserve | | 333 | 234 | | 333 | 234 | | |

* Excludes loans covered by loss sharing agreements with the FDIC

(1) During the first quarter of 2011, United's Problem Asset Disposition Plan resulted in charge-offs totaling \$186 million related to the Bulk Loan Sale that closed on April 18, 2011. The charge-offs were estimated based on indicative bids from prospective purchasers. Also in the first quarter related to United's Problem Asset Disposition Plan was an additional \$9.5 million in charge-offs related to other bulk loan sales that were completed in the first quarter of 2011 and \$15.6 million in charge-offs on foreclosed properties related to the Problem Asset Disposition Plan. The loans sold in the Bulk Loan Sale that closed April 18, 2011 were reported in the loans held for sale category at March 31, 2011. Actual losses upon closing of the Bulk Loan Sale were \$179 resulting in a \$7.269 million reduction in charge-offs in the second quarter. Total losses related to the Problem Asset Disposition Plan for the first six months of 2011 were \$203.8 million.

The provision for loan losses charged to earnings was based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb losses inherent in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the

provision and the stabilization of the level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard loans, leading to an expectation that charge-off levels will continue to decline.

At June 30, 2011, the allowance for loan losses was \$128 million, or 3.07% of loans, compared with \$175 million, or 3.79% of loans, at December 31, 2010 and \$174 million, or 3.57% of loans, at June 30, 2010. The decrease in the allowance for loan losses is consistent with the decrease in classified loans resulting from the execution of the Problem Asset Disposition Plan, including the Bulk Loan Sale which reduced the amount of loss remaining in the loan portfolio.

Management believes that the allowance for loan losses at June 30, 2011 reflects the losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions. See the Critical Accounting Policies section in United's Annual Report on Form 10-K for additional information on the allowance for loan losses.

Table of Contents**Nonperforming Assets**

The table below summarizes nonperforming assets, excluding SCB's assets covered by the loss-sharing agreement with the FDIC. Those assets have been excluded from nonperforming assets, as the loss-sharing agreement with the FDIC and purchase price adjustments to reflect credit losses effectively eliminate the likelihood of recognizing any losses on the covered assets.

Table 10 Nonperforming Assets

(dollars in thousands)

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|--|--------------------------|----------------------------------|--------------------------|
| Nonperforming loans* | \$ 71,065 | \$ 179,094 | \$ 224,335 |
| Foreclosed properties (OREO) | 47,584 | 142,208 | 123,910 |
| Total nonperforming assets | \$ 118,649 | \$ 321,302 | \$ 348,245 |
| Nonperforming loans as a percentage of total loans | 1.71% | 3.89% | 4.60% |
| Nonperforming assets as a percentage of total loans and OREO | 2.82 | 6.77 | 6.97 |
| Nonperforming assets as a percentage of total assets | 1.60 | 4.32 | 4.55 |

* There were no loans 90 days or more past due that were still accruing at period end.

At June 30, 2011, nonperforming loans were \$71.1 million, compared to \$179 million at December 31, 2010 and \$224 million at June 30, 2010. The ratio of non-performing loans to total loans decreased from December 31, 2010 and June 30, 2010 due to the Bulk Loan Sale in April 2011, which included performing and nonperforming substandard loans. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled \$119 million at June 30, 2011, compared with \$321 million at December 31, 2010 and \$348 million at June 30, 2010. United sold \$28.9 million and \$73.5 million, respectively, of foreclosed properties during the second quarter and first six months of 2011. Both of these events helped lower the balance of foreclosed properties by 62% compared to June 30, 2010.

United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

Table of Contents

The following table summarizes non-performing assets by category and market. As with Tables 7, 8 and 10, assets covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB, are excluded from this table.

