

UNITED COMMUNITY BANKS INC
Form 10-Q
May 09, 2013

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 March 31, 2013

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 001-35095

UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia
(State of Incorporation)

58-1807304
(I.R.S. Employer Identification No.)

125 Highway 515 East
Blairsville, Georgia
Address of Principal
Executive Offices

30512
(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 (Do not check if a smaller reporting company)

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 43,071,080 shares voting and 14,703,636 shares non-voting outstanding as of April 30, 2013.

INDEX

PART I - Financial Information

Item 1.	Financial Statements.	
	Consolidated Statement of Income (unaudited) for the Three Months Ended March 31, 2013 and 2012	3
	Consolidated Statement of Comprehensive Income (unaudited) for the Three Months Ended March 31, 2013 and 2012	4
	Consolidated Balance Sheet at March 31, 2013 (unaudited), December 31, 2012 (audited) and March 31, 2012 (unaudited)	5
	Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Three Months Ended March 31, 2013 and 2012	6
	Consolidated Statement of Cash Flows (unaudited) for the Three Months Ended March 31, 2013 and 2012	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	54
Item 4.	Controls and Procedures.	54

PART II - Other Information

Item 1.	Legal Proceedings.	55
Item 1A.	Risk Factors.	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	55
Item 3.	Defaults Upon Senior Securities.	55
Item 4.	Mine Safety Disclosures.	55
Item 5.	Other Information.	55
Item 6.	Exhibits.	56

Part I – Financial Information

Item 1 – Financial Statements

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Income (Unaudited)

(in thousands, except per share data)	Three Months Ended	
	March 31,	
	2013	2012
Interest revenue:		
Loans, including fees	\$50,934	\$55,759
Investment securities, including tax exempt of \$212 and \$250	9,965	13,004
Deposits in banks and short-term investments	870	1,012
Total interest revenue	61,769	69,775
Interest expense:		
Deposits:		
NOW	454	637
Money market	562	641
Savings	36	37
Time	3,226	6,159
Total deposit interest expense	4,278	7,474
Short-term borrowings	516	1,045
Federal Home Loan Bank advances	19	466
Long-term debt	2,662	2,372
Total interest expense	7,475	11,357
Net interest revenue	54,294	58,418
Provision for loan losses	11,000	15,000
Net interest revenue after provision for loan losses	43,294	43,418
Fee revenue:		
Service charges and fees	7,403	7,783
Mortgage loan and other related fees	2,655	2,099
Brokerage fees	767	813
Securities gains, net	116	557
Loss from prepayment of debt	-	(482)
Other	1,885	4,609
Total fee revenue	12,826	15,379
Total revenue	56,120	58,797
Operating expenses:		
Salaries and employee benefits	23,592	25,225
Communications and equipment	3,046	3,155
Occupancy	3,367	3,771
Advertising and public relations	938	846
Postage, printing and supplies	863	979
Professional fees	2,366	1,975
Foreclosed property	2,333	3,825
FDIC assessments and other regulatory charges	2,505	2,510
Amortization of intangibles	705	732
Other	4,055	3,937
Total operating expenses	43,770	46,955

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Net income before income taxes	12,350	11,842
Income tax expense	585	314
Net income	11,765	11,528
Preferred stock dividends and discount accretion	3,052	3,030
Net income available to common shareholders	\$8,713	\$8,498
Earnings per common share - basic / diluted	\$.15	\$.15
Weighted average common shares outstanding - basic / diluted	58,081	57,764

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Comprehensive Income (Unaudited)

(in thousands)	Three Months Ended					
	March 31, 2013			2012		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	12,350	(585)	11,765	\$ 11,842	\$ (314)	\$ 11,528
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	1,641	(621)	1,020	(3,340)	1,299	(2,041)
Reclassification adjustment for gains included in net income	(116)	45	(71)	(557)	217	(340)
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities	—	576	576	—	(1,516)	(1,516)
Net unrealized gains (losses)	1,525	—	1,525	(3,897)	—	(3,897)
Amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity	(319)	124	(195)	(413)	160	(253)
Valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity	—	(124)	(124)	—	(160)	(160)
Net unrealized losses	(319)	—	(319)	(413)	—	(413)
Amortization of gains included in net income on terminated derivative	(538)	209	(329)	(1,600)	622	(978)

financial instruments that were previously accounted for as cash flow hedges						
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	430	(167)	263	—	—	—
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges	—	(42)	(42)	—	(622)	(622)
Net unrealized losses	(108)	—	(108)	(1,600)	—	(1,600)
Net actuarial loss on defined benefit pension plan	(415)	161	(254)	—	—	—
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	132	(51)	81	154	(60)	94
Valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses	—	(110)	(110)		60	60
Net defined benefit pension plan activity	(283)	—	(283)	154	—	154
Total other comprehensive income (loss)	815	—	815	(5,756)	—	(5,756)
Comprehensive income	13,165	(585)	12,580	\$ 6,086	\$ (314)	\$ 5,772

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet (Unaudited)

(in thousands, except share and per share data)	March 31, 2013	December 31, 2012	March 31, 2012
ASSETS			
Cash and due from banks	\$ 57,638	\$ 66,536	\$ 53,147
Interest-bearing deposits in banks	107,390	124,613	139,439
Short-term investments	82,000	60,000	235,000
Cash and cash equivalents	247,028	251,149	427,586
Securities available-for-sale	1,909,426	1,834,593	1,898,815
Securities held-to-maturity (fair value \$247,087, \$261,131 and \$318,490)	231,087	244,184	303,636
Mortgage loans held for sale	18,290	28,821	24,809
Loans, net of unearned income	4,193,560	4,175,008	4,127,566
Less allowance for loan losses	(105,753)	(107,137)	(113,601)
Loans, net	4,087,807	4,067,871	4,013,965
Assets covered by loss sharing agreements with the FDIC	42,096	47,467	72,854
Premises and equipment, net	168,036	168,920	174,419
Bank owned life insurance	82,114	81,867	80,956
Accrued interest receivable	18,302	18,659	20,292
Goodwill and other intangible assets	4,805	5,510	7,695
Foreclosed property	16,734	18,264	31,887
Unsettled securities sales	—	5,763	43,527
Other assets	23,643	29,191	73,252
Total assets	\$ 6,849,368	\$ 6,802,259	\$ 7,173,693
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$ 1,298,425	\$ 1,252,605	\$ 1,101,757
NOW	1,281,454	1,316,453	1,389,016
Money market	1,165,836	1,149,912	1,123,734
Savings	243,347	227,308	214,150
Time:			
Less than \$100,000	1,019,396	1,055,271	1,207,479
Greater than \$100,000	685,174	705,558	796,882
Brokered	332,220	245,033	167,521
Total deposits	6,025,852	5,952,140	6,000,539
Short-term borrowings	51,999	52,574	101,925
Federal Home Loan Bank advances	125	40,125	215,125
Long-term debt	124,825	124,805	120,245
Unsettled securities purchases	—	—	119,565
Accrued expenses and other liabilities	54,349	51,210	36,755
Total liabilities	6,257,150	6,220,854	6,594,154
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, \$1 par value; 10,000,000 shares authorized;			

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

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	178,937	178,557	177,451
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613	16,613	16,613
Common stock, \$1 par value; 100,000,000 shares authorized; 43,063,761, 42,423,870 and 41,688,647 shares issued and outstanding	43,064	42,424	41,689
Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 14,703,636, 15,316,794 and 15,914,209 shares issued and outstanding	14,704	15,317	15,914
Common stock issuable; 133,469, 133,238 and 90,126 shares	2,726	3,119	2,948
Capital surplus	1,059,222	1,057,951	1,056,135
Accumulated deficit	(700,440)	(709,153)	(722,363)
Accumulated other comprehensive loss	(22,825)	(23,640)	(9,065)
Total shareholders' equity	592,218	581,405	579,539
Total liabilities and shareholders' equity	\$ 6,849,368	\$ 6,802,259	\$ 7,173,693

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the Three Months Ended March 31,

(in thousands, except share and per share data)	Preferred Stock			Non-Voting Common				Accumulated Other		Total
	Series A	Series B	Series D	Common Stock	Common Stock	Stock Issuable	Capital Surplus	Accumulated Deficit	Comprehensive Loss	
Balance, December 31, 2011	\$217	\$177,092	\$16,613	\$41,647	\$15,914	\$3,233	\$1,054,940	\$(730,861)	\$(3,309)	\$575,486
Net income								11,528		11,528
Other comprehensive loss									(5,756)	(5,756)
Common stock issued to dividend reinvestment plan and employee benefit plans (35,648 shares)				36			242			278
Amortization of stock options and restricted stock awards							585			585
Vesting of restricted stock (4,397 shares issued, 8,399 shares deferred)				4		(151)	187			40
Deferred compensation plan, net, including dividend equivalents						49				49
Shares issued from deferred compensation plan (1,502 shares)				2		(183)	181			—
Preferred stock dividends:										

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Series A								(3)		(3)
Series B	359							(2,608)		(2,249)
Series D								(419)		(419)
Balance, March 31, 2012	\$217	\$177,451	\$16,613	\$41,689	\$15,914	\$2,948	\$1,056,135	\$(722,363)	\$(9,065)	\$579,539
Balance, December 31, 2012	\$217	\$178,557	\$16,613	\$42,424	\$15,317	\$3,119	\$1,057,951	\$(709,153)	\$(23,640)	\$581,405
Net income								11,765		11,765
Other comprehensive income									815	815
Common stock issued to dividend reinvestment plan and to employee benefit plans (18,170 shares)				18			171			189
Conversion of non-voting common stock to voting (613,158 shares)				613	(613)					—
Amortization of stock options and restricted stock awards							626			626
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (4,042 shares issued, 259 shares deferred)				4			40			44
Deferred compensation plan, net, including dividend equivalents							46			46
Shares issued from deferred compensation plan										

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

(4,521 shares)				5			(439)	434			—
Preferred stock dividends:											
Series A							(3)				(3)
Series B	380						(2,630)				(2,250)
Series D							(419)				(419)
Balance, March 31, 2013	\$217	\$178,937	\$16,613	\$43,064	\$14,704	\$2,726	\$1,059,222	\$(700,440)	\$(22,825)		\$592,218

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended	
	March 31, 2013	2012
Operating activities:		
Net income	\$ 11,765	\$ 11,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	7,505	6,803
Provision for loan losses	11,000	15,000
Stock based compensation	626	585
Securities gains, net	(116)	(557)
Losses and write downs on sales of other real estate owned	1,146	2,204
Loss on prepayment of borrowings	—	482
Changes in assets and liabilities:		
Other assets and accrued interest receivable	7,915	(2,612)
Accrued expenses and other liabilities	3,225	646
Mortgage loans held for sale	10,531	(928)
Net cash provided by operating activities	53,597	33,151
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	17,501	25,653
Purchases	(4,993)	—
Investment securities available-for-sale:		
Proceeds from sales	15,751	61,585
Proceeds from maturities and calls	132,211	142,236
Purchases	(219,349)	(253,229)
Net increase in loans	(36,224)	(41,418)
Funds collected from FDIC under loss sharing agreements	2,452	2,568
Proceeds from sales of premises and equipment	550	14
Purchases of premises and equipment	(2,001)	(1,614)
Proceeds from sale of other real estate	5,726	6,696
Net cash used in investing activities	(88,376)	(57,509)
Financing activities:		
Net change in deposits	73,712	(97,444)
Net change in short-term borrowings	(575)	(652)
Proceeds from Federal Home Loan Bank advances	185,000	499,000
Settlement of Federal Home Loan Bank advances	(225,000)	(324,982)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	189	278
Cash dividends on preferred stock	(2,668)	(2,672)
Net cash provided by financing activities	30,658	73,528
Net change in cash and cash equivalents	(4,121)	49,170
Cash and cash equivalents at beginning of period	251,149	378,416
Cash and cash equivalents at end of period	\$ 247,028	\$ 427,586
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Interest	\$ 8,025	\$ 12,252
Income taxes	1,659	1,026
Unsettled securities sales	—	43,527
Unsettled securities purchases	—	119,565
Transfers of loans to foreclosed property	6,288	9,534

See accompanying notes to consolidated financial statements.

7

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 its Annual Report on Form 10-K for the year ended December 31, 2012.

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 the estimated cost to sell. If the fair value less the estimated cost 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 the estimated 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 (“ASC”) 360-20, Real Estate Sales.

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. The 2012 reclassifications were not material to the financial statement presentation.

Note 2 – Accounting Standards Updates and Recently Adopted Standards

In January 2013, the FASB issued Accounting Standards Update No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting agreement. The disclosure requirements were effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. It did not have a material impact on United’s financial position or results of operations, and resulted in additional disclosures.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this update require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and by the respective line items of net income. The standard was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. This guidance did not have a material impact on United’s financial position or results of operations, and resulted in additional disclosures.

There were no Accounting Standards Updates issued by the FASB since the filing of United’s 2012 Annual Report on Form 10-K that were applicable to United.

Note 3 – Offsetting Assets and Liabilities

United enters into reverse repurchase agreements in order to invest short-term funds. In addition, United enters into repurchase agreements and reverse repurchase agreements with the same counterparty in transactions commonly referred to as collateral swaps that are subject to master netting agreements under which the balances are netted in the balance sheet in accordance with ASC 210-20, Offsetting.

United also enters into derivative transactions that are subject to master netting arrangements; however there were no offsetting positions at March 31, 2013, December 31, 2012 or March 31, 2012.

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

The following table presents a summary of amounts outstanding under master netting agreements as of March 31, 2013 and December 31, 2012, and March 31, 2012 (in thousands).

March 31, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset		Net Amount
				in the Balance Sheet Financial Instruments	Collateral Received	
Repurchase agreements / reverse repurchase agreements	\$ 332,000	\$ (250,000)	\$ 82,000	\$ —	\$ —	\$ 82,000
Derivatives	602	—	602	—	—	602
Total	\$ 332,602	\$ (250,000)	\$ 82,602	\$ —	\$ —	\$ 82,602
Weighted average interest rate of reverse repurchase agreements	1.28	%				

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset		Net Amount
				in the Balance Sheet Financial Instruments	Collateral Pledged	
Repurchase agreements / reverse repurchase agreements	\$ 250,000	\$ (250,000)	\$ —	\$ —	\$ —	\$ —
Derivatives	14,556	—	14,556	—	14,585	—
Total	\$ 264,556	\$ (250,000)	\$ 14,556	\$ —	\$ 14,585	\$ —
Weighted average interest rate of repurchase agreements	.37	%				

December 31, 2012	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset		Net Amount
				in the Balance Sheet Financial Instruments	Collateral Received	
Repurchase agreements / reverse repurchase agreements	\$ 325,000	\$ (265,000)	\$ 60,000	\$ —	\$ —	\$ 60,000
	50,000	(50,000)	—	—	—	—

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Securities lending transactions

Derivatives	658	—	658	—	—	658
Total	\$ 375,658	\$ (315,000)	\$ 60,658	\$ —	\$ —	\$ 60,658
Weighted average interest rate of reverse repurchase agreements	1.18	%				

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Collateral Pledged	Net Amount

Repurchase agreements / reverse repurchase agreements	\$ 265,000	\$ (265,000)	\$ —	\$ —	\$ —	\$ —
Securities lending transactions	50,000	(50,000)	—	—	—	—
Derivatives	12,543	—	12,543	—	11,493	1,050
Total	\$ 327,543	\$ (315,000)	\$ 12,543	\$ —	\$ 11,493	\$ 1,050
Weighted average interest rate of repurchase agreements	.43	%				

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Collateral Received	Net Amount

Repurchase agreements / reverse repurchase agreements	\$ 406,000	\$ (171,000)	\$ 235,000	\$ —	\$ —	\$ 235,000
Derivatives	73	—	73	—	—	73
Total	\$ 406,073	\$ (171,000)	\$ 235,073	\$ —	\$ —	\$ 235,073
Weighted average interest rate of reverse repurchase agreements	1.17	%				

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Collateral Pledged	Net Amount

Repurchase agreements / reverse repurchase	\$ 171,000	\$ (171,000)	\$ —	\$ —	\$ —	\$ —
--	------------	--------------	------	------	------	------

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

agreements						
Derivatives	2,599	—	2,599	—	2,919	—
Total	\$ 173,599	\$ (171,000)	\$ 2,599	\$ —	\$ 2,919	\$ —
Weighted average interest rate of repurchase agreements	.32	%				

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

Note 4 – Securities

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 month periods ended March 31, 2013 and 2012 (in thousands).