Table 11 Nonperforming Assets by Quarter⁽¹⁾*(in thousands)*

| | June 30, 2011 | | | December 31, 2010 | | | June 30, 2010 | | |
|---|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| BY CATEGORY | | | | | | | | | |
| Commercial (sec. by RE) | \$ 17,764 | \$ 6,796 | \$ 24,560 | \$ 44,927 | \$ 23,659 | \$ 68,586 | \$ 56,013 | \$ 13,297 | \$ 69,310 |
| Commercial construction | 2,782 | 6,764 | 9,546 | 21,374 | 17,808 | 39,182 | 17,872 | 11,339 | 29,211 |
| Commercial & industrial | 1,998 | | 1,998 | 5,611 | | 5,611 | 7,245 | | 7,245 |
| Total commercial | 22,544 | 13,560 | 36,104 | 71,912 | 41,467 | 113,379 | 81,130 | 24,636 | 105,766 |
| Residential construction | 22,643 | 24,968 | 47,611 | 54,505 | 78,231 | 132,736 | 88,375 | 74,444 | 162,819 |
| Residential mortgage | 24,809 | 9,056 | 33,865 | 51,083 | 22,510 | 73,593 | 53,175 | 24,830 | 78,005 |
| Consumer / installment | 1,069 | | 1,069 | 1,594 | | 1,594 | 1,655 | | 1,655 |
| Total NPAs | \$ 71,065 | \$ 47,584 | \$ 118,649 | \$ 179,094 | \$ 142,208 | \$ 321,302 | \$ 224,335 | \$ 123,910 | \$ 348,245 |
| Balance as a % of Unpaid Principal | | | | | | | | | |
| | 64.5% | 32.6% | 46.3% | 67.2% | 64.4% | 65.9% | 69.4% | 71.9% | 70.3% |
| BY MARKET | | | | | | | | | |
| Atlanta MSA | \$ 14,700 | \$ 11,239 | \$ 25,939 | \$ 48,289 | \$ 41,154 | \$ 89,443 | \$ 74,031 | \$ 30,605 | \$ 104,636 |
| Gainesville MSA | 4,505 | 3,174 | 7,679 | 5,171 | 9,273 | 14,444 | 10,730 | 2,750 | 13,480 |
| North Georgia | 28,117 | 21,278 | 49,395 | 83,551 | 66,211 | 149,762 | 102,198 | 60,597 | 162,795 |
| Western North Carolina | 15,153 | 8,953 | 24,106 | 25,832 | 11,553 | 37,385 | 22,776 | 11,473 | 34,249 |
| Coastal Georgia | 5,357 | 2,564 | 7,921 | 11,145 | 11,901 | 23,046 | 8,341 | 16,548 | 24,889 |
| East Tennessee | 3,233 | 376 | 3,609 | 5,106 | 2,116 | 7,222 | 6,259 | 1,937 | 8,196 |
| Total NPAs | \$ 71,065 | \$ 47,584 | \$ 118,649 | \$ 179,094 | \$ 142,208 | \$ 321,302 | \$ 224,335 | \$ 123,910 | \$ 348,245 |

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

In April 2011, United sold nonperforming loans in the Bulk Loan Sale with a pre-write down carrying amount of \$101 million and performing substandard loans with a pre-write down carrying amount of \$166 million. In anticipation of that sale, United recorded charge-offs of \$186 million and transferred these loans to the held for sale category at March 31, 2011. Nonperforming assets in the residential construction category were \$47.6 million at June 30, 2011, compared with \$163 million at June 30, 2010, a decrease of \$115 million, or 71%. Commercial nonperforming assets decreased from \$106 million at June 30, 2010 to \$36.1 million at June 30, 2011. Residential mortgage non-performing assets of \$33.9 million decreased \$44.1 million from June 30, 2010. While United experienced a reduction in nonperforming assets across all markets, the execution of the Problem Asset Disposition Plan, which included the Bulk Loan Sale and the write down of foreclosed properties contributed to a decline in the North Georgia market and Atlanta MSA, where nonperforming asset levels had been particularly elevated.