	Three Months Ended March 31,	
	2013	2012
Proceeds from sales	\$ 15,751	\$ 105,111
Gross gains on sales	\$ 116	\$ 557
Gross losses on sales	—	—
Net gains on sales of securities	\$ 116	\$ 557
Income tax expense attributable to sales	\$ 45	\$ 217

Securities with a carrying value of \$1.25 billion, \$1.40 billion, and \$1.38 billion were pledged to secure public deposits and other secured borrowings at March 31, 2013, December 31, 2012 and March 31, 2012, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the FHLB with currently pledged 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 March 31, 2013, December 31, 2012 and March 31, 2012 are as follows (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2013				
State and political subdivisions	\$ 51,768	\$ 5,663	\$ —	\$ 57,431
Mortgage-backed securities (1)	179,319	10,388	51	189,656
Total	\$ 231,087	\$ 16,051	\$ 51	\$ 247,087
As of December 31, 2012				
State and political subdivisions	\$ 51,780	\$ 5,486	\$ —	\$ 57,266
Mortgage-backed securities (1)	192,404	11,461	—	203,865

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Total	\$	244,184	\$	16,947	\$	—	\$	261,131
-------	----	---------	----	--------	----	---	----	---------

As of March 31, 2012

State and political subdivisions	\$	51,893	\$	4,413	\$	—	\$	56,306
----------------------------------	----	--------	----	-------	----	---	----	--------

Mortgage-backed securities (1)		251,743		10,441		—		262,184
--------------------------------	--	---------	--	--------	--	---	--	---------

Total	\$	303,636	\$	14,854	\$	—	\$	318,490
-------	----	---------	----	--------	----	---	----	---------

(1) All are residential type mortgage-backed securities

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 March 31, 2013, December 31, 2012 and March 31, 2012 are presented below (in thousands).

As of March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 22,711	\$ 1,330	\$ 4	\$ 24,037
Mortgage-backed securities (1)	1,450,645	21,210	3,544	1,468,311
Corporate bonds	190,843	2,035	4,084	188,794
Asset-backed securities	223,827	2,420	377	225,870
Other	2,414	—	—	2,414
Total	\$ 1,890,440	\$ 26,995	\$ 8,009	\$ 1,909,426

As of December 31, 2012

State and political subdivisions	\$ 27,717	\$ 1,354	\$ 19	\$ 29,052
Mortgage-backed securities (1)	1,408,042	22,552	2,092	1,428,502
Corporate bonds	169,783	1,052	7,173	163,662
Asset-backed securities	209,411	1,894	749	210,556
Other	2,821	—	—	2,821
Total	\$ 1,817,774	\$ 26,852	\$ 10,033	\$ 1,834,593

As of March 31, 2012

U.S. Government agencies	\$ 43,593	\$ 286	\$ 90	\$ 43,789
State and political subdivisions	21,490	1,321	3	22,808
Mortgage-backed securities (1)	1,692,446	33,212	590	1,725,068
Corporate bonds	119,154	—	14,568	104,586
Other	2,564	—	—	2,564
Total	\$ 1,879,247	\$ 34,819	\$ 15,251	\$ 1,898,815

(1) All are residential type mortgage-backed securities

The following table summarizes held-to-maturity securities in an unrealized loss position as of March 31, 2013 (thousands). As of December 31, 2012 and March 31, 2012, there were no held-to-maturity securities in an unrealized loss position.

Less than 12 Months	12 Months or More	Total
---------------------	-------------------	-------

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

As of March 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$4,929	\$51	\$—	\$—	4,929	51
Total unrealized loss position	\$4,929	\$51	\$—	\$—	\$4,929	\$51

11

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 March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

As of March 31, 2013	Less than 12 Months Unrealized		12 Months or More Unrealized		Total Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
State and political subdivisions	\$ 1,185	\$ 2	\$ 10	\$ 2	\$ 1,195	\$ 4
Mortgage-backed securities	399,263	3,544	—	—	399,263	3,544
Corporate bonds	21,323	145	77,007	3,939	98,330	4,084
Asset-backed securities	72,064	377	—	—	72,064	377
Total unrealized loss position	\$ 493,835	\$ 4,068	\$ 77,017	\$ 3,941	\$ 570,852	\$ 8,009
As of December 31, 2012						
State and political subdivisions	\$ 3,674	\$ 17	\$ 10	\$ 2	\$ 3,684	\$ 19
Mortgage-backed securities	326,485	2,092	—	—	326,485	2,092
Corporate bonds	21,248	136	93,903	7,037	115,151	7,173
Asset-backed securities	82,188	749	—	—	82,188	749
Total unrealized loss position	\$ 433,595	\$ 2,994	\$ 93,913	\$ 7,039	\$ 527,508	\$ 10,033
As of March 31, 2012						
U.S. Government agencies	\$ 9,905	\$ 90	\$ —	\$ —	\$ 9,905	\$ 90
State and political subdivisions	—	—	11	3	11	3
Mortgage-backed securities	405,039	574	21,067	16	426,106	590
Corporate bonds	35,306	2,872	69,230	11,696	104,536	14,568
Total unrealized loss position	\$ 450,250	\$ 3,536	\$ 90,308	\$ 11,715	\$ 540,558	\$ 15,251

At March 31, 2013, there were 68 available-for-sale securities and three 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 March 31, 2013, December 31, 2012 and March 31, 2012 were primarily attributable to changes in interest rates, however the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings since the time of acquisition. The bonds remain above investment grade and United does not consider them to be impaired.

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 analysts' reports. No impairment charges were recognized during the three months ended March 31, 2013 or 2012.

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

The amortized cost and fair value of held-to-maturity and available-for-sale securities at March 31, 2013, by contractual maturity, are presented in the following table (in thousands).

	Available-for-Sale Amortized		Held-to-Maturity Amortized	
	Cost	Fair Value	Cost	Fair Value
State and political subdivisions:				
Within 1 year	\$ 996	\$ 1,005	\$ —	\$ —
1 to 5 years	14,552	15,453	9,858	10,672
5 to 10 years	6,316	6,658	26,481	29,490
More than 10 years	847	921	15,429	17,269
	22,711	24,037	51,768	57,431
Corporate bonds:				
1 to 5 years	38,123	38,503	—	—
5 to 10 years	141,961	140,119	—	—
More than 10 years	10,759	10,172	—	—
	190,843	188,794	—	—
Asset-backed securities:				
1 to 5 years	32,384	32,405	—	—
5 to 10 years	142,507	143,693	—	—
More than 10 years	48,936	49,772	—	—
	223,827	225,870	—	—
Other:				
More than 10 years	2,414	2,414	—	—
	2,414	2,414	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	996	1,005	—	—
1 to 5 years	85,059	86,361	9,858	10,672
5 to 10 years	290,784	290,470	26,481	29,490
More than 10 years	62,956	63,279	15,429	17,269
Mortgage-backed securities	1,450,645	1,468,311	179,319	189,656
	\$ 1,890,440	\$ 1,909,426	\$ 231,087	\$ 247,087

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.

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 March 31, 2013, December 31, 2012 and March 31, 2012, are summarized as follows (in thousands).

	March 31, 2013	December 31, 2012	March 31, 2012
Commercial (secured by real estate)	\$ 1,804,030	\$ 1,813,365	\$ 1,843,207
Commercial & industrial	453,764	458,246	439,496
Commercial construction	152,410	154,769	167,122
Total commercial	2,410,204	2,426,380	2,449,825
Residential mortgage	1,245,975	1,214,203	1,131,248
Residential construction	371,733	381,677	435,375
Consumer installment	165,648	152,748	111,118
Total loans	4,193,560	4,175,008	4,127,566
Less allowance for loan losses	(105,753)	(107,137)	(113,601)
Loans, net	\$ 4,087,807	\$ 4,067,871	\$ 4,013,965

The Bank makes loans and extends credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina, east Tennessee and the Greenville, South Carolina metropolitan statistical area. Although the Bank has a diversified loan portfolio, a substantial portion of its loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

United considers all loans that are on nonaccrual with a balance of \$500,000 or greater and all troubled debt restructurings (“TDRs”) to be impaired. In addition, United reviews all accruing substandard loans greater than \$2 million to determine if the loan is impaired. 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. All TDRs are considered impaired regardless of accrual status. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. A specific reserve is established for impaired loans for the amount of calculated impairment. Interest payments received on impaired nonaccrual loans are applied as a reduction of the outstanding principal balance. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Impairment amounts are recorded quarterly and specific reserves are recorded in the allowance for loan losses.

Each quarter, United’s management prepares an analysis of the allowance for loan losses to determine the appropriate balance that measures and quantifies the amount of loss inherent in the loan portfolio. The allowance is comprised of specific reserves which are determined as described above, general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions and an unallocated portion. United uses eight quarters of historical loss experience weighted toward the most recent quarters to determine the loss factors to be used. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to normalize for nonrecurring and unusual activity that might otherwise influence a shorter time period. The weighted average is calculated by multiplying each quarter’s annualized historical net charge-off rate by 1 through 8, with 8 representing the most recent quarter and 1 representing the oldest

quarter. United uses annualized charge-off rates under the broad assumption that losses inherent in the loan portfolio will generally be resolved within twelve months. Problem loans that are not resolved within twelve months are generally larger loans that are more complex in nature requiring more time to either rehabilitate or work out of the bank. These credits are subject to impairment testing and specific reserves.

The weighted loss factor results for each quarter are added together and divided by 36 (the sum of 1, 2, 3, 4, 5, 6, 7 and 8) to arrive at the weighted average historical loss factor for each category of loans. United calculates loss factors for each major category of loans (commercial real estate, commercial & industrial, commercial construction, residential construction and consumer installment) except residential real estate loans which are further divided into home equity first lien, home equity junior lien and all other residential real estate loans and a loss factor is calculated for each category.

Management carefully reviews the resulting loss factors for each category of the loan portfolio and evaluates whether qualitative adjustments are necessary to take into consideration recent credit trends such as increases or decreases in past due, nonaccrual, criticized and classified loans, acceleration or delays in timing of recognition of losses that may render the use of annualized charge-off rates to be inappropriate, and other macro environmental factors such as changes in unemployment rates, lease vacancy rates and trends in property values and absorption rates.

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

To validate the results, management closely monitors the loan portfolio to determine the range of potential losses based upon probability of default and losses upon default for each major loan category. The potential range of losses resulting from this analysis is compared to the resulting loss factors for each major loan category to validate the loss factors and determine if qualitative adjustments are necessary. United's management believes that its method of determining the balance of the allowance for loan losses provides a reasonable and reliable basis for measuring and reporting losses that are inherent in the loan portfolio as of the reporting date.

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 the impairment method as of March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

	Commercial (Secured by Real Estate)	Commercial & Industrial	Commercial Constructio	Residential Mortgage	Residential Constructio	Consumer & Installment	Unallocat	Other
Three Months Ended March 31, 2013								
Allowance for loan losses:								
Beginning balance	\$27,847	\$5,537	\$8,389	\$26,642	\$26,662	\$2,747	\$9,313	\$1,000
Charge-offs	(5,454)	(1,823)	(45)	(2,356)	(2,982)	(707)	—	(1,000)
Recoveries	211	322	49	209	9	183	—	9
Provision	7,804	1,590	(285)	2,433	(363)	(131)	(48)	1,000
Ending balance	\$30,408	\$5,626	\$8,108	\$26,928	\$23,326	\$2,092	\$9,265	\$1,000
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$5,089	\$1,026	\$2,093	\$1,804	\$1,945	\$14	\$—	\$1,000
Collectively evaluated for impairment	25,319	4,600	6,015	25,124	21,381	2,078	9,265	9
Total ending allowance balance	\$30,408	\$5,626	\$8,108	\$26,928	\$23,326	\$2,092	\$9,265	\$1,000
Loans:								
Individually evaluated for impairment	\$86,978	\$50,347	\$38,970	\$22,156	\$31,936	\$407	\$—	\$2,000
Collectively evaluated for impairment	1,717,052	403,417	113,440	1,223,819	339,797	165,241	—	3,000
Total loans	\$1,804,030	\$453,764	\$152,410	\$1,245,975	\$371,733	\$165,648	\$—	\$4,000
Year Ended December 31, 2012								
Allowance for loan losses:								
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$6,106	\$490	\$2,239	\$2,165	\$625	\$19	\$—	\$1,000
Collectively evaluated for impairment	21,741	5,047	6,150	24,477	26,037	2,728	9,313	9
Total ending allowance balance	\$27,847	\$5,537	\$8,389	\$26,642	\$26,662	\$2,747	\$9,313	\$1,000
Loans:								
Individually evaluated for impairment	\$104,409	\$51,501	\$40,168	\$22,247	\$34,055	\$430	\$—	\$2,000
Collectively evaluated for impairment	1,708,956	406,745	114,601	1,191,956	347,622	152,318	—	3,000
Total loans	\$1,813,365	\$458,246	\$154,769	\$1,214,203	\$381,677	\$152,748	\$—	\$4,000
Three Months Ended March 31, 2012								
Beginning balance	\$31,644	\$5,681	\$6,097	\$29,076	\$30,379	\$2,124	\$9,467	\$1,000
Charge-offs	(3,928)	(756)	(364)	(5,767)	(5,629)	(753)	—	(1,000)
Recoveries	231	87	30	392	315	275	—	1,000
Provision	2,667	460	3,820	3,655	4,408	252	(262)	1,000

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Ending balance	\$30,614	\$5,472	\$9,583	\$27,356	\$29,473	\$1,898	\$9,205	\$1
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$7,654	\$1,122	\$1,920	\$2,254	\$3,236	\$63	\$—	\$1
Collectively evaluated for impairment	22,960	4,350	7,663	25,102	26,237	1,835	9,205	9
Total ending allowance balance	\$30,614	\$5,472	\$9,583	\$27,356	\$29,473	\$1,898	\$9,205	\$1
Loans:								
Individually evaluated for impairment	\$117,999	\$60,568	\$46,549	\$21,525	\$47,048	\$331	\$—	\$2
Collectively evaluated for impairment	1,725,208	378,928	120,573	1,109,723	388,327	110,787	—	3
Total loans	\$1,843,207	\$439,496	\$167,122	\$1,131,248	\$435,375	\$111,118	\$—	\$4

When a loan officer determines that a loan is uncollectible, he or she is responsible for recommending to the local bank president that the loan be charged off. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department and the Foreclosure / OREO department. Nonaccrual loans that are collateral dependent are generally charged down to 80% of the appraised value of the underlying collateral at the time they are placed on nonaccrual status.

A committee consisting of the Chief Risk Officer, Senior Risk Officer and the Senior Credit Officers meets monthly to review charge-offs that have occurred during the previous month. The 10 largest charge-offs are reported quarterly to the Board of Directors.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Generally, closed-end retail loans (installment and residential mortgage loans) past due 120 cumulative days are charged-off unless the loan is well secured and in process of collection (within the next 90 days). Open-end (revolving) retail loans which are past due 180 cumulative days from their contractual due date are generally charged-off.