At June 30, 2011, December 31, 2010, and June 30, 2010 United had \$46.2 million, \$101 million and \$77.9 million respectively, in loans with terms that have been modified in a troubled debt restructuring (TDR). Included therein were \$4.75 million, \$17.3 million and \$11.0 million of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of \$41.5 million, \$83.7 million and \$66.9 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At June 30, 2011, December 31, 2010, and June 30, 2010, there were \$35.7 million, \$123 million and \$163 million, respectively, of loans classified as impaired under the Accounting Standards Codification. Included in impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010, was \$32.8 million, \$115 million and \$150 million, respectively that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at June 30, 2011, December 31, 2010 and June 30, 2010, of \$2.86 million, \$7.64 million and \$12.5 million, respectively, had specific reserves that totaled \$1.17 million, \$1.05 million and \$1.14 million, respectively. The average recorded investment in impaired loans for the second quarters of 2011 and 2010 was \$42.1 million and \$171 million, respectively. There was no interest revenue recognized on loans while they were impaired for the first six months of 2011 or 2010. United's policy is to discontinue the recognition of interest revenue for loans classified as impaired under the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 310-10-35, *Receivables*, when a loan meets the criteria for nonaccrual status.

Table of Contents

The table below summarizes activity in non-performing assets by quarter. Assets covered by loss sharing agreements with the FDIC, related to the acquisition of SCB, are not included in this table.

Table 12 Activity in Nonperforming Assets by Quarter*(in thousands)*

| | Second Quarter 2011 ⁽¹⁾ | | | Second Quarter 2010 ⁽¹⁾ | | |
|------------------------------------|------------------------------------|--------------------------|---------------|------------------------------------|--------------------------|---------------|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| Beginning Balance | \$ 83,769 | \$ 54,378 | \$ 138,147 | \$ 280,802 | \$ 136,275 | \$ 417,077 |
| Loans placed on non-accrual | 35,911 | | 35,911 | 155,007 | | 155,007 |
| Payments received | (7,702) | | (7,702) | (12,189) | | (12,189) |
| Loan charge-offs | (18,888) | | (18,888) | (62,693) | | (62,693) |
| Foreclosures | (22,025) | 22,025 | | (66,994) | 66,994 | |
| Capitalized costs | | 20 | 20 | | 305 | 305 |
| Note / property sales | | (28,939) | (28,939) | (69,598) | (68,472) | (138,070) |
| Loans transferred to held for sale | | | | | | |
| Write downs | | (3,118) | (3,118) | | (6,094) | (6,094) |
| Net gains (losses) on sales | | 3,218 | 3,218 | | (5,098) | (5,098) |
| Ending Balance | \$ 71,065 | \$ 47,584 | \$ 118,649 | \$ 224,335 | \$ 123,910 | \$ 348,245 |

| | First Six Months 2011 ⁽¹⁾ | | | First Six Months 2010 ⁽¹⁾ | | |
|------------------------------------|--------------------------------------|--------------------------|---------------|--------------------------------------|--------------------------|---------------|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| Beginning Balance | \$ 179,094 | \$ 142,208 | \$ 321,302 | \$ 264,092 | \$ 120,770 | \$ 384,862 |
| Loans placed on non-accrual | 90,641 | | 90,641 | 294,037 | | 294,037 |
| Payments received | (11,252) | | (11,252) | (17,922) | | (17,922) |
| Loan charge-offs | (62,857) | | (62,857) | (121,590) | | (121,590) |
| Foreclosures | (39,077) | 39,077 | | (116,227) | 116,227 | |
| Capitalized costs | | 290 | 290 | | 625 | 625 |
| Note / property sales | (11,400) | (73,486) | (84,886) | (78,055) | (94,423) | (172,478) |
| Loans transferred to held for sale | (74,084) | | (74,084) | | | |
| Write downs | | (51,703) | (51,703) | | (10,673) | (10,673) |
| Net losses on sales | | (8,802) | (8,802) | | (8,616) | (8,616) |
| Ending Balance | \$ 71,065 | \$ 47,584 | \$ 118,649 | \$ 224,335 | \$ 123,910 | \$ 348,245 |

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

(2) The NPA activity shown for the first quarter of 2011 is presented with all activity related to loans transferred to the held for sale classification on one line as if those loans were transferred to held for sale at the beginning of the period. During the first quarter of 2011, \$2.7 million in loans transferred to held for sale were placed on nonaccrual, \$1.1 million in payments were received on nonaccrual loans transferred to held for sale and

\$66.6 million in charge-offs were recorded on nonaccrual loans transferred to held for sale to mark them down to the expected proceeds from the sale.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less estimated costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property costs. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with ASC 360-20, *Real Estate Sales*. For the second quarter and first six months of 2011, United transferred \$22.0 million and \$39.1 million, respectively, of loans into foreclosed property. During the same periods, proceeds from sales of OREO were \$28.9 million and \$73.5 million, respectively, which includes \$8.54 million and \$4.63 million of sales that were financed by United, respectively. During the first quarter of 2011, United recorded \$48.6 million in write-downs on foreclosed property in order to expedite sales in the second and third quarter.

Table of Contents***Investment Securities***

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits. Total investment securities at June 30, 2011 increased \$700 million from a year ago. The increase in the securities portfolio was a result of a buildup of liquidity resulting partially from strong core deposit growth with little loan demand to invest the proceeds. In addition, United had previously sought to maintain above normal amounts of liquidity due to the uncertain economy. United invested the proceeds from deposits in short-term commercial paper and floating rate mortgage-backed securities. United chose floating rate securities because they have less market risk in the event rates begin to rise.

During the second quarter of 2010, United transferred securities available for sale with a fair value of \$315 million to held to maturity. The transferred securities were those that United has the ability and positive intent to hold until maturity. Generally, the transferred securities had longer durations and were more susceptible to market price volatility due to changes in interest rates. At June 30, 2011, United had securities held to maturity with a carrying value of \$372 million and securities available for sale totaling \$1.82 billion. At June 30, 2011, December 31, 2010, and June 30, 2010, the securities portfolio represented approximately 30%, 20%, and 19% of total assets, respectively. The investment securities portfolio primarily consists of U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, U.S. Government agency securities, corporate bonds, and municipal securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from contractual maturities because loans underlying the securities can prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs. Prepayments tend to slow and the weighted average life extends. This is referred to as extension risk which can lead to lower levels of liquidity due to the delay of cash receipts and can result in the holding of a below market yielding asset for a longer period of time.

Goodwill and Other Intangible Assets

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. As a result of the significant drop in United's stock price during the third quarter of 2010, United conducted an interim goodwill impairment test to determine if the stock price decline might indicate goodwill was impaired. United's third quarter interim 2010 impairment test indicated that goodwill was in fact impaired and United recorded a charge to earnings for the entire remaining balance of \$211 million. In performing the interim impairment test, United engaged the services of a national third party valuation expert who employed commonly used valuation techniques including an earnings approach that considered discounted future expected cash earnings and three market approaches.

Other intangible assets, primarily core deposit intangibles representing the value of United's acquired deposit base, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that led management to believe that any impairment exists in United's other intangible assets.

Deposits

United initiated several programs in early 2009 to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit accounts to improve its net interest margin and increase net interest revenue. The programs were very successful in increasing core transaction deposit accounts and reducing more costly time deposit balances as United's funding needs decreased due to lower loan demand. United has continued to pursue customer transaction deposits by stressing its high customer satisfaction scores.

Total deposits as of June 30, 2011 were \$6.18 billion, a decrease of \$146 million, or 2%, from June 30, 2010. Total non-interest-bearing demand deposit accounts of \$899 million increased \$119 million, or 15%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of

\$2.49 billion which increased \$225 million, or 10%, from June 30, 2010.

Total time deposits, excluding brokered deposits, as of June 30, 2011 were \$2.49 billion, down \$180 million from June 30, 2010. Time deposits less than \$100,000 totaled \$1.51 billion, a decrease of \$66.8 million, or 4%, from a year ago. Time deposits of \$100,000 and greater totaled \$981 million as of June 30, 2011, a decrease of \$113 million, or 10%, from June 30, 2010. United continued to offer low rates on certificates of deposit, allowing balances to decline as United's funding needs declined due to weak loan demand.

Table of Contents***Wholesale Funding***

The Bank is a shareholder in the Federal Home Loan Bank (FHLB) of Atlanta. Through this affiliation, FHLB secured advances totaled \$40.6 million and \$104 million as of June 30, 2011 and 2010, respectively. United anticipates continued use of this short- and long-term source of funds. FHLB advances outstanding at June 30, 2011 had fixed interest rates ranging up to 4.49%. During the second quarter of 2011 and the third quarter of 2010, United prepaid approximately \$14.5 million and \$50.0 million, respectively, of fixed-rate advances and incurred prepayment charges of \$791,000 and \$2.23 million, respectively. Additional information regarding FHLB advances is provided in Note 11 to the consolidated financial statements included in United's 2010 Form 10-K.