At March 31, 2013, December 31, 2012 and March 31, 2012, loans with a carrying value of \$1.94 billion, \$1.90 billion and \$1.58 billion, respectively, were pledged as collateral to secure FHLB advances and other contingent funding sources.

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three months ended March 31, 2013 and 2012 (in thousands).

	Three Months Ended March 31, 2013			2012		
	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Commercial (secured by real estate)	\$91,631	\$ 946	\$ 1,000	\$ 117,551	\$ 1,251	\$ 1,341
Commercial & industrial	43,694	156	629	43,249	118	610
Commercial construction	39,208	151	232	40,759	267	457
Total commercial	174,533	1,253	1,861	201,559	1,636	2,408
Residential mortgage	20,414	241	223	24,262	225	261
Residential construction	40,592	326	428	54,467	401	518
Consumer installment	276	6	6	338	5	5
Total	\$235,815	\$ 1,826	\$2,518	\$280,626	\$2,267	\$3,192

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

	March 31, 2013			December 31, 2012			March 31, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	
With no related allowance recorded:									
Commercial (secured by real estate)	\$50,386	\$37,202	\$—	\$74,066	\$62,609	\$—	\$91,399	\$82,500	
Commercial & industrial	73,196	46,895	—	74,572	49,572	—	81,896	56,800	
Commercial construction	23,486	16,703	—	23,938	17,305	—	30,188	27,200	
Total commercial	147,068	100,800	—	172,576	129,486	—	203,483	166,500	
Residential mortgage	7,762	6,306	—	10,336	8,383	—	15,375	13,000	
Residential construction	19,026	15,223	—	35,439	19,093	—	44,018	28,400	
Consumer installment	—	—	—	—	—	—	—	—	

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Total with no related allowance recorded	173,856	122,329	—	218,351	156,962	—	262,876	208,351
With an allowance recorded:								
Commercial (secured by real estate)	52,363	49,777	5,089	44,395	41,800	6,106	36,536	35,400
Commercial & industrial	3,562	3,451	1,026	2,170	1,929	490	3,672	3,672
Commercial construction	23,150	22,267	2,093	23,746	22,863	2,239	20,056	19,200
Total commercial	79,075	75,495	8,208	70,311	66,592	8,835	60,264	58,300
Residential mortgage	16,104	15,850	1,804	14,267	13,864	2,165	9,255	8,480
Residential construction	17,244	16,713	1,945	15,412	14,962	625	19,235	18,500
Consumer installment	420	407	14	441	430	19	340	331
Total with an allowance recorded	112,843	108,465	11,971	100,431	95,848	11,644	89,094	85,700
Total	\$286,699	\$230,794	\$11,971	\$318,782	\$252,810	\$11,644	\$351,970	\$294,051

There were no loans more than 90 days past due and still accruing interest at March 31, 2013, December 31, 2012 or March 31, 2012. Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans. 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.

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 March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

	Nonaccrual Loans		
	March 31, 2013	December 31, 2012	March 31, 2012
Commercial (secured by real estate)	\$ 17,304	\$ 22,148	\$ 26,081
Commercial & industrial	29,545	31,817	36,314
Commercial construction	22,359	23,843	23,319
Total commercial	69,208	77,808	85,714
Residential mortgage	11,817	12,589	18,741
Residential construction	14,592	18,702	24,341
Consumer installment	389	795	908
Total	\$ 96,006	\$ 109,894	\$ 129,704
Balance as a percentage of unpaid principal	66.3 %	69.5 %	70.6 %

The following table presents the aging of the recorded investment in past due loans as of March 31, 2013, December 31, 2012 and March 31, 2012 by class of loans (in thousands).

As of	Loans Past Due			Total	Loans Not	
	30 - 59 Days	60 - 89 Days	> 90 Days		Past Due	Total
As of March 31, 2013						
Commercial (secured by real estate)	\$ 7,402	\$ 2,304	\$ 5,750	\$ 15,456	\$ 1,788,574	\$ 1,804,030
Commercial & industrial	1,485	419	219	2,123	451,641	453,764
Commercial construction	856	—	5,530	6,386	146,024	152,410
Total commercial	9,743	2,723	11,499	23,965	2,386,239	2,410,204
Residential mortgage	11,899	2,667	4,159	18,725	1,227,250	1,245,975
Residential construction	2,310	2,371	2,373	7,054	364,679	371,733
Consumer installment	682	152	109	943	164,705	165,648
Total loans	\$ 24,634	\$ 7,913	\$ 18,140	\$ 50,687	\$ 4,142,873	\$ 4,193,560
As of December 31, 2012						
Commercial (secured by real estate)	\$ 8,106	\$ 3,232	\$ 7,476	\$ 18,814	\$ 1,794,551	\$ 1,813,365
Commercial & industrial	1,565	429	867	2,861	455,385	458,246
Commercial construction	2,216	—	4,490	6,706	148,063	154,769
Total commercial	11,887	3,661	12,833	28,381	2,397,999	2,426,380
Residential mortgage	12,292	2,426	4,848	19,566	1,194,637	1,214,203
Residential construction	2,233	1,934	5,159	9,326	372,351	381,677

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Consumer installment	1,320	245	289	1,854	150,894	152,748
Total loans	\$ 27,732	\$ 8,266	\$ 23,129	\$ 59,127	\$ 4,115,881	\$ 4,175,008
As of March 31, 2012						
Commercial (secured by real estate)	\$ 6,777	\$ 3,219	\$ 14,461	\$ 24,457	\$ 1,818,750	\$ 1,843,207
Commercial & industrial	1,930	244	2,905	5,079	434,417	439,496
Commercial construction	256	55	8,620	8,931	158,191	167,122
Total commercial	8,963	3,518	25,986	38,467	2,411,358	2,449,825
Residential mortgage	14,540	5,223	9,103	28,866	1,102,382	1,131,248
Residential construction	7,462	1,584	11,201	20,247	415,128	435,375
Consumer installment	961	248	346	1,555	109,563	111,118
Total loans	\$ 31,926	\$ 10,573	\$ 46,636	\$ 89,135	\$ 4,038,431	\$ 4,127,566

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2013, December 31, 2012, and March 31, 2012, \$8.12 million, \$9.50 million and \$12.2 million of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to \$613,000, \$689,000, and \$891,000 as of March 31, 2013, December 31, 2012 and March 31, 2012, respectively, to customers with outstanding loans that are classified as TDRs.

The modification of the terms of the TDRs included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the amortization period that would not otherwise be considered in the current market for new debt with similar risk characteristics; a permanent reduction of the principal amount; a restructuring of the borrower's debt into an A/B note structure where the A note would fall within the borrower's ability to pay and the remainder would be included in the B note, or a mandated bankruptcy restructuring.

The following table presents additional information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment as of March 31, 2013, December 31, 2012 and March 31, 2012 (dollars in thousands).

	March 31, 2013			December 31, 2012			March 31, 2012		
	Pre-Modification Number of Contracts	Post-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts	Post-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Pre-Modification Number of Contracts	Post-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial (sec by RE)	97	\$ 80,618	\$ 74,675	96	\$ 80,261	\$ 75,340	92	\$ 83,230	\$ 79,844
Commercial & industrial	41	8,944	8,834	32	7,492	7,250	26	3,487	3,487
Commercial construction	25	36,491	32,614	25	37,537	33,809	16	35,184	34,066
Total commercial	163	126,053	116,123	153	125,290	116,399	134	121,901	117,397
Residential mortgage	120	19,901	19,023	117	20,323	19,296	99	15,718	14,832
Residential construction	71	25,651	23,345	67	25,822	23,786	63	27,128	25,948
Consumer installment	46	282	269	51	1,292	1,282	40	340	330
Total loans	400	\$ 171,887	\$ 158,760	388	\$ 172,727	\$ 160,763	336	\$ 165,087	\$ 158,507

Loans modified under the terms of a TDR during the three months ended March 31, 2013 and 2012 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that became 90 days or more delinquent during the three months ended March 31, 2013 and 2012 that were initially restructured within one year prior to the three months ended March 31, 2013 and 2012 (dollars in thousands).

New Troubled Debt Restructurings for the Three Months Ended March 31, 2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Troubled Debt Restructurings Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended March 31, 2013	Number of Contracts	Recorded Investment

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Commercial (secured by real estate)	8	\$ 3,568	\$ 3,568	\$1	\$432
Commercial & industrial	9	815	709	1	35
Commercial construction	—	—	—	2	1,454
Total commercial	17	4,383	4,277	4	1,921
Residential mortgage	11	2,115	2,115	1	68
Residential construction	5	784	655	2	117
Consumer installment	4	21	21	3	20
Total loans	37	\$ 7,303	\$ 7,068	10	\$2,126

18

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

New Troubled Debt Restructurings for the Three Months Ended March 31, 2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Troubled Debt Restructurings Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended March 31, 2012	
				Number of Contracts	Recorded Investment
Commercial (secured by real estate)	24	\$ 15,099	\$ 13,741	\$—	\$—
Commercial & industrial	10	2,724	2,724	1	43
Commercial construction	7	20,781	20,781	2	4,174
Total commercial	41	38,604	37,246	3	4,217
Residential mortgage	24	5,279	5,273	3	373
Residential construction	14	3,751	3,189	3	1,476
Consumer installment	7	60	55	—	—
Total loans	86	\$ 47,694	\$ 45,763	9	\$6,066

Collateral dependent TDRs that subsequently default or are otherwise placed on nonaccrual are charged down to the fair value of the collateral consistent with United's policy for nonaccrual loans. Impairment on TDRs that are not collateral dependent continues to be measured on discounted cash flows regardless of whether the loan has subsequently defaulted.

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, and current industry and 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. Loans in this category are presently protected from apparent loss; however, weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Substandard. These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. There is the distinct possibility that United will sustain some loss if deficiencies are not corrected. If possible, immediate corrective action is taken.

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

Loss. Loans categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as Loss are 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2013, December 31, 2012 and March 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands).

	Pass	Watch	Performing	Substandard	Nonaccrual	Doubtful / Loss	Not Rated	Total
As of March 31, 2013								
Commercial (secured by real estate)	\$1,593,193	\$65,413	\$128,120	\$17,304	\$—	\$—		\$1,804,030
Commercial & industrial	396,363	6,775	20,320	29,545	—	761		453,764
Commercial construction	104,413	7,176	18,462	22,359	—	—		152,410
Total commercial	2,093,969	79,364	166,902	69,208	—	761		2,410,204
Residential mortgage	1,139,249	30,806	64,103	11,817	—	—		1,245,975
Residential construction	296,029	23,230	37,882	14,592	—	—		371,733
Consumer installment	161,577	888	2,794	389	—	—		165,648
Total loans	\$3,690,824	\$134,288	\$271,681	\$96,006	\$—	\$761		\$4,193,560
As of December 31, 2012								
Commercial (secured by real estate)	\$1,592,677	\$80,997	\$117,543	\$22,148	\$—	\$—		\$1,813,365
Commercial & industrial	401,606	5,404	18,477	31,817	—	942		458,246
Commercial construction	104,296	7,345	19,285	23,843	—	—		154,769
Total commercial	2,098,579	93,746	155,305	77,808	—	942		2,426,380
Residential mortgage	1,102,746	33,689	65,179	12,589	—	—		1,214,203
Residential construction	292,264	32,907	37,804	18,702	—	—		381,677
Consumer installment	147,214	1,086	3,653	795	—	—		152,748
Total loans	\$3,640,803	\$161,428	\$261,941	\$109,894	\$—	\$942		\$4,175,008
As of March 31, 2012								
Commercial (secured by real estate)	\$1,586,934	\$96,352	\$133,840	\$26,081	\$—	\$—		\$1,843,207
Commercial & industrial	381,098	4,126	17,217	36,314	—	741		439,496
Commercial construction	99,825	20,722	23,256	23,319	—	—		167,122
Total commercial	2,067,857	121,200	174,313	85,714	—	741		2,449,825
Residential mortgage	995,981	40,790	75,736	18,741	—	—		1,131,248
Residential construction	298,592	48,168	64,274	24,341	—	—		435,375
Consumer installment	106,124	1,476	2,610	908	—	—		111,118
Total loans	\$3,468,554	\$211,634	\$316,933	\$129,704	\$—	\$741		\$4,127,566

Note 6 – Foreclosed Property

Major classifications of foreclosed properties at March 31, 2013, December 31, 2012 and March 31, 2012 are summarized as follows (in thousands).

	March 31, 2013	December 31, 2012	March 31, 2012
Commercial real estate	\$ 6,658	\$ 6,368	\$ 11,463
Commercial construction	3,027	2,204	3,266
Total commercial	9,685	8,572	14,729
Residential mortgage	3,768	5,192	6,757

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Residential construction	8,260	11,454	28,147
Total foreclosed property	21,713	25,218	49,633
Less valuation allowance	(4,979)	(6,954)	(17,746)
Foreclosed property, net	\$ 16,734	\$ 18,264	\$ 31,887
Balance as a percentage of original loan unpaid principal	45.0 %	39.7 %	36.1 %

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Activity in the valuation allowance for foreclosed property for the three months ended March 31, 2013 and 2012 is presented in the following table (in thousands).

	Three Months Ended	
	March 31,	
	2013	2012
Balance at beginning of year	\$ 6,954	\$ 18,982
Additions charged to expense	1,041	2,111
Disposals	(3,016)	(3,347)
Balance at end of period	\$ 4,979	\$ 17,746

Expenses related to foreclosed assets for the three months ended March 31, 2013 and 2012 is presented in the following table (in thousands).

	Three Months Ended	
	March 31,	
	2013	2012
Net loss on sales	\$ 105	\$ 93
Provision for unrealized losses	1,041	2,111
Operating expenses	1,187	1,621
Total foreclosed property expense	\$ 2,333	\$ 3,825

Note 7 – Reclassifications Out of Accumulated Other Comprehensive Income

The following table presents the details regarding amounts reclassified out of accumulated other comprehensive income for the three months ended March 31, 2013 and 2012 (in thousands).

Details about Accumulated Other Comprehensive Income Components	For the Three Months Ended March 31, 2013	
	Amounts Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized (losses) gains on available-for-sale securities:		
	\$ (116)	Securities gains, net
Amortization of gains included in net income on available-for-sale securities transferred to held to maturity:		Investment Securities Interest Revenue
	\$ (319)	
Gains included in net income on derivative financial instruments accounted for as cash flow hedges:		Loan Interest Revenue
Interest Rate Contracts	\$ (537)	
Interest Rate Contracts	(1)	Other Fee Revenue
	\$ (538)	

Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan

Prior Service Cost	\$	90	Salaries and Employee Benefits Expense
Net gain/loss		42	Salaries and Employee Benefits Expense
	\$	132	

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

Note 8 – Earnings Per Share

United is required to report on the face of the consolidated statement of income, earnings 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 months ended March 31, 2013 and 2012, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (in thousands).

	Three Months Ended March 31,	
	2013	2012
Series A - 6% fixed	\$ 3	\$ 3
Series B - 5% fixed until December 6, 2013, 9% thereafter	2,630	2,608
Series D - LIBOR plus 9.6875%, resets quarterly	419	419
Total preferred stock dividends	\$ 3,052	\$ 3,030

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.

The preferred stock dividends were subtracted from net income in order to arrive at net income available to common shareholders. There were no dilutive securities outstanding for the three months ended March 31, 2013 and 2012.

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 (in thousands, except per share data).