At June 30, 2011 and 2010, United had \$104 million in repurchase agreements and other short-term borrowings outstanding. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

Interest Rate Sensitivity Management

The absolute level and volatility of interest rates can have a significant effect on United's profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve United's overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

United's net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by the Asset/Liability Management Committee (ALCO). ALCO meets periodically and has responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings, and reviewing United's interest rate sensitivity.

One of the tools management uses to estimate the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit repricing characteristics and the rate of prepayments. The ALCO regularly reviews the assumptions for accuracy based on historical data and future expectations, however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared in order to measure the change in net interest revenue. Policy limits are based on gradually rising and falling rate scenarios, which are compared to this base scenario. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the yield curve. Other scenarios analyzed may include rate shocks, narrowing or widening spreads, and yield curve steepening or flattening. While policy scenarios focus on a twelve month time frame, longer time horizons are also modeled.

United's policy is based on the 12-month impact on net interest revenue of interest rate ramps that increase 200 basis points and decrease 200 basis points from the base scenario. In the ramp scenarios, rates change 25 basis points per month over the initial eight months. The policy limits the change in net interest revenue over the next 12 months to a 10% decrease in either scenario. The policy ramp and base scenarios assume a static balance sheet. Historically low rates on June 30, 2011 and 2010 made use of the down 200 basis points scenario problematic. At June 30, 2011 United's simulation model indicated that a 200 basis point increase in rates would cause an approximate .01% increase in net interest revenue over the next twelve months, and a 25 basis point decrease would cause an approximate .75% increase in net interest revenue over the next twelve months. At June 30, 2010, United's simulation model indicated that a 200 basis point increase in rates would cause an approximate .4% increase in net interest revenue and a 25 basis point decrease in rates over the next twelve months would cause an approximate .2% decrease in net interest revenue. Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks

to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

United may have some discretion in the extent and timing of deposit repricing depending upon the competitive pressures in the markets in which it operates. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices.

Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in an interest rate sensitivity gap analysis. These prepayments may have significant effect on the net interest margin. Because of these limitations, an interest sensitivity gap analysis alone generally does not provide an accurate assessment of exposure to changes in interest rates.

Table of Contents

In order to manage its interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate and receives a fixed rate and interest rate floor contracts where United pays a premium up front to a counterparty for the right to be compensated if a specified rate index falls below a pre-determined floor rate.

United's derivative financial instruments are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize currently in earnings both the effect of the change in the fair value of the derivative financial instrument and the offsetting effect of the change in fair value of the hedged asset or liability associated with the particular risk of that asset or liability being hedged. At June 30, 2011, United did not have any active derivative contracts outstanding.

From time to time, United will terminate swap or floor positions when conditions change and the position is no longer necessary to manage United's overall sensitivity to changes in interest rates. In those situations where the terminated swap or floor was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the swap or floor, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. For floor contracts, the gain or loss is amortized over the remaining original contract term based on the original floorlet schedule. At June 30, 2011, United had \$10.1 million in gains from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. Approximately \$7.24 million is expected to be reclassified into interest revenue over the next twelve months.

United's policy requires all derivative financial instruments be used only for asset/liability management through the hedging of specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate risk sensitivity is minimal and should not have any material unintended effect on our financial condition or results of operations. In order to mitigate potential credit risk, from time to time United may require the counterparties to derivative contracts to pledge securities as collateral to cover the net exposure.

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the daily cash flow requirements of the Bank's customers, both depositors and borrowers. In addition, because United is a separate entity and apart from the Bank, it must provide for its own liquidity. United is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities.

Two key objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities to optimize net interest revenue. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled \$19.4 million at June 30, 2011, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. In addition, at June 30, 2011 United held \$942 million in excess liquidity including \$175 million in short-term commercial paper, \$144 million in balances in excess of reserve requirements at the Federal Reserve Bank and \$623 million in floating rate mortgage-backed securities.