	Three Months Ended March 31,	
	2013	2012
Net loss available to common shareholders	\$ 8,713	\$ 8,498
Weighted average shares outstanding:		
Basic	58,081	57,764
Effect of dilutive securities		
Convertible securities	—	—
Stock options	—	—
Warrants	—	—
Diluted	58,081	57,764
Loss per common share:		
Basic	\$.15	\$.15
Diluted	\$.15	\$.15

At March 31, 2013, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at \$61.40 per share issued to the U.S. Treasury in conjunction with the issuance of United's fixed rate cumulative preferred perpetual stock, Series B; 129,670 common shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of \$100 per share; 476,311 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$97.85; 497,800 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 common shares issuable upon exercise of warrants exercisable at a price equivalent to \$21.25 per share granted to Fletcher International Ltd. ("Fletcher") in connection with a 2010 asset purchase and sale agreement; and 1,551,126 common shares issuable upon exercise of warrants granted in connection with United's tax benefits preservation plan, exercisable at \$12.50 per share.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 9 – 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 wholesale 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, wholesale borrowings and deposits.

In conjunction with the FASB's fair value measurement guidance, United made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

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 March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

Derivatives accounted for as hedges under ASC 815

	Balance Sheet Location	Fair Value		
		March 31, 2013	December 31, 2012	March 31, 2012
Interest Rate Products				
Asset derivatives	Other assets	\$ 21	\$ 23	\$ —
Liability derivatives	Other liabilities	\$ 13,964	\$ 11,900	\$ 2,526

Derivatives not accounted for as hedges under ASC 815

	Balance Sheet Location	Fair Value		
		March 31, 2013	December 31, 2012	March 31, 2012
Interest Rate Products				
Asset derivatives	Other assets	\$ 581	\$ 635	\$ 73
Liability derivatives	Other liabilities	\$ 592	\$ 643	\$ 73

Derivative contracts that are not accounted for as hedges under ASC 815, Derivatives and Hedging are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap program.

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. At March 31, 2013, United's interest rate swaps designated as cash flow hedges involve the payment of fixed-rate amounts to a counterparty in exchange for United receiving variable-rate payments over the life of the agreements without exchange of the underlying notional amount. United's current cash flow hedges are for the purpose of converting variable rate deposits and wholesale borrowings to a fixed rate to protect United in a rising rate environment. The swaps are forward starting and do not become effective until 2014. United had five swap contracts outstanding with a total notional amount of \$400 million that were designated as cash flow hedges of brokered deposits at March 31, 2013 and December 31, 2012. United had no active derivative contracts outstanding at March 31, 2012, that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated as, 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. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense when the swaps become effective in 2014 as interest payments are made on United's LIBOR based variable-rate wholesale borrowings and indexed deposit accounts. At March 31, 2013, a portion of 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three months ended March 31, 2013 and 2012, United accelerated the reclassification of \$1,000 and \$81,000, respectively, in gains from terminated positions as a result of the forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that the remaining \$365,000 of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to loan interest revenue. In addition, United's forward starting active cash flow hedges of floating rate liabilities will begin to become effective over the next twelve months. United expects that \$83,000 will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

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 interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate or variable rate amounts from a counterparty in exchange for United making variable rate or fixed rate payments over the life of the agreements without the exchange of the underlying notional amount. At March 31, 2013, United had 18 interest rate swaps with an aggregate notional amount of \$220 million that were designated as fair value hedges of interest rate risk. Two of the interest rate swaps outstanding at March 31, 2013 with an aggregate notional amount of \$21 million were receive-variable / pay-fixed swaps that were used for the purpose of hedging changes in the fair value of fixed rate corporate bonds resulting from changes in interest rates. The other 16 were pay-variable / receive-fixed swaps hedging changes in fair value of fixed rate brokered time deposits resulting from changes in interest rates. As of March 31, 2012, United had four interest rate swaps with an aggregate notional amount of \$64.5 million that were designated as fair value hedges.

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 months ended March 31, 2013 and 2012, United recognized net losses of \$86,000 and net gains of \$34,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$1.06 million and \$278,000 for the three months ended March 31, 2013 and 2012, respectively, related to United's fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized a \$12,000 reduction of interest revenue on securities during the first quarter of 2013 related to United's fair value hedges of corporate bonds.

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 months ended March 31, 2013 and 2012.

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	
	2013	2012	2013	2012
Three Months Ended March 31,				

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Other fee revenue \$ (2,076) \$ (1,264) \$ 1,990 \$ 1,298

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)		
	2013	2012	Location	2013	2012
Three Months Ended March 31,					
			Interest revenue	\$538	\$1,519
			Other income	1	81
Interest rate products	\$430	\$—	Total	\$539	\$1,600

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

Other Derivatives Not Accounted for as Hedges (in thousands).

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Customer Derivatives	
	2013	2012
Three Months Ended March 31,		
Other fee revenue	\$ 252	\$ 69

Credit-risk-related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bilateral 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. As of March 31, 2013, collateral totaling \$14.6 million was pledged toward derivatives in a liability position.

United's agreements with each of its derivative counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that contain a provision where if United fails to maintain its status as a well-capitalized institution or is subject to a prompt corrective action directive, the counterparty could terminate the derivative positions and United would be required to settle its obligations under the agreements.

Change in Valuation Methodology

As of January 1, 2013, United changed its valuation methodology for over-the-counter derivatives to discount cash flows based on Overnight Index Swap ("OIS") rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (i.e. LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. United changed its methodology to better align its inputs, assumptions and pricing methodologies with those used in its principal market by most dealers and major market participants. The changes in valuation methodology are applied prospectively as a change in accounting estimate and are not material to United's financial position or results of operations.

Note 10 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock and restricted stock unit 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 and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

plan). As of March 31, 2013, 1,194,000 additional awards could be granted under the plan. Through March 31, 2013, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards have been granted under the plan.

The following table shows stock option activity for the first three months of 2013.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2012	482,528	\$ 97.73		
Forfeited	(859)	30.11		
Expired	(5,358)	98.55		
Outstanding at March 31, 2013	476,311	97.85	3.1	\$ 1
Exercisable at March 31, 2013	456,514	101.07	2.9	—

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

The fair value of each option is estimated on the date of grant using the Black-Scholes model. No stock options were granted during the three month period ended March 31, 2013. Recent decreases in United's stock price have rendered most of its outstanding options severely out of the money and potentially worthless to the grantee. Therefore, historical exercise patterns do not provide a reasonable basis for determining the expected life of new option grants. United therefore uses the formula provided by the SEC in Staff Accounting Bulletin No. 107 to determine the expected life of options. No options were granted during the three months ended March 31, 2013 and 2012.

Compensation expense relating to stock options of \$64,000 and \$180,000 was included in earnings for the three months ended March 31, 2013 and 2012, respectively. 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 three months of 2013 or 2012.

The table below presents the activity in restricted stock and restricted stock unit awards for the first three months of 2013.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2012	485,584	\$ 10.72
Granted	21,517	10.26
Excercised	(4,301)	14.03
Cancelled	(5,000)	10.25
Outstanding at March 31, 2013	497,800	10.68
Vested at March 31, 2013	43,100	21.98

Compensation expense for restricted stock and restricted stock units is based on the fair value of restricted stock and restricted stock unit 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 and restricted stock unit grants that are expected to vest is amortized into expense over the vesting period. For the three months ended March 31, 2013 and 2012, compensation expense of \$445,000 and \$405,000, respectively, was recognized related to restricted stock and restricted stock unit awards. In addition, for the three months ended March 31, 2013, \$17,000 was recognized in other operating expense for restricted stock units granted to members of United's board of directors. The total intrinsic value of restricted stock and restricted stock units was \$5.65 million at March 31, 2013.

As of March 31, 2013, there was \$2.85 million of unrecognized compensation cost related to non-vested stock options and restricted stock and restricted stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 1.76 years. The aggregate grant date fair value of options and restricted stock and restricted stock unit awards that vested during the three months ended March 31, 2013, was \$461,000.

Note 11 – 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. The DRIP is currently suspended.

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 three months ended March 31, 2013 and 2012, United issued 18,170 and 35,648 shares, respectively, and increased capital by \$189,000 and \$278,000, respectively, through these programs.

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. The deferred compensation plan does not allow for diversification once an election is made to invest in United stock and settlement must be accomplished in shares at the time the deferral period is completed. At March 31, 2013 and 2012, 133,469 and 90,126 shares, respectively, were issuable under the deferred compensation plan.

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

Note 12 – Assets and Liabilities Measured at Fair Value

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the Financial Accounting Standards Board's Accounting Standards Codification Topic 820 ("ASC 820") Fair Value Measurements and Disclosures establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Fair Value Hierarchy

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that United has the ability to access.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. United's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Deferred Compensation Plan Assets and Liabilities

Included in other assets in the Consolidated Balance Sheet are assets related to employee deferred compensation plans. The assets associated with these plans are invested in mutual funds and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which mirrors the fair value of the invested assets and is included in other liabilities in the consolidated balance sheet.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. Generally, book value approximates fair value.

Loans

United does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the impaired loan as nonrecurring Level 3.

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

Foreclosed Assets

Foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the foreclosed asset as nonrecurring Level 3.

Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. United's approach to testing goodwill for impairment is to compare the business unit's carrying value to the implied fair value based on multiples of earnings and tangible book value for recently completed merger transactions. In the event the fair value is determined to be less than the carrying value, the asset is recorded at fair value as determined by the valuation model. As such, United classifies goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3.

Derivative Financial Instruments

United uses interest rate swaps and interest rate floors to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rate of the floors. The variable interest rates used in the calculation of projected receipts on the floor are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820, United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although United has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2013, United had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, United has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

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 March 31, 2013, December 31, 2012 and March 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

March 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
State and political subdivisions	\$ —	24,037	\$ —	\$ 24,037
Mortgage-backed securities	—	1,468,311	—	1,468,311
Corporate bonds	—	188,444	350	188,794
Asset-backed securities	—	225,870	—	225,870
Other	—	2,414	—	2,414
Deferred compensation plan assets	3,037	—	—	3,037
Derivative financial instruments	—	602	—	602
Total assets	\$ 3,037	\$ 1,909,678	\$ 350	\$ 1,913,065
Liabilities:				
Deferred compensation plan liability	\$ 3,037	\$ —	\$ —	\$ 3,037
Brokered certificates of deposit	—	194,415	—	194,415
Derivative financial instruments	—	14,556	—	14,556
Total liabilities	\$ 3,037	\$ 208,971	\$ —	\$ 212,008
December 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
State and political subdivisions	\$ —	\$ 29,052	\$ —	\$ 29,052
Mortgage-backed securities	—	1,428,502	—	1,428,502
Corporate bonds	—	163,312	350	163,662
Asset-backed securities	—	210,556	—	210,556
Other	—	2,821	—	2,821
Deferred compensation plan assets	3,101	—	—	3,101
Derivative financial instruments	—	658	—	658
Total assets	\$ 3,101	\$ 1,834,901	\$ 350	\$ 1,838,352
Liabilities:				
Deferred compensation plan liability	\$ 3,101	\$ —	\$ —	\$ 3,101
Brokered certificates of deposit	—	154,641	—	154,641
Derivative financial instruments	—	12,543	—	12,543
Total liabilities	\$ 3,101	\$ 167,184	\$ —	\$ 170,285
March 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Government agencies	\$ —	\$ 43,789	\$ —	\$ 43,789
State and political subdivisions	—	22,808	—	22,808
Mortgage-backed securities	—	1,725,068	—	1,725,068

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Corporate bonds	—	104,236	350	104,586
Other	—	2,564	—	2,564
Deferred compensation plan assets	2,973	—	—	2,973
Derivative financial instruments	—	73	—	73
Total assets	\$ 2,973	\$ 1,898,538	\$ 350	\$ 1,901,861
Liabilities:				
Deferred compensation plan liability	\$ 2,973	\$ —	\$ —	\$ 2,973
Brokered certificates of deposit	—	61,069	—	61,069
Derivative financial instruments	—	2,599	—	2,599
Total liabilities	\$ 2,973	\$ 63,668	\$ —	\$ 66,641

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).

	Three Months Ended March 31,	
	2013	2012
Securities Available for Sale		
Balance at beginning of period	\$ 350	\$ 350
Amounts included in earnings	—	—
Paydowns	—	—
Balance at end of period	\$ 350	\$ 350

United has two securities that have Level 3 valuations. They are trust preferred securities in community banks that have shown deteriorating financial condition during the financial crisis, and both are currently deferring interest payments. Since both investments are not actively traded, there is no recent trade activity upon which to assess value. The values assigned to the investments are based on sales price estimates from brokers. Both investments have a par amount of \$1 million. One was considered impaired in 2010 and was written down to \$50,000 with a \$950,000 impairment charge to earnings. The other is carried at its original cost basis of \$1 million with a \$700,000 negative mark to fair value through other comprehensive income. United does not consider this investment to be other than temporarily impaired, as the community bank was recapitalized by a private equity investment that management believes will result in full payment at maturity.

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 March 31, 2013, December 31, 2012 and March 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

	Level 1	Level 2	Level 3	Total
March 31, 2013				
Assets				
Loans	\$—	\$—	\$170,767	\$170,767
Foreclosed properties	—	—	14,716	14,716
Total	\$—	\$—	\$185,483	\$185,483
December 31, 2012				
Assets				
Loans	\$—	\$—	\$165,751	\$165,751
Foreclosed properties	—	—	14,788	14,788
Total	\$—	\$—	\$180,539	\$180,539
March 31, 2012				
Assets				
Loans	\$—	\$—	\$176,632	\$176,632
Foreclosed properties	—	—	27,675	27,675
Total	\$—	\$—	\$204,307	\$204,307

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

Loans that are reported above as being measured at fair value on a non-recurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows. Foreclosed properties that are included above as measured at fair value on a nonrecurring basis are those properties that resulted from a loan that had been charged down or have been written down subsequent to foreclosure. Foreclosed properties are generally recorded at the lower of 80% of appraised value or 90% of the asking price which considers the estimated cost to sell.

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 the 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 and short-term borrowings. The fair value of securities available-for-sale equals the balance sheet value. Due to the short-term settlement of accrued interest receivable and payable, the carrying amount closely approximates fair value.

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.

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

The carrying amount and fair values for other financial instruments that are not measured at fair value on a recurring basis in United's balance sheet at March 31, 2013, December 31, 2012, and March 31, 2012 are as follows (in thousands).

March 31, 2013	Carrying Amount	Level 1	Level 2	Level 3	Total
Assets:					
Securities held to maturity	\$ 231,087	\$ —	\$ 247,087	\$ —	\$ 247,087
Loans, net	4,087,807	—	—	3,980,932	3,980,932
Mortgage loans held for sale	18,290	—	18,803	—	—
Liabilities:					
Deposits	6,025,852	—	6,034,103	—	6,034,103
Federal Home Loan Bank advances	125	—	125	—	125
Long-term debt	124,825	—	—	123,402	123,402
December 31, 2012					
Assets:					
Securities held to maturity		\$244,184	\$—	\$261,131	\$261,131
Loans, net		4,067,871	—	—	3,957,669
Mortgage loans held for sale		28,821	—	29,693	—
Liabilities:					
Deposits		5,952,140	—	5,988,743	5,988,743
Federal Home Loan Bank advances		40,125	—	40,125	40,125
Long-term debt		124,805	—	—	118,626
March 31, 2012					
Assets:					
Securities held to maturity		\$303,636	\$—	\$318,490	\$318,490
Loans, net		4,013,965	—	—	3,825,482
Mortgage loans held for sale		24,809	—	25,288	—
Liabilities:					
Deposits		6,000,539	—	5,986,925	5,986,925
Federal Home Loan Bank advances		215,125	—	217,033	217,033
Long-term debt		120,245	—	—	113,891

Note 13 – Commitments and Contingencies

United and its wholly-owned subsidiary, United Community Bank, (“the Bank”) are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend

credit and letters of credit written is represented by the contractual amount of these instruments. United uses the same credit policies in making commitments and conditional obligations as it uses for underwriting on-balance sheet instruments. In most cases, collateral or other security is required to support financial instruments with credit risk.

The following table summarizes, as of March 31, 2013, December 31, 2012 and March 31, 2012, the contractual amount of off-balance sheet instruments (in thousands):

Financial instruments whose contract amounts represent credit risk:	March 31, 2013	December 31, 2012	March 31, 2012
Commitments to extend credit	\$ 565,685	\$ 313,798	\$ 429,672
Letters of credit	12,818	13,683	16,655

United, in the normal course of business, is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. Although it is not possible to predict the outcome of these lawsuits, or the range of any possible loss, management, after consultation with legal counsel, does not anticipate that the ultimate aggregate liability, if any, arising from these lawsuits will have a material adverse effect on United's financial position or results of operations.

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", "potential", "seeks", "intends", or "anticipates", 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 or events, 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 experiences may differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experiences 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, 2012, as well as the following factors:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carry-forwards;
- the condition of the banking system and financial markets;
- 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;
- 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;
- risks with respect to future expansion and acquisitions;
- if the conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the FDIC on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution; and
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission (the "SEC"). 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 Banks, Inc. (“United”) and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

United is a bank holding company registered with the Board of Governors of 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 March 31, 2013, United had total consolidated assets of \$6.85 billion and total loans of \$4.19 billion (excluding the loans acquired from Southern Community Bank (“SCB”) that are covered by loss sharing agreements). United also had total deposits of \$6.03 billion and shareholders’ equity of \$592 million.

United’s activities are primarily conducted by its wholly-owned Georgia banking subsidiary, United Community Bank (the “Bank”). The Bank’s 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-Roswell, Georgia metropolitan statistical area (the “Atlanta MSA”), the Gainesville, Georgia metropolitan statistical area (the “Gainesville MSA”), coastal Georgia, western North Carolina, east Tennessee and the Greenville-Anderson-Mauldin, South Carolina metropolitan statistical area (the “Greenville MSA”).

Included in management’s discussion and analysis are certain non-GAAP (accounting principles generally accepted in the United States of America (“GAAP”)) performance measures. United’s management believes that non-GAAP performance measures are useful in analyzing United’s financial performance trends and therefore this section will refer to non-GAAP performance measures. A reconciliation of these non-GAAP performance measures to GAAP performance measures is included in the table on page 37.

United reported a net income of \$11.8 million for the first quarter of 2013. This compared to net income of \$11.5 million for the first quarter of 2012. Diluted earnings per common share was \$.15 for the first quarter of 2013, compared to diluted earnings per common share of \$.15 for the first quarter of 2012.

Taxable equivalent net interest revenue was \$54.7 million for the first quarter of 2013, compared to \$58.9 million for the same period of 2012. The decrease in net interest revenue was primarily the result of the lower yields on the loan and securities portfolios, which were due to loan pricing competition and reinvestment of maturing securities proceeds at record low rates as well as \$12.4 million in lower average investment securities balances for the quarter. The impact of the decrease in average earning asset yield was substantially offset by lower deposit rates. Net interest margin decreased from 3.53% for the three months ended March 31, 2012 to 3.38% for the same period in 2013.

United’s provision for loan losses was \$11.0 million for the three months ended March 31, 2013, compared to \$15.0 million for the same period in 2012. Net charge-offs for the first quarter of 2013 were \$12.4 million, compared to \$15.9 million for the first quarter of 2012. United’s credit quality indicators have continued to steadily improve leading to the lower provision for loan losses and net charge-offs in the first quarter of 2013.

As of March 31, 2013, United’s allowance for loan losses was \$106 million, or 2.52% of loans, compared to \$114 million, or 2.75% of loans, at March 31, 2012. Nonperforming assets of \$113 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 1.65% of total assets at March 31, 2013 from 2.25% as of March 31, 2012. Nonperforming asset levels are impacted significantly by the inflow of new nonperforming loans and United’s ability to liquidate foreclosed properties. During the first quarter of 2013, \$9.67 million in loans were placed on nonaccrual compared with \$32.4 million in the first quarter of 2012.

Fee revenue decreased \$2.55 million, or 17%, from the first quarter of 2012. The decrease was due primarily to a decrease in other fee income. In the first quarter of 2012, United recognized \$1.10 million in interest on a 2008 federal tax refund, and a \$728,000 gain from the sale of low income housing tax credits. In addition, service charges and fees were down \$380,000, or 5% from the first quarter of 2012, mostly in overdraft fees and other service charges and fees. United began assessing a new service fee on low balance demand deposit accounts in the first quarter of 2012 and those fees have trended downward since that time.

For the first quarter of 2013, operating expenses of \$43.8 million were down \$3.19 million from the first quarter of 2012. Lower salary and employee benefits accounted for \$1.63 million of the decrease. In addition, foreclosed property write-downs and maintenance expenses were down \$1.49 million from the first quarter of 2012. Expenses in general are down from a year ago reflecting management's efforts to reduce costs and improve operating efficiency.

Recent Developments

On March 11, 2013, the United States Department of Treasury ("Treasury"), the holder of all 180,000 shares of outstanding Fixed Rate Cumulative Preferred Stock, Series B (the "Securities") issued by United, announced that it had auctioned all of the Securities in a private transaction with unaffiliated third party investors. United received no proceeds from this transaction. The clearing price in the auction was \$962.50 per share of the Securities (which have a \$1,000 liquidation preference). The closing of the sale of the Securities occurred on March 28, 2013.

The sale of the Securities had no effect on the terms of the outstanding Securities, including United's obligation to satisfy accrued and unpaid dividends prior to payment of any dividend or other distribution to holders of junior stock, including United's common stock, and an increase in the dividend rate from 5% to 9%, effective December 15, 2013 and commencing with the dividend payment on February 15, 2014. Further, the sale of the Securities has no effect on the United's capital, regulatory capital, financial condition or results of operations. Upon the closing of the sale of the Securities, United is no longer subject to various executive compensation and corporate governance requirements to which participants in Treasury's Capital Purchase Program were subject while Treasury held the Securities.

The sale of Securities did not include the sale of a warrant to purchase 219,909 shares of the United's common stock at an exercise price of \$61.40, which expires on December 15, 2018 and the Treasury may continue to hold or sell in its discretion, subject to applicable securities laws and United's right to repurchase the warrant at fair market value under the terms of the agreements with Treasury.

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with 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: taxable equivalent interest revenue, taxable equivalent net interest revenue, tangible book value per share, tangible equity to assets, tangible common equity to assets and tangible common equity to risk-weighted assets. 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 37.

Table 1 - Financial Highlights
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2013		2012			First Quarter	2013-2012 Change
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter		
INCOME SUMMARY							
Interest revenue	\$62,134	\$64,450	\$65,978	\$66,780	\$70,221		
Interest expense	7,475	8,422	8,607	9,944	11,357		
Net interest revenue	54,659	56,028	57,371	56,836	58,864	(7)	%)
Provision for loan losses	11,000	14,000	15,500	18,000	15,000		
Fee revenue	12,826	14,761	13,764	12,867	15,379	(17))
Total revenue	56,485	56,789	55,635	51,703	59,243		
Operating expenses	43,770	50,726	44,783	44,310	46,955	(7))
Income before income taxes	12,715	6,063	10,852	7,393	12,288	3	
Income tax expense	950	802	284	894	760		
Net income	11,765	5,261	10,568	6,499	11,528	2	
Preferred dividends and discount accretion	3,052	3,045	3,041	3,032	3,030		
Net income available to common shareholders	\$8,713	\$2,216	\$7,527	\$3,467	\$8,498	3	
PERFORMANCE MEASURES							
Per common share:							
Diluted income	\$.15	\$.04	\$.13	\$.06	\$.15	—	
Book value	6.85	6.67	6.75	6.61	6.68	3	
Tangible book value (2)	6.76	6.57	6.64	6.48	6.54	3	
Key performance ratios:							
Return on equity (1)(3)	8.51	% 2.15	% 7.43	% 3.51	% 8.78	%	
Return on assets (3)	.70	.31	.63	.37	.66		
Net interest margin (3)	3.38	3.44	3.60	3.43	3.53		
Efficiency ratio	64.97	71.69	62.95	63.84	63.31		
Equity to assets	8.60	8.63	8.75	8.33	8.19		
Tangible equity to assets (2)	8.53	8.55	8.66	8.24	8.08		
Tangible common equity to assets (2)	5.66	5.67	5.73	5.45	5.33		
Tangible common equity to risk-weighted assets (2)	8.45	8.26	8.44	8.37	8.21		
ASSET QUALITY *							
Non-performing loans	\$96,006	\$109,894	\$115,001	\$115,340	\$129,704		
Foreclosed properties	16,734	18,264	26,958	30,421	31,887		
Total non-performing assets (NPAs)	112,740	128,158	141,959	145,761	161,591		
Allowance for loan losses	105,753	107,137	107,642	112,705	113,601		
Net charge-offs	12,384	14,505	20,563	18,896	15,867		
Allowance for loan losses to loans	2.52	% 2.57	% 2.60	% 2.74	% 2.75	%	

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Net charge-offs to average loans (3)	1.21	1.39	1.99	1.85	1.55	
NPAs to loans and foreclosed properties	2.68	3.06	3.41	3.51	3.88	
NPAs to total assets	1.65	1.88	2.12	2.16	2.25	
AVERAGE BALANCES (\$ in millions)						
Loans	\$4,197	\$4,191	\$4,147	\$4,156	\$4,168	1
Investment securities	2,141	2,088	1,971	2,145	2,153	(1)
Earning assets	6,547	6,482	6,346	6,665	6,700	(2)
Total assets	6,834	6,778	6,648	6,993	7,045	(3)
Deposits	5,946	5,873	5,789	5,853	6,028	(1)
Shareholders' equity	588	585	582	583	577	2
Common shares - basic (thousands)	58,081	57,971	57,880	57,840	57,764	
Common shares - diluted (thousands)	58,081	57,971	57,880	57,840	57,764	
AT PERIOD END (\$ in millions)						
Loans *	\$4,194	\$4,175	\$4,138	\$4,119	\$4,128	2
Investment securities	2,141	2,079	2,025	1,984	2,202	(3)
Total assets	6,849	6,802	6,699	6,737	7,174	(5)
Deposits	6,026	5,952	5,823	5,822	6,001	—
Shareholders' equity	592	581	585	576	580	2
Common shares outstanding (thousands)	57,767	57,741	57,710	57,641	57,603	

(1) Net income available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (2) Excludes effect of acquisition related intangibles and associated amortization. (3) Annualized.

* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Table 1 Continued - Non-GAAP Performance Measures Reconciliation
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2013		2012		
	First	Fourth	Third	Second	First
	Quarter	Quarter	Quarter	Quarter	Quarter
Interest revenue reconciliation					
Interest revenue - taxable equivalent	\$ 62,134	\$ 64,450	\$ 65,978	\$ 66,780	\$ 70,221
Taxable equivalent adjustment	(365)	(381)	(419)	(444)	(446)
Interest revenue (GAAP)	\$ 61,769	\$ 64,069	\$ 65,559	\$ 66,336	\$ 69,775
Net interest revenue reconciliation					
Net interest revenue - taxable equivalent	\$ 54,659	\$ 56,028	\$ 57,371	\$ 56,836	\$ 58,864
Taxable equivalent adjustment	(365)	(381)	(419)	(444)	(446)
Net interest revenue (GAAP)	\$ 54,294	\$ 55,647	\$ 56,952	\$ 56,392	\$ 58,418
Total revenue reconciliation					
Total operating revenue	\$ 56,485	\$ 56,789	\$ 55,635	\$ 51,703	\$ 59,243
Taxable equivalent adjustment	(365)	(381)	(419)	(444)	(446)
Total revenue (GAAP)	\$ 56,120	\$ 56,408	\$ 55,216	\$ 51,259	\$ 58,797
Income before taxes reconciliation					
Income before taxes	\$ 12,715	\$ 6,063	\$ 10,852	\$ 7,393	\$ 12,288
Taxable equivalent adjustment	(365)	(381)	(419)	(444)	(446)
Income before taxes (GAAP)	\$ 12,350	\$ 5,682	\$ 10,433	\$ 6,949	\$ 11,842
Income tax expense reconciliation					
Income tax expense	\$ 950	\$ 802	\$ 284	\$ 894	\$ 760
Taxable equivalent adjustment	(365)	(381)	(419)	(444)	(446)
Income tax expense (GAAP)	\$ 585	\$ 421	\$ (135)	\$ 450	\$ 314
Book value per common share reconciliation					
Tangible book value per common share	\$ 6.76	\$ 6.57	\$ 6.64	\$ 6.48	\$ 6.54
Effect of goodwill and other intangibles	.09	.10	.11	.13	.14
Book value per common share (GAAP)	\$ 6.85	\$ 6.67	\$ 6.75	\$ 6.61	\$ 6.68
Average equity to assets reconciliation					
Tangible common equity to assets	5.66	% 5.67	% 5.73	% 5.45	% 5.33
Effect of preferred equity	2.87	2.88	2.93	2.79	2.75
Tangible equity to assets	8.53	8.55	8.66	8.24	8.08
Effect of goodwill and other intangibles	.07	.08	.09	.09	.11

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Equity to assets (GAAP)	8.60	%	8.63	%	8.75	%	8.33	%	8.19	%
Tangible common equity to risk-weighted assets										
reconciliation										
Tangible common equity to risk-weighted assets	8.45	%	8.26	%	8.44	%	8.37	%	8.21	%
Effect of other comprehensive income	.49		.51		.36		.28		.10	
Effect of trust preferred	1.15		1.15		1.17		1.19		1.15	
Effect of preferred equity	4.22		4.24		4.29		4.35		4.23	
Tier I capital ratio (Regulatory)	14.31	%	14.16	%	14.26	%	14.19	%	13.69	%

37

Results of Operations

United reported net income of \$11.8 million for the first quarter of 2013. This compared to net income of \$11.5 million for the same period in 2012. For the first quarter of 2013, diluted earnings per common share was \$.15 compared to \$.15 for the first quarter of 2012.

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 March 31, 2013 was \$54.7 million, down \$4.21 million, or 7%, from the first quarter of 2012. The decrease in net interest revenue for the first quarter of 2013 compared to the first quarter of 2012 was mostly due to lower yields on the securities and loan portfolios and a smaller balance of interest-earning assets. United continues its intense focus on loan and deposit pricing in an effort to maintain a steady level of net interest revenue.

While average loans increased \$28.3 million, or 1%, from the first quarter of last year, the yield on loans decreased 46 basis points. The decreasing balances in the loan portfolio stabilized in 2012 and United began achieving modest loan growth; however, there is a high level of competition for quality lending relationships, which continues to put pressure on loan pricing. The increase in residential real estate loans is primarily the result of the promotion of a new home equity line product in mid-2012 and the introduction of a new low-cost mortgage product in early 2013; however, the low introductory rate on these products also contributed to the lower yield on average loans.

Average interest-earning assets for the first quarter of 2013 decreased \$152 million, or 2%, from the same period in 2012, due primarily to the decrease in reverse repurchase agreements included in average short-term investments. The average yield on interest-earning assets for the three months ended March 31, 2013 was 3.84%, down 37 basis points from 4.21% for the same period of 2012. For the first quarter of 2013, the yield on loans decreased 46 basis points and the yield on securities decreased 56 basis points from the same period a year ago, as management was unable to reinvest the cash proceeds of maturing securities at yields comparable to those of the securities they replaced. Partially offsetting the lower loan and securities yields was a higher average yield on other interest-earning assets due to the use of reverse repurchase agreements including collateral swap transactions where United enters into a repurchase agreement and reverse repurchase agreement or offsetting securities lending transactions simultaneously with the same counterparty subject to a master netting agreement. In these transactions, the offsetting balances are netted on the balance sheet.

Average interest-bearing liabilities decreased \$414 million, or 8%, from the first quarter of 2012 due to the rolling off of higher-cost brokered deposits and certificates of deposit as noninterest bearing demand deposits increased \$201 million and overall funding needs decreased. The average cost of interest-bearing liabilities for the first quarter of 2013 was .61% compared to .85% for the same period of 2012, reflecting United's concerted efforts to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits.