The liability section of the balance sheet provides liquidity through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, Federal Reserve short-term borrowings, FHLB advances and securities sold under agreements to repurchase are additional sources of liquidity and represent United's incremental borrowing capacity. These sources of liquidity are generally short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs.

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

At June 30, 2011, United had sufficient qualifying collateral to increase FHLB advances by \$1.39 billion and Federal Reserve discount window capacity of \$142 million. United's internal policy limits brokered deposits to 25% of total assets. At June 30, 2011, United had the capacity to increase brokered deposits by \$1.55 billion, subject to certain regulatory approvals, and still remain within this limit. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

Table of Contents

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was \$105 million for the six months ended June 30, 2011. The net loss of \$135 million for the six month period included non-cash expenses for the provision for loan losses of \$201 million and losses and write downs on foreclosed property of \$60.5 million. As an offset, other assets increased \$49 million, primarily due to an increase in deferred tax assets. Net cash used in investing activities of \$436 million consisted primarily of purchases of securities of \$1.02 billion and purchases of premises and equipment of \$5.28 million, that were offset by proceeds from sales of securities of \$107 million, maturities and calls of investment securities of \$255 million, net proceeds from sales of other real estate and notes of \$60.3 million, proceeds from note sales of \$99.3 million, and a net decrease in loans of \$64.8 million. Net cash provided by financing activities of \$61.8 million consisted primarily of the proceeds from \$362 million in newly issued common and preferred stock offset by a net decrease in deposits of \$286 million. United also paid \$15.3 million to settle FHLB advances totaling \$14.5 million. In the opinion of management, United had a significant excess liquidity position at June 30, 2011, which was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at June 30, 2011 was \$860 million, an increase of \$224 million from December 31, 2010. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available for sale and the unrealized gains and losses on derivatives qualifying as cash flow hedges, is excluded in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity increased \$225 million from December 31, 2010.

During the first quarter of 2011, United closed the Private Placement. Pursuant to the Private Placement, the Investors purchased and United issued \$32.9 million of the Company's existing common stock, consisting of 3,467,699 shares, for \$9.50 per share and issued \$347 million in preferred stock consisting of \$196 million of Series F Preferred Stock, and \$151 million of Series G Preferred Stock. Under the terms of the Private Placement Agreement and following receipt of required shareholder approvals, which were received on June 16, 2011 at United's annual shareholders meeting, the Series F Preferred Stock converted into 20,618,090 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. Following such conversion, the Investors owned an aggregate of 24,085,801 shares of common stock and 15,914,199 shares of non-voting common stock. The Private Placement resulted in an increase to shareholders' equity of \$362 million, net of transaction costs. On February 22, 2011, the Company entered into the Share Exchange Agreement with the Elm Ridge Parties. Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of the Company's common stock in exchange for 16,613 Series D Preferred Shares and warrants to purchase 1,551,126 common shares.

United accrued \$2.60 million and \$5.21 million in dividends, including accretion of discounts, on Series A and Series B preferred stock in the second quarter and first six months of 2011 as well as \$414,000 and \$587,000 in dividends on Series D preferred stock for the same periods.

United is currently subject to a board resolution required by the Federal Reserve that provides that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior approval of the Federal Reserve. We were not given permission to pay interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. Effective April 15, 2011, United received approval from the Federal Reserve for payments of currently payable and previously deferred dividends and interest on its preferred stock and trust preferred securities.

The Bank is currently subject to an informal memorandum of understanding (MOU) which requires, among other things, that the Bank maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the MOU. Additionally, the MOU requires that, prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators. United is in compliance with all requirements of the MOU.

Table of Contents

United's common stock trades on the Nasdaq Global Select Market under the symbol UCBI. Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2011 and 2010.