The banking industry uses two 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 balance sheet, 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 March 31, 2013 and 2012, the net interest spread was 3.23% and 3.36%, respectively, while the net interest margin was 3.38% and 3.53%, respectively. The decline in both ratios is due to lower yields on securities and loans, which were not completely offset by the decrease in rates paid for deposits and other interest bearing liabilities.

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 March 31, 2013 and 2012.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis
For the Three Months Ended March 31,

(dollars in thousands, taxable equivalent)	2013			2012		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)(2)	\$ 4,196,757	\$ 50,999	4.93 %	\$ 4,168,440	\$ 55,842	5.39 %
Taxable securities (3)	2,119,085	9,753	1.84	2,127,794	12,754	2.40
Tax-exempt securities (1)(3)	21,733	347	6.39	25,438	410	6.45
Federal funds sold and other interest-earning assets	209,674	1,035	1.97	377,988	1,215	1.29
Total interest-earning assets	6,547,249	62,134	3.84	6,699,660	70,221	4.21
Non-interest-earning assets:						
Allowance for loan losses	(110,941)			(117,803)		
Cash and due from banks	64,294			54,664		
Premises and equipment	169,280			174,849		
Other assets (3)	164,250			233,676		
Total assets	\$ 6,834,132			\$ 7,045,046		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$ 1,303,308	454	.14	\$ 1,458,112	637	.18
Money market	1,257,409	562	.18	1,069,658	641	.24
Savings	234,110	36	.06	205,402	37	.07
Time less than \$100,000	1,039,707	1,749	.68	1,271,351	3,026	.96
Time greater than \$100,000	694,553	1,477	.86	821,164	2,415	1.18
Brokered time deposits	175,128	—	.00	161,335	718	1.79
Total interest-bearing deposits	4,704,215	4,278	.37	4,987,022	7,474	.60
Federal funds purchased and other borrowings	72,157	516	2.90	102,258	1,045	4.11
Federal Home Loan Bank advances	33,069	19	.23	138,372	466	1.35
Long-term debt	124,816	2,662	8.65	120,237	2,372	7.93
Total borrowed funds	230,042	3,197	5.64	360,867	3,883	4.33
Total interest-bearing liabilities	4,934,257	7,475	.61	5,347,889	11,357	.85
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	1,241,527			1,040,587		
Other liabilities	70,839			79,612		

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Total liabilities	6,246,623	6,468,088
Shareholders' equity	587,509	576,958
Total liabilities and shareholders' equity	\$ 6,834,132	\$ 7,045,046
Net interest revenue	\$ 54,659	\$ 58,864
Net interest-rate spread	3.23 %	3.36 %
Net interest margin (4)	3.38 %	3.53 %

- (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 \$17.1 million in 2013 and \$23.6 million in 2012 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.

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 3 - Change in Interest Revenue and Expense on a Taxable Equivalent Basis
(in thousands)

	Three Months Ended March 31, 2013 Compared to 2012 Increase (decrease) Due to Changes in		
	Volume	Rate	Total
Interest-earning assets:			
Loans	\$ 377	\$ (5,220)	\$ (4,843)
Taxable securities	(52)	(2,949)	(3,001)
Tax-exempt securities	(59)	(4)	(63)
Federal funds sold and other interest-earning assets	(673)	493	(180)
Total interest-earning assets	(407)	(7,680)	(8,087)
Interest-bearing liabilities:			
NOW accounts	(63)	(120)	(183)
Money market accounts	101	(180)	(79)
Savings deposits	5	(6)	(1)
Time deposits less than \$100,000	(489)	(788)	(1,277)
Time deposits greater than \$100,000	(335)	(603)	(938)
Brokered deposits	56	(774)	(718)
Total interest-bearing deposits	(725)	(2,471)	(3,196)
Federal funds purchased & other borrowings	(262)	(267)	(529)
Federal Home Loan Bank advances	(214)	(233)	(447)
Long-term debt	93	197	290
Total borrowed funds	(383)	(303)	(686)
Total interest-bearing liabilities	(1,108)	(2,774)	(3,882)
Increase (decrease) in net interest revenue	\$ 701	\$ (4,906)	\$ (4,205)

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 for the first quarter of 2013, compared to \$15.0 million for the same period in 2012. The amount of provision recorded in each period was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management that was sufficient to cover inherent losses in the loan portfolio. The first

quarter of 2013 loan loss provision was \$4.00 million lower than the first quarter of 2012 provision, primarily due to the improvement in credit trends, such as net charge-offs and total nonperforming loans. For the three months ended March 31, 2013, net loan charge-offs as an annualized percentage of average outstanding loans were 1.21% compared to 1.55% for the same period in 2012.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to produce cash flow needed to service debt from selling lots and houses. This deterioration of the residential construction and housing market was the primary factor that resulted in higher credit losses and increases in nonperforming assets over the last several years. Although a majority of the charge-offs have been within the residential construction and development portion of the portfolio, credit quality deterioration migrated to other loan categories as pressure resulting from economic conditions has persisted and unemployment levels have remained high throughout United's markets. However, over the past eight quarters, we have seen a general improvement in credit quality and corresponding credit metrics. 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 45.

Fee Revenue

Fee revenue for the three months ended March 31, 2013 was \$12.8 million, a decrease of \$2.55 million, or 17%, compared to the first quarter of 2012. The following table presents the components of fee revenue for the first quarters of 2013 and 2012.

Table 4 - Fee Revenue
(in thousands)

	Three Months Ended		Change Amount	Percent
	March 31, 2013	2012		
Overdraft fees	\$ 2,991	\$ 3,245	\$ (254)	(8)
Debit card fees	3,227	3,102	125	4
Other service charges and fees	1,185	1,436	(251)	(17)
Service charges and fees	7,403	7,783	(380)	(5)
Mortgage loan and related fees	2,655	2,099	556	26
Brokerage fees	767	813	(46)	(6)
Securities gains, net	116	557	(441)	
Losses from prepayment of debt	—	(482)	482	
Hedge ineffectiveness	(85)	115	(200)	(174)
Other	1,970	4,494	(2,524)	(56)
Total fee revenue	\$ 12,826	\$ 15,379	\$ (2,553)	(17)

Service charges and fees of \$7.40 million were down \$380,000, or 5%, from the first quarter of 2012. The decrease was primarily due to a decline in overdraft fees resulting from decreased utilization of our courtesy overdraft services as well as a decline in other account service charges. Customers have been able to avoid these charges on demand deposit accounts by maintaining higher balances.

Mortgage loans and related fees for the first quarter of 2013 were up \$556,000, or 26%, from the same period in 2012. In the first quarter of 2013, United closed 464 loans totaling \$69.8 million compared with 517 loans totaling \$81.7 million in the first quarter of 2012. Although origination volume was down from the first quarter of 2012, the gains realized on the sale of the mortgages were higher in 2013 due to the strong origination volume in the fourth quarter.

United recognized net securities gains of \$116,000 and \$557,000 for the three months ended March 31, 2013 and 2012, respectively. United also recognized \$482,000 in charges from the prepayment of Federal Home Loan Bank advances and structured repurchase agreements in the first quarter of 2012. The securities gains and prepayment losses were mostly offsetting and had minimal net impact on the comparison of financial results for three months ended March 31, 2013 and 2012.

In the first quarter of 2013, United recognized \$85,000 in net losses from hedge ineffectiveness compared with \$115,000 in net gains in the first quarter of 2012. In 2012, a portion of the hedge ineffectiveness related 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 was caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains. In 2012 and 2013, most of the hedge ineffectiveness gains and losses resulted from ineffectiveness on fair value hedges of brokered deposits.

Other fee revenue of \$1.97 million for the first quarter of 2013 was down \$2.52 million from the first quarter of 2012. In the first quarter of 2012, United recognized \$1.10 million in interest on a 2008 federal tax refund, as well as

a \$728,000 gain from the sale of low income housing tax credits.

41

Operating Expenses

The following table presents the components of operating expenses for the three months ended March 31, 2013 and 2012.

Table 5 - Operating Expenses
(in thousands)

	Three Months Ended		Change Amount	Percent
	March 31, 2013	2012		
Salaries and employee benefits	\$ 23,592	\$ 25,225	\$ (1,633)	(6)
Communications and equipment	3,046	3,155	(109)	(3)
Occupancy	3,367	3,771	(404)	(11)
Advertising and public relations	938	846	92	11
Postage, printing and supplies	863	979	(116)	(12)
Professional fees	2,366	1,975	391	20
FDIC assessments and other regulatory charges	2,505	2,510	(5)	—
Amortization of intangibles	705	732	(27)	(4)
Other	4,055	3,937	118	3
Total excluding foreclosed property expenses	41,437	43,130	(1,693)	(4)
Net losses on sales of foreclosed properties	105	93	12	
Foreclosed property write downs	1,041	2,111	(1,070)	
Foreclosed property maintenance expenses	1,187	1,621	(434)	(27)
Total operating expenses	\$ 43,770	\$ 46,955	\$ (3,185)	(7)

Operating expenses for the first quarter of 2013 totaled \$43.8 million, down \$3.19 million, or 7%, from the first quarter of 2012. Excluding foreclosed property costs, total operating expenses were \$41.4 million for the three months ended March 31, 2013, down \$1.69 million, or 4%, from the first quarter of 2012. Decreases in operating expenses occurred in most categories reflecting management's focused efforts in reducing costs and improving operating efficiency.

Salaries and employee benefits for the first quarter of 2013 were \$23.6 million, down \$1.63 million, or 6%, from the same period of 2012. The decrease was due to reduced staffing levels. Headcount totaled 1,540 at March 31, 2013, compared to 1,707 at March 31, 2012, a decrease of 167 positions.

Occupancy expense of \$3.37 million for the first quarter of 2013 was down \$404,000, or 11%, compared to the same period of 2012. The decrease was across all subcategories of occupancy expense including building maintenance, insurance, property taxes and depreciation reflecting efforts to reduce costs and improve efficiency and the closing of two underperforming branches with two additional closings scheduled for second quarter 2013.

Advertising and public relations expense for the first quarter of 2013 totaled \$938,000, up \$92,000, or 11%, from the first quarter of 2012. The increase was due to higher charitable contributions.

Postage, printing and supplies expense for the first quarter of 2013 totaled \$863,000, down \$116,000, or 12%, from the same period of 2012. The decrease was primarily due to lower outside courier expenses reflecting further use of electronic statements and technology as well as lower spending on office supplies.

Professional fees for the first quarter of 2013 of \$2.37 million were up \$391,000, or 20%, from the same period in 2012, primarily due to legal costs and consulting services.

FDIC assessments and other regulatory charges of \$2.51 million for the first quarter of 2013, remained relatively flat compared to the first quarter of 2012.

Other expense of \$4.01 million for the first quarter of 2013 increased \$118,000 from the first quarter of 2012. The increase for the quarter was primarily due to higher appraisal costs on substandard loans and foreclosed properties.

Net losses on sales of foreclosed property totaled \$105,000 for the first quarter of 2013, compared to net losses on sale of \$93,000 for the first quarter of 2012. Foreclosed property write-downs for the first quarter of 2013 were \$1.04 million compared to \$2.11 million a year ago. Foreclosed property maintenance expenses include legal fees, property taxes, marketing costs, utility services, maintenance and repair charges that totaled \$1.19 million for the first quarter of 2013 compared with \$1.62 million a year ago. These costs continue to decline with the volume of foreclosed properties held by United.

Income Taxes

Income tax expense for the first quarter of 2013 was \$585,000 as compared with income tax expense of \$314,000 for the first quarter of 2012, representing effective tax rates of approximately 4.7% and 2.7%, respectively. With the full valuation allowance on United's net deferred tax asset, United's tax expense on its pre-tax earnings mostly represents adjustments to its reserve for uncertain tax positions and amounts payable under the Federal Alternative Minimum Tax.

At March 31, 2013, December 31, 2012, and March 31, 2012, United reported no net deferred tax asset due to a full valuation allowance of \$271 million, \$270 million, and \$274 million, respectively. 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. The deferred tax assets are analyzed quarterly for changes affecting realizability.

Because management has determined that the objective negative evidence outweighs the positive evidence, management has established a full valuation allowance against its net deferred tax asset. Currently, the significant positive evidence in our analysis includes stronger capital levels and a return to profitability for six consecutive quarterly periods and seven of the last eight that were driven by increases in fee revenue and lower operating expenses, coupled with lower credit costs due to considerable improvements in credit measures and asset quality ratios. The most significant negative evidence continues to be the historic losses recorded by United as a result of the financial and economic crisis, including the cumulative three-year loss position. However, with continued positive trends and strength of our financial performance and the significant improvement in credit measures and asset quality during 2012 and the first quarter of 2013, financial and credit projections are becoming more reliable whereby they may be given more weight as to positive evidence in future periods if our current trends and performance continue. Management will continue to evaluate and weigh the positive and negative evidence going forward, and if the weight of evidence shifts such that in management's estimation, the positive evidence outweighs the negative evidence, the valuation allowance will be adjusted or completely reversed as appropriate.

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 an investor to transfer to United 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 investor was United's largest shareholder. By exchanging the investor's 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.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 16 to the consolidated financial statements filed with United's Annual Report on Form 10-K for the year ended December 31, 2012.

Balance Sheet Review

Total assets at March 31, 2013, December 31, 2012 and March 31, 2012 were \$6.85 billion, \$6.80 billion and \$7.17 billion, respectively. Average total assets for the first quarter of 2013 were \$6.83 billion, down from \$7.05 billion in the first quarter of 2012.

The following table presents a summary of the loan portfolio.

Table 6 - Loans Outstanding (excludes loans covered by loss share agreement)
(in thousands)

	March 31, 2012	December 31, 2012	March 31, 2012
By Loan Type			
Commercial (secured by real estate)	\$ 1,804,030	\$ 1,813,365	\$ 1,843,207
Commercial & industrial	453,764	458,246	439,496
Commercial construction	152,410	154,769	167,122
Total commercial	2,410,204	2,426,380	2,449,825
Residential mortgage	1,245,975	1,214,203	1,131,248
Residential construction	371,733	381,677	435,375
Consumer installment	165,648	152,748	111,118
Total loans	\$ 4,193,560	\$ 4,175,008	\$ 4,127,566
As a percentage of total loans:			
Commercial (secured by real estate)	43	% 43	% 44
Commercial & industrial	11	11	11
Commercial construction	3	4	4
Total commercial	57	58	59
Residential mortgage	30	29	27
Residential construction	9	9	11
Consumer installment	4	4	3
Total	100	% 100	% 100
By Geographic Location			
North Georgia	\$ 1,362,479	\$ 1,363,723	\$ 1,407,701
Atlanta MSA	1,316,961	1,287,909	1,238,622
North Carolina	575,063	579,085	587,790
Coastal Georgia	398,047	400,022	365,943
Gainesville MSA	259,385	261,406	262,055
East Tennessee	281,625	282,863	265,455
Total loans	\$ 4,193,560	\$ 4,175,008	\$ 4,127,566

Substantially all of United's loans are to customers located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee, including customers who have a seasonal residence in United's market areas. More than 85% of the loans are secured by real estate. At March 31, 2013, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were \$4.19 billion, an increase of \$66.0 million, or 2%, from March 31, 2012. The rate of loan growth began to decline in the first quarter of 2007 and the balances continued to decline through the subsequent years. The decrease in the loan portfolio began with

deterioration in the residential construction and housing markets. This deterioration resulted in part as 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. The increase from a year ago in residential mortgage reflects a successful home equity line promotion that has gained traction in United's footprint and a new low closing cost mortgage product that began being offered early in the first quarter of 2013. The increase in consumer installment loans reflects purchases of approximately \$60 million in indirect auto loans over the last four quarters.

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 and Board-approved portfolio limits, 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 for the year ended December 31, 2012.

United classifies performing loans as "substandard" when there are well-defined 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.

United's home equity lines, which are a component of the residential mortgage portfolio, generally require the payment of interest only for a set period after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both principal and interest. At March 31, 2013, December 31, 2012 and March 31, 2012, home equity lines totaled \$395 million, \$385 million, and \$295 million, respectively.

Approximately 3% of the home equity loans at March 31, 2013 were amortizing. Of the \$395 million in balances outstanding at March 31, 2013, \$246 million, or 62%, were first liens. The balance at March 31, 2013 represents 62% of the total committed lines.

United monitors the performance of its home equity loans and lines secured by second liens similar to other consumer loans and utilizes assumptions specific to these loans in determining the necessary allowance. United also receives notification when the first lien holder is in the process of foreclosure and upon that notification, United obtains valuations to determine if any additional charge-offs or reserves are warranted.

The table below presents performing substandard loans for the last five quarters.

Table 7 - Performing Substandard Loans
(dollars in thousands)

	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
By Category					
Commercial (secured by real estate)	\$128,120	\$117,543	\$126,332	\$148,418	\$ 133,840
Commercial & industrial	20,320	18,477	18,740	15,916	17,217
Commercial construction	18,462	19,285	27,180	37,876	23,256
Total commercial	166,902	155,305	172,252	202,210	174,313
Residential mortgage	64,103	65,179	72,198	73,277	75,736
Residential construction	37,882	37,804	35,170	45,450	64,274
Consumer installment	2,794	3,653	2,886	2,706	2,610
Total	\$271,681	\$261,941	\$282,506	\$323,643	\$ 316,933
By Market					
North Georgia	\$107,798	\$105,851	\$116,871	\$121,358	\$ 131,253
Atlanta MSA	74,064	77,630	79,242	105,647	94,191
North Carolina	30,391	28,657	34,998	38,049	38,792
Coastal Georgia	17,496	17,421	12,998	20,164	19,342

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Gainesville MSA	28,514	19,251	21,219	20,524	18,745
East Tennessee	13,418	13,131	17,178	17,901	14,610
Total loans	\$271,681	\$261,941	\$282,506	\$323,643	\$ 316,933

At March 31, 2013, performing substandard loans totaled \$272 million and increased \$9.74 million from the prior quarter-end, and decreased \$45.3 million from a year ago. The increase from the fourth quarter of 2012 was primarily in commercial loans in the Gainesville MSA. The decrease from the first quarter of 2012 was primarily in residential construction, primarily in north Georgia, the Atlanta MSA and North Carolina. Performing substandard loans have been on a downward trend as credit conditions have continued to improve and problem credits are resolved.

Reviews of substandard performing and non-performing loans, troubled debt restructures, 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 presented by the responsible lending officers and specific action plans are discussed along with the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, the effect of prevailing economic conditions on the borrower along with other factors specific to the borrower and its industry. In addition to United's internal loan review, United also uses external loan review to ensure the independence of the loan review process.

The following table presents a summary of the changes in the allowance for loan losses for the three months ended March 31, 2013 and 2012.

Table 8 - Allowance for Loan Losses
(in thousands)

	Three Months Ended	
	March 31,	
	2013	2012
Balance beginning of period	\$107,137	\$114,468
Provision for loan losses	11,000	15,000
Charge-offs:		
Commercial (secured by real estate)	5,454	3,928
Commercial & industrial	1,823	756
Commercial construction	45	364
Residential mortgage	2,356	5,767
Residential construction	2,982	5,629
Consumer installment	707	753
Total loans charged-off	13,367	17,197
Recoveries:		
Commercial (secured by real estate)	211	231
Commercial & industrial	322	87
Commercial construction	49	30
Residential mortgage	209	392
Residential construction	9	315
Consumer installment	183	275
Total recoveries	983	1,330
Net charge-offs	12,384	15,867
Balance end of period	\$105,753	\$113,601
Total loans: *		
At period-end	\$4,193,560	\$4,127,566
Average	4,166,225	4,117,635
Allowance as a percentage of period-end loans	2.52	% 2.75
As a percentage of average loans (annualized):		%
Net charge-offs	1.21	1.55
Provision for loan losses	1.07	1.47
Allowance as a percentage of non-performing loans	110	88
* Excludes loans covered by loss sharing agreements with the FDIC		

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 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. Further, the declining balance of the allowance for loan losses over the last several quarters reflects an overall improving trend in credit

quality of the loan portfolio.

At March 31, 2013, the allowance for loan losses was \$106 million, or 2.52% of loans, compared with \$107 million, or 2.57% of loans, at December 31, 2012 and \$114 million, or 3.75% of loans, at March 31, 2012.

Management believes that the allowance for loan losses at March 31, 2013 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 for additional information on the allowance for loan losses.

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 9 - Nonperforming Assets
(in thousands)

	March 31, 2013	December 31, 2012	March 31, 2012
Nonperforming loans*	\$96,006	\$109,894	\$129,704
Foreclosed properties (OREO)	16,734	18,264	31,887
Total nonperforming assets	\$112,740	\$128,158	\$161,591
Nonperforming loans as a percentage of total loans	2.29	% 2.63	% 3.14
Nonperforming assets as a percentage of total loans and OREO	2.68	3.06	3.88
Nonperforming assets as a percentage of total assets	1.65	1.88	2.25

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

At March 31, 2013, nonperforming loans were \$96.0 million, compared to \$110 million at December 31, 2012 and \$130 million at March 31, 2012. Nonperforming loans have steadily decreased in dollar amount and as a percentage of total loans following the classification of United's largest lending relationship in the third quarter of 2011. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled \$113 million at March 31, 2013, compared with \$128 million at December 31, 2012 and \$162 million at March 31, 2012. United sold \$6.73 million of foreclosed properties during the first quarter of 2013, however this was offset by \$6.29 million in new foreclosures for the quarter.

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.

The following table summarizes non-performing assets by category and market. As with Tables 6, 7, 8 and 9, assets covered by the loss-sharing agreement with the FDIC related to the acquisition of SCB are excluded from this table.

Table 10 - Nonperforming Assets by
Quarter (1)
(in thousands)

BY CATEGORY	March 31, 2013			December 31, 2012			March 31, 2012		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
	\$17,304	\$5,584	\$22,888	\$22,148	\$5,479	\$27,627	\$26,081	\$10,808	\$36,889

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Commercial (sec. by RE)																		
Commercial & industrial	29,545	—	29,545	31,817	—	31,817	36,314	—	36,314									
Commercial construction	22,359	3,027	25,386	23,843	2,204	26,047	23,319	3,266	26,585									
Total commercial	69,208	8,611	77,819	77,808	7,683	85,491	85,714	14,074	99,788									
Residential mortgage	11,817	3,463	15,280	12,589	4,753	17,342	18,741	5,882	24,623									
Residential construction	14,592	4,660	19,252	18,702	5,828	24,530	24,341	11,931	36,272									
Consumer installment	389	—	389	795	—	795	908	—	908									
Total NPAs	\$96,006	\$16,734	\$112,740	\$109,894	\$18,264	\$128,158	\$129,704	\$31,887	\$161,591									
Balance as a % of																		
Unpaid Principal	66.3	%	45.0	%	62.0	%	69.5	%	39.7	%	62.8	%	70.6	%	36.1	%	59.4	%
BY MARKET																		
North																		
Georgia	\$63,210	\$6,616	\$69,826	\$69,950	\$8,219	\$78,169	\$81,117	\$14,559	\$95,676									
Atlanta MSA	17,380	3,524	20,904	18,556	3,442	21,998	22,321	7,647	29,968									
North																		
Carolina	8,519	2,533	11,052	11,014	2,579	13,593	15,765	4,650	20,415									
Coastal																		
Georgia	3,523	1,449	4,972	3,810	1,609	5,419	5,622	1,268	6,890									
Gainesville																		
MSA	911	370	1,281	903	556	1,459	2,210	3,387	5,597									
East																		
Tennessee	2,463	2,242	4,705	5,661	1,859	7,520	2,669	376	3,045									
Total NPAs	\$96,006	\$16,734	\$112,740	\$109,894	\$18,264	\$128,158	\$129,704	\$31,887	\$161,591									

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

Nonperforming assets in the residential construction category were \$19.3 million at March 31, 2013, compared with \$36.3 million at March 31, 2012, a decrease of \$17.0 million, or 47%. Commercial nonperforming assets decreased from \$99.8 million at March 31, 2012 to \$77.8 million at March 31, 2013. Residential mortgage non-performing assets of \$15.3 million decreased \$9.34 million from March 31, 2012. The decreasing trend in nonperforming assets is consistent with our overall improving credit trends.

At March 31, 2013, December 31, 2012, and March 31, 2012, United had \$159 million, \$161 million and \$159 million respectively, in loans with terms that have been modified in a troubled debt restructuring (“TDR”). Included therein were \$32.8 million, \$38.0 million and \$32.7 million, respectively, 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 \$126 million, \$123 million and \$126 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At March 31, 2013, December 31, 2012, and March 31, 2012, there were \$231 million, \$253 million and \$294 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification. Included in impaired loans at March 31, 2013, December 31, 2012 and March 31, 2012, was \$122 million, \$157 million and \$208 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at March 31, 2013, December 31, 2012 and March 31, 2012, of \$108 million, \$95.8 million and \$85.7 million, respectively, had specific reserves that totaled \$12.0 million, \$11.6 million and \$16.2 million, respectively. The average recorded investment in impaired loans for the first quarters of 2013 and 2012 was \$236 million and \$281 million, respectively. For the three months ended March 31, 2013 and 2012, United recognized \$1.83 million and \$2.27 million, respectively, in interest revenue on impaired loans. United’s policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, Receivables, when a loan meets the criteria for nonaccrual status. Impaired loans decreased 22% from March 31, 2012 to March 31, 2013, as the level of United’s nonaccrual and impaired substandard accruing loans over \$2 million began to subside.

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 11 - Activity in Nonperforming Assets by Year
(in thousands)

	First Quarter 2013 (1)			Fourth Quarter 2012 (1)			First Quarter 2012 (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 109,894	\$ 18,264	\$ 128,158	\$ 115,001	\$ 26,958	\$ 141,959	\$ 127,479	\$ 32,859	\$ 160,338
Loans placed on non-accrual (2)	9,665	—	9,665	20,211	—	20,211	32,437	—	32,437
Payments received	(6,809)	—	(6,809)	(6,458)	—	(6,458)	(5,945)	—	(5,945)
Loan charge-offs	(10,456)	—	(10,456)	(11,722)	—	(11,722)	(14,733)	—	(14,733)
Foreclosures	(6,288)	6,288	—	(7,138)	7,138	—	(9,534)	9,534	—
	—	54	54	—	201	201	—	329	329

Capitalized
costs

Note / property sales									
Write downs	—	(6,726)	(6,726)	—	(12,845)	(12,845)	—	(8,631)	(8,631)
Net losses on sales	—	(1,041)	(1,041)	—	(1,438)	(1,438)	—	(2,111)	(2,111)
Ending Balance	\$ 96,006	\$ 16,734	\$ 112,740	\$ 109,894	\$ 18,264	\$ 128,158	\$ 129,704	\$ 31,887	\$ 161,591

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

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 lesser of fair value, less estimated costs to sell or the listed selling price, less the costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property expense. 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 first quarter of 2013, United transferred \$6.29 million of loans into foreclosed property through foreclosures. During the same period, proceeds from sales of foreclosed property were \$6.73 million, which includes \$1.00 million in sales that were financed by United.

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 March 31, 2013 decreased \$61.9 million from a year ago.

At March 31, 2013, United had securities held-to-maturity with a carrying amount of \$231 million and securities available-for-sale totaling \$1.91 billion. At March 31, 2013, December 31, 2012, and March 31, 2012, the securities portfolio remained stable as a percentage of assets at 31%.

The investment securities portfolio primarily consists of U.S. government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, corporate securities, municipal securities and asset-backed 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 or prolonged low 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. United's asset-backed securities include securities that are backed by student loans and collateralized loan obligations.

Other Intangible Assets

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 successful in increasing core transaction deposit accounts and allowing for the reduction of 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 customer deposits, excluding brokered deposits, as of March 31, 2013 were \$5.69 billion, a decrease of \$139 million from March 31, 2012. Total core deposits (demand, NOW, money market and savings deposits, excluding public funds deposits) of \$3.29 billion increased \$241 million, or 8%, from a year ago. Total non-interest-bearing demand deposit accounts of \$1.30 billion increased \$197 million, or 18%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of \$2.69 billion which decreased \$36.3 million, or 1%, from March 31, 2012.

Total time deposits, excluding brokered deposits, as of March 31, 2013 were \$1.70 billion, down \$300 million from March 31, 2012. Time deposits less than \$100,000 totaled \$1.02 billion, a decrease of \$188 million, or 16%, from a year ago. Time deposits of \$100,000 and greater totaled \$685 million as of March 31, 2013, a decrease of \$112 million, or 14%, from March 31, 2012. 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 and a shift to lower cost transaction account deposits.

Brokered deposits totaled \$332 million as of March 31, 2013, an increase of \$164 million from a year ago. We have actively added long-term deposits which are swapped to LIBOR minus a spread to diversify our deposit base with low cost funding.

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank (“FHLB”) of Atlanta. Through this affiliation, FHLB secured advances totaled \$125,000 and \$215 million, respectively, as of March 31, 2013 and 2012. United anticipates continued use of this short and long-term source of funds. Additional information regarding FHLB advances is provided in Note 12 to the consolidated financial statements included in United’s Annual Report on Form 10-K for the year ended December 31, 2012.

At March 31, 2013 and 2012, United had \$52 million and \$102 million, respectively, in 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.

Contractual Obligations

There have not been any material changes to United’s contractual obligations since December 31, 2012.

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 limits its exposure to fluctuations in interest rates through policies developed by the Asset/Liability Management Committee

(“ALCO”) and approved by the Board of Directors. ALCO meets periodically and has responsibility for formulating and recommending asset/liability management policies to the Board of Directors, 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 and manage 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 re-pricing characteristics and the rate of prepayments. ALCO periodically 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 immediate rate shock scenarios, as well as gradually rising and falling rate scenarios, which are all compared to the base scenario. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the forward yield curve. Other scenarios analyzed may include delayed rate shocks, yield curve steepening or flattening, or other variations in rate movements. While the primary policy scenarios focus on a twelve month time frame, longer time horizons are also modeled. All policy scenarios assume a static balance sheet.

United’s policy is based on the 12-month impact on net interest revenue of interest rate shocks and ramps that increase or decrease from 100 to 300 basis points from the base scenario. In the shock scenarios, rates immediately change the full amount at the scenario onset. In the ramp scenarios, rates change by 25 basis points per month. United’s policy limits the change in net interest revenue over the first 12 months to a 5% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. Historically low rates on March 31, 2013 and 2012 made use of the down scenarios problematic. The following table presents United’s interest sensitivity position at March 31, 2013 and 2012.

Table 12 - Interest Sensitivity

Change in Rates	Increase (Decrease) in Net Interest Revenue from Base Scenario at March 31,							
	2013				2012			
	Shock		Ramp		Shock		Ramp	
200 basis point increase	2.9	%	3.9	%	4.7	%	1.1	%
25 basis point decrease	(1.4)	(1.4)	(0.5)	(0.5)

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 on a net basis 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. This is commonly referred to as Basis risk.

In order to manage 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 (or fixed rate, as may be the case) and receives a fixed rate (or variable rate, as may be the case).

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.

In addition to derivative instruments, United uses a variety of balance sheet instruments to manage interest rate risk such as Investment Portfolio holdings, wholesale funding, and bank-issued deposits.

The following table presents United's active derivative contracts used for hedging purposes.