Table 13 Stock Price Information *

| | 2011 | | | | 2010 | | | |
|----------------|----------|---------|----------|------------------|----------|----------|----------|------------------|
| | High | Low | Close | Avg Daily Volume | High | Low | Close | Avg Daily Volume |
| First quarter | \$ 11.85 | \$ 5.95 | \$ 11.65 | 227,321 | \$ 25.00 | \$ 16.05 | \$ 22.05 | 176,585 |
| Second quarter | 14.65 | 9.80 | 10.56 | 139,741 | 31.00 | 19.30 | 19.75 | 169,997 |
| Third quarter | | | | | 20.50 | 10.20 | 11.20 | 162,032 |
| Fourth quarter | | | | | 13.00 | 5.50 | 9.75 | 216,916 |

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

The Board of Governors of the Federal Reserve System has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers that are used in conjunction with risk-weighted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier I capital. However, to be considered well-capitalized under the guidelines, a 10% total risk-based capital ratio is required, of which 6% must be Tier I capital.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the company's total risk weighted assets. Risk-weighted assets for purposes of United's capital ratios are calculated under these guidelines.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

The following table shows United's capital ratios, as calculated under regulatory guidelines, at June 30, 2011, December 31, 2010 and June 30, 2010.

Table 14 Capital Ratios

(dollars in thousands)

| | Regulatory Guidelines | | United Community Banks, Inc. (Consolidated) | | | United Community Bank | | |
|--------------------|-----------------------|---------|--|-------------------|---------------|-----------------------|-------------------|---------------|
| | Well Capitalized | Minimum | June 30, 2011 | December 31, 2010 | June 30, 2010 | June 30, 2011 | December 31, 2010 | June 30, 2010 |
| Risk-based ratios: | | | | | | | | |
| Tier I capital | 4.0% | 6.0% | 13.88% | 9.67% | 11.07% | 13.62% | 10.72% | 10.90% |
| Total capital | 8.0 | 10.0 | 16.40 | 12.11 | 13.85 | 15.41 | 12.48 | 12.67 |
| Leverage ratio | 3.0 | 5.0 | 8.71 | 6.75 | 7.72 | 8.54 | 7.45 | 7.71 |

| | | | | | | |
|----------------|------------|------------|------------|------------|------------|------------|
| Tier I capital | \$ 643,012 | \$ 483,257 | \$ 568,047 | \$ 629,543 | \$ 534,161 | \$ 638,943 |
| Total capital | 759,891 | 605,204 | 710,765 | 712,181 | 621,807 | 743,137 |

United's Tier I capital excludes other comprehensive income, and consists of shareholders' equity and qualifying capital securities, less goodwill and deposit-based intangibles. Tier II capital components include supplemental capital items such as a qualifying allowance for loan losses and qualifying subordinated debt. Tier I capital plus Tier II capital components is referred to as Total Risk-Based capital.

Table of Contents**Effect of Inflation and Changing Prices**

A bank's asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature with relatively little investment in fixed assets or inventories. Inflation has an important effect on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the effect of inflation on financial results depends on United's ability to react to changes in interest rates, and by such reaction, reduce the inflationary effect on performance. United has an asset/liability management program to manage interest rate sensitivity. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United's quantitative and qualitative disclosures about market risk as of June 30, 2011 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2010. The interest rate sensitivity position at June 30, 2011 is included in management's discussion and analysis on page 50 of this report.

Item 4. Controls and Procedures

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the Company's disclosure controls and procedures as of June 30, 2011. Based on, and as of the date of that evaluation, United's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in the internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Part II. Other Information**Item 1. Legal Proceedings**

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the consolidated financial condition or results of operations of United.

Item 1A. Risk Factors

We have incurred significant operating losses and our ability to maintain profitability is uncertain.

We incurred a net operating loss from continuing operations of \$142 million for the first quarter of 2011. This compared to a net operating loss from continuing operations of \$34.5 million for the first quarter of 2010. Diluted operating loss from continuing operations per common share was \$7.87 for the first quarter of 2011, compared to a diluted operating loss from continuing operations per common share of \$1.96 for the first quarter of 2010. The first quarter of 2011 operating loss largely reflects the Board of Director's decision to adopt the Problem Asset Disposition Plan described above under Summary Recent Developments to quickly dispose of problem assets following our successful Private Placement also described in Summary Recent Developments. We incurred a net operating loss from continuing operations of \$143 million, or \$8.12 per share, for the year ended December 31, 2010; \$139 million, or \$12.37 per share, for the year ended December 31, 2009; and \$63.9 million, or \$6.81 per share, for the year ended December 31, 2008, in each case due primarily to credit losses and associated costs, including significant provisions for loan losses. Although we had net income of \$4.6 million and diluted earnings per share of \$.08 for the second quarter of 2011, we may continue to have a higher than normal level of nonperforming assets and substantial charge-offs in 2011, which would continue to adversely impact our overall financial condition and results of operations and could impair ability to maintain profitability.

Table of Contents***Our ability to use our deferred tax asset balances may be materially impaired.***

As of June 30, 2011, our net deferred tax asset balance was approximately \$261 million, which includes approximately \$212 million of federal and state net operating losses. We currently have a valuation allowance of \$5.20 million against certain deferred state tax assets that have a very short carry forward period.

Our ability to use these tax benefits would be substantially limited if we were to experience an ownership change as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and related Internal Revenue Service pronouncements. As a result of the Private Placement we did not incur an ownership change, but are close to the threshold. In general, an ownership change would occur if our 5-percent shareholders, as defined under Section 382, collectively increased their ownership in United by more than 50% over a rolling three-year period. A corporation that experiences an ownership change will generally be subject to an annual limitation on the use of its pre-ownership change deferred tax assets equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate, which was 4.55% for ownership changes occurring in March 2011, the month in which United completed the Private Placement.

While we have taken measures to reduce the likelihood that future transactions in our stock will result in an ownership change, there can be no assurance that an ownership change will not occur in the future or that there will not be a change in applicable law that may result in an ownership change. More specifically, while our Tax Benefits Preservation Plan provides an economic disincentive for any one person or group to become a Threshold Holder (as defined in the plan) and for any existing Threshold Holder to acquire more than a specified amount of additional shares, there can be no assurance that the Tax Benefits Preservation Plan will deter a shareholder from increasing its ownership interests beyond the limits set by the plan. Such an increase could adversely affect our ownership change calculations.

In addition, valuation allowances may need to be maintained for deferred tax assets that we estimate are more likely than not to be unrealizable, based on available evidence at the time the estimate is made. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, statutory tax rates, and future taxable income levels and based on input from our auditors, tax advisors or regulatory authorities. In the event that we were to determine that we would not be able to realize all or a portion of our net deferred tax assets in the future, we would reduce such amounts through a charge to income tax expense in the period in which that determination was made, which could have a material adverse impact on our financial condition and results of operations and our ability to maintain profitability.

Other than the risk factors mentioned above, there have been no material changes from the risk associated with our business and industry, as well as the risks related to legislative and regulatory events, contained in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None

Item 3. Defaults upon Senior Securities None

Item 4. (Removed and Reserved)

Item 5. Other Information None

Table of Contents

Item 6. Exhibits

| Exhibit No. | Description |
|-------------|--|
| 3.1 | Restated Articles of Incorporation of United Community Banks, Inc. |
| 3.2 | Amended and Restated Bylaws of United Community Banks, Inc., as amended (incorporated herein by reference to Exhibit 3.2 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed with the SEC on May 4, 2011). |
| 4.1 | See Exhibits 3.1 and 3.2 for provisions of the Restated Articles of Incorporation of United Community Banks, Inc., as amended, and the Amended and Restated Bylaws, as amended, of United Community Banks, Inc., which define the rights of security holders. |
| 4.2 | Second Amendment to Tax Benefits Preservation Plan, dated as of June 17, 2011 (incorporated herein by reference to Exhibit 1.1 to United Community Banks, Inc.'s Current Report on Form 8-K, filed with the SEC on June 21, 2011). |
| 10.1 | Asset Purchase and Sale Agreement, dated as of April 18, 2011, among United Community Bank, CF Southeast, LLC and CF Southeast Trust 2011-1 (incorporated herein by reference to Exhibit 10.3 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed with the SEC on May 4, 2011). |
| 31.1 | Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANKS, INC.

/s/ Jimmy C. Tallent

Jimmy C. Tallent
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Rex S. Schuette

Rex S. Schuette
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

/s/ Alan H. Kumler

Alan H. Kumler
Senior Vice President and Controller
(Principal Accounting Officer)

Date: August 8, 2011