Table 13 - Derivative Financial Instruments

(in thousands)

Type of Instrument	Hedge Designation	Hedged Item	Current Notional	Trade Date	Effective Date	Maturity Date	Pay Rate
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	\$15,000	10/12/11	11/10/11	11/10/31	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	17,000	02/14/12	02/27/12	08/27/27	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	15,500	03/05/12	03/23/12	09/23/27	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,500	05/16/12	06/08/12	06/08/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	13,000	06/12/12	06/28/12	06/28/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,500	07/03/12	07/27/12	07/27/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,000	08/01/12	08/23/12	08/23/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	10,000	08/29/12	09/24/12	09/24/12	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,000	10/05/12	10/19/12	11/19/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,000	10/15/12	11/08/12	11/08/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,500	11/14/12	11/30/12	11/30/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	12,000	11/28/12	12/27/12	12/27/32	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	10,000	12/27/12	01/25/13	12/25/28	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	13,000	01/17/13	02/15/13	02/15/23	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	10,000	01/25/13	02/28/13	02/28/28	3 mo
Receive Fixed Cancellable Swap	Fair Value	Brokered CD	10,000	01/25/13	02/21/13	02/21/18	3 mo
Pay Fixed Swap	Fair Value	Corporate Bond	11,000	03/13/13	03/18/13	02/13/23	3.4500
Pay Fixed Swap	Fair Value	Corporate Bond	10,000	03/15/13	03/20/13	02/09/23	3.1000
Pay Fixed Swap	Cash Flow	Short-Term, Fixed Rate Debt	50,000	04/02/12	04/07/14	04/07/17	1.6950
Pay Fixed Swap	Cash Flow	Short-Term, Fixed Rate Debt	50,000	04/02/12	04/21/14	04/21/17	1.7212
Pay Fixed Swap	Cash Flow	Short-Term, Fixed Rate Debt	100,000	04/10/12	03/03/14	03/01/17	1.4375
Pay Fixed Swap	Cash Flow	Money Market Deposits	100,000	05/02/12	05/01/14	05/01/19	1.8875
Pay Fixed Swap	Cash Flow	Money Market Deposits	100,000	05/31/12	07/01/14	07/01/18	1.3925
Total Hedging Positions			\$620,000				

(A) Receive rate is fixed at 5.00% to November 10, 2012, then 4 * ((10-year Constant Maturity Swap rate - 2-year Constant Maturity Swap rate) - 50 basis points), capped at 5.00% and floored at 0.00%. Swap is callable by counterparty on November 10, 2012 and quarterly thereafter on the 10th with 15 calendar days notice.

(B) Receive rate is fixed according to the following schedule: From 2/27/12 to 2/27/18: 2.00%; From 2/27/18 to 2/27/22: 2.50%; From 2/27/22 to 2/27/23: 3.00%; From 2/27/23 to 2/27/24: 4.00%; From 2/27/24 to 2/27/25: 7.00%; From 2/27/25 to 8/27/27: 10.00%. Swap is callable by counterparty semi-annually commencing on August 27, 2012 with 25 business days notice prior to the redemption date.

(C) Receive rate is fixed according to the following schedule: From 3/23/12 to 3/23/17: 2.25%; From 3/23/17 to 3/23/20: 2.38%; From 3/23/20 to 3/23/23: 2.50%; From 3/23/23 to 3/23/24: 3.00%; From 3/23/24 to 3/23/25: 4.00%; From 3/23/25 to 3/23/26: 6.00%; From 3/23/26 to 9/23/27: 10.00%. Swap is callable by counterparty at any time commencing on September 24, 2012 with 15 calendar days notice prior to the redemption date.

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

(D) Receive rate is fixed according to the following schedule: From 6/8/12 to 6/8/17: 2.25%; From 6/8/17 to 6/8/22: 2.70%; From 6/8/22 to 6/8/27: 3.20%; From 6/8/27 to 6/8/28: 4.00%; From 6/8/28 to 6/8/29: 5.00%; From 6/8/29 to 6/8/30: 6.00%; From 6/8/30 to 6/8/31: 8.00%; From 6/8/31 to 6/8/32: 10.00%. Swap is callable by counterparty at any time commencing on December 8, 2012 with 15 calendar days notice prior to the redemption date.

(E) Receive rate is fixed according to the following schedule: From 6/28/12 to 6/28/17: 2.30%; From 6/28/17 to 6/28/22: 2.50%; From 6/28/22 to 6/28/27: 3.00%; From 6/28/27 to 6/28/28: 4.00%; From 6/28/28 to 6/28/29: 5.00%; From 6/28/29 to 6/28/30: 6.00%; From 6/28/30 to 6/28/31: 8.00%; From 6/28/31 to 6/28/32: 10.00%. Swap is callable by counterparty at any time commencing on December 28, 2012 with 15 calendar days notice prior to the redemption date.

(F) Receive rate is fixed according to the following schedule: From 7/27/12 to 7/27/17: 2.25%; From 7/27/17 to 7/27/22: 2.50%; From 7/27/22 to 7/27/27: 3.00%; From 7/27/27 to 7/27/28: 4.00%; From 7/27/28 to 7/27/29: 5.00%; From 7/27/29 to 7/27/30: 6.00%; From 7/27/30 to 7/27/31: 8.00%; From 7/27/31 to 7/27/32: 10.00%. Swap is callable by counterparty at any time commencing on January 27, 2013 with 20 calendar days notice prior to the redemption date.

(G) Receive rate is fixed according to the following schedule: From 8/23/12 to 8/23/17: 2.30%; From 8/23/17 to 8/23/22: 2.40%; From 8/23/22 to 8/23/27: 2.50%; From 8/23/27 to 8/23/29: 2.75%; From 8/23/29 to 8/23/30: 5.00%; From 8/23/30 to 8/23/31: 8.00%; From 8/23/31 to 8/23/32: 11.00%. Swap is callable by counterparty at any time commencing on August 23, 2013 with 20 calendar days notice prior to the redemption date.

(H) Receive rate is fixed according to the following schedule: From 9/24/12 to 9/24/17: 2.40%; From 9/24/17 to 9/24/22: 2.50%; From 9/24/22 to 9/24/27: 2.75%; From 9/24/27 to 9/24/29: 3.00%; From 9/24/29 to 9/24/30: 5.00%; From 9/24/30 to 9/24/31: 8.00%; From 9/24/31 to 9/24/32: 11.00%. Swap is callable by counterparty at any time commencing on August 23, 2013 with 15 calendar days notice prior to the redemption date.

(I) Receive rate is fixed according to the following schedule: From 10/19/12 to 10/19/17: 2.40%; From 10/19/17 to 10/19/22: 2.50%; From 10/19/22 to 10/19/27: 2.75%; From 10/19/27 to 10/19/29: 3.00%; From 10/19/29 to 10/19/30: 5.00%; From 10/19/30 to 10/19/31: 8.00%; From 10/19/31 to 10/19/32: 11.00%. Swap is callable by counterparty at quarterly intervals commencing on October 19, 2013 with 15 calendar days notice prior to the redemption date.

(J) Receive rate is fixed according to the following schedule: From 11/8/12 to 11/8/17: 2.30%; From 11/8/17 to 11/8/22: 2.40%; From 11/8/22 to 11/8/27: 2.50%; From 11/8/27 to 11/8/29: 3.00%; From 11/8/29 to 11/8/30: 5.00%; From 11/8/30 to 11/8/31: 8.00%; From 11/8/31 to 11/8/32: 11.00%. Swap is callable by counterparty at quarterly intervals commencing on November 8, 2013 with 15 calendar days notice prior to the redemption date.

(K) Receive rate is fixed according to the following schedule: From 11/30/12 to 11/30/17: 2.20%; From 11/30/17 to 11/30/22: 2.30%; From 11/30/22 to 11/30/27: 2.50%; From 11/30/27 to 11/30/29: 3.00%; From 11/30/29 to 11/30/30: 5.00%; From 11/30/30 to 11/30/31: 8.00%; From 11/30/31 to 11/30/32: 11.00%. Swap is callable by counterparty at quarterly intervals commencing on November 30, 2013 with 20 calendar days notice prior to the redemption date.

(L) Receive rate is fixed according to the following schedule: From 12/27/12 to 12/27/17: 2.25%; From 12/27/17 to 12/27/22: 2.35%; From 12/27/22 to 12/27/27: 2.50%; From 12/27/27 to 12/27/29: 3.00%; From 12/27/29 to 12/27/30: 5.00%; From 12/27/30 to 12/27/31: 8.00%; From 12/27/31 to 12/27/32: 11.00%. Swap is callable by counterparty at quarterly intervals commencing on December 27, 2013 with 15 calendar days notice prior to the redemption date.

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

(M) Receive rate is fixed according to the following schedule: From 1/25/13 to 1/25/18: 2.15%; From 1/25/18 to 1/25/23: 2.25%; From 1/25/23 to 1/25/25: 2.75%; From 1/25/25 to 1/25/26: 4.00%; From 1/25/26 to 1/25/27: 6.00%; From 1/25/27 to 1/25/28: 8.00%. Swap is callable by counterparty at quarterly intervals commencing on January 25, 2014 with 20 calendar days notice prior to the redemption date.

(N) Receive rate is fixed according to the following schedule: From 2/15/13 to 2/15/18: 1.50%; From 2/15/18 to 2/15/20: 2.00%; From 2/15/20 to 2/15/21: 2.50%; From 2/15/21 to 2/15/22: 3.25%; From 2/15/22 to 2/15/23: 5.50%. Swap is callable by counterparty at quarterly intervals commencing on February 15, 2014 with 15 calendar days notice prior to the redemption date.

(O) Receive rate is fixed according to the following schedule: From 2/28/13 to 2/28/18: 2.20%; From 2/28/18 to 2/28/23: 2.30%; From 2/28/23 to 2/28/25: 2.50%; From 2/28/25 to 2/28/26: 4.00%; From 2/28/26 to 2/28/27: 6.00%; From 2/28/27 to 2/28/28: 8.00%. Swap is callable by counterparty at quarterly intervals commencing on February 28, 2014 with 20 business days notice prior to the redemption date.

(P) Receive rate is fixed according to the following schedule: From 2/21/13 to 2/21/15: .50%; From 2/21/15 to 2/21/16: .80%; From 2/21/16 to 2/21/17: 1.75%; From 2/21/17 to 2/21/18: 2.75%. Swap is callable by counterparty at quarterly intervals commencing on February 21, 2014 with 20 business days notice prior to the redemption date.

(Q) Fair value does not include accrued interest.

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 contract 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 contract, 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. At March 31, 2013, United had \$365,000 in gains from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. All of the \$365,000 is expected to be reclassified into interest revenue over the next twelve months. In addition, United's forward starting active cash flow hedges of floating rate liabilities will begin to become effective over the next twelve months. United expects that \$83,000 will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

United's policy requires all non-customer facing 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 a 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.

Substantially all of United's liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law and the Bank MOU. United currently has internal capital resources to meet these obligations.

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 \$18.3 million at March 31, 2013, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market.

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.

At March 31, 2013, United had cash and cash equivalent balances of \$247 million and had sufficient qualifying collateral to increase FHLB advances by \$1.35 billion and Federal Reserve discount window capacity of \$617 million. United also has the ability to raise substantial funds through brokered deposits. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was \$53.6 million for the three months ended March 31, 2013. The net income of \$11.8 million for the three month period included non-cash expenses for the provision for loan losses of \$11.0 million; depreciation, amortization and accretion of \$7.51 million and losses and write downs on foreclosed property of \$1.15 million. In addition, other assets decreased \$7.92 million primarily due to a reduction in the amount of FHLB stock held and further reduction in the balance of United's prepaid FDIC assessment. Also mortgage loans held for sale decreased \$10.5 million. Net cash used in investing activities of \$88.4 million consisted primarily of a \$36.2 million increase in loans and purchases of securities totaling \$224 million partially offset by the proceeds from sales, maturities and calls of securities of \$165 million. Net cash provided by financing activities of \$30.7 million consisted primarily of a \$73.7 million increase in deposits offset by a \$40.0 million decrease in FHLB advances. In the opinion of management, United's liquidity position at March 31, 2013, was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at March 31, 2013 was \$592 million, an increase of \$10.8 million from December 31, 2012. Accumulated other comprehensive loss, which includes unrealized gains and losses on securities available-for-sale, the unrealized gains and losses on derivatives qualifying as cash flow hedges and unamortized prior service cost and actuarial gains and losses on United's modified retirement plan, is excluded in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity increased \$10.0 million from December 31, 2012.

United accrued \$3.05 million in dividends, including accretion of discounts, on Series A, Series B and Series D preferred stock in the first quarter of 2013.

United granted a warrant to Fletcher to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at a price equivalent to \$21.25 per share. United has received purported partial warrant exercise notices from Fletcher with respect to its warrants that include incorrect calculations of the number of settlement shares Fletcher would receive upon exercise. On June 17, 2011, United completed a reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination. United believes that any current exercise of Fletcher's warrant would not result in the issuance of any settlement shares because the warrant may only be exercised for net shares via a cashless exercise formula, and the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. United has responded to Fletcher with United's calculations related to the warrant.

In November 2011, United entered into an informal memorandum of understanding with the Federal Reserve Bank and the Georgia Department of Banking and Finance (the "Holding Company MOU"). The Holding Company MOU provides that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or subordinated indebtedness or repurchase outstanding stock without prior approval of the Federal Reserve. Additionally, the Holding Company MOU requires, among other things, that United ensures that the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU.

The Bank is currently subject to an informal memorandum of understanding with the Federal Deposit Insurance Corporation and the Georgia Department of Banking and Finance (the "Bank MOU"). The Bank MOU 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 Bank MOU. Additionally, the Bank MOU requires, among other things, that prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators. The Bank believes it is in compliance with all requirements of the Bank MOU.

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 2013 and 2012.

Table 14 - Stock Price Information

	2013			Avg Daily Volume	2012			Avg Daily Volume
	High	Low	Close		High	Low	Close	
First quarter	\$11.57	\$9.59	\$11.34	195,803	\$10.30	\$6.37	\$9.75	142,987
Second quarter					9.77	7.76	8.57	145,132
Third quarter					8.82	6.12	8.39	329,475
Fourth quarter					9.49	8.01	9.44	202,871

The Board of Governors of the Federal Reserve 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 March 31, 2013, December 31, 2012 and March 31, 2012.

Table 14 - Capital Ratios
(dollars in thousands)

	Regulatory Guidelines		United Community Banks, Inc.					
			(Consolidated)			United Community Bank		
	Well	Capitalized	March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012
Risk-based ratios:								
Tier I capital	4.0 %	6.0 %	14.31 %	14.16 %	13.68 %	14.72 %	14.48 %	13.70 %
Total capital	8.0	10.0	15.87	15.73	15.41	15.98	15.74	14.96
Leverage ratio	3.0	5.0	9.71	9.64	8.94	10.00	9.86	8.96
Tier I capital			\$663,415	\$ 652,692	\$629,411	\$681,843	\$ 666,585	\$629,082
Total capital			735,965	724,915	708,595	740,329	724,738	687,190

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.

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 March 31, 2013 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2012. The interest rate sensitivity position at March 31, 2013 is included in management's discussion and analysis on page 49 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 March 31, 2013. 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 SEC'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 SEC'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. Additionally, in the ordinary course of business, United and the Bank are subject to regulatory examinations and investigations. Based on our current knowledge and advice of counsel, in the opinion of management there is no such pending or threatened legal matter 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

There have been no material changes from the risk factors previously disclosed in United's Annual Report on Form 10-K for the year ended December 31, 2012.

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

Item 3. Defaults upon Senior Securities – None

Item 4. Mine Safety Disclosures – None

Item 5. Other Information – None

Item 6. Exhibits

Exhibit No.	Description
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: May 9, 2013