

UNITED COMMUNITY BANKS INC
Form 10-Q
November 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

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

30512
(Zip Code)

Executive Offices

(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 42,403,765 shares voting and 15,316,794 shares non-voting outstanding as of October 31, 2012.

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

| <i>(in thousands, except per share data)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---------------|--|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Interest revenue: | | | | |
| Loans, including fees | \$ 53,868 | \$ 59,294 | \$ 163,805 | \$ 181,359 |
| Investment securities, including tax exempt of \$225, \$244, \$737 and \$754 | 10,706 | 14,568 | 34,772 | 42,964 |
| Federal funds sold, reverse repurchase agreements, securities lending, commercial paper and deposits in banks | 985 | 261 | 3,093 | 1,832 |
| Total interest revenue | 65,559 | 74,123 | 201,670 | 226,155 |
| Interest expense: | | | | |
| Deposits: | | | | |
| NOW | 447 | 831 | 1,587 | 3,191 |
| Money market | 599 | 1,129 | 1,901 | 4,656 |
| Savings | 37 | 52 | 112 | 193 |
| Time | 4,612 | 9,086 | 15,844 | 31,813 |
| Total deposit interest expense | 5,695 | 11,098 | 19,444 | 39,853 |
| Federal funds purchased, repurchase agreements and other short-term borrowings | 514 | 1,081 | 2,463 | 3,197 |
| Federal Home Loan Bank advances | 26 | 441 | 882 | 1,601 |
| Long-term debt | 2,372 | 2,642 | 7,119 | 8,169 |
| Total interest expense | 8,607 | 15,262 | 29,908 | 52,820 |
| Net interest revenue | 56,952 | 58,861 | 171,762 | 173,335 |
| Provision for loan losses | 15,500 | 36,000 | 48,500 | 237,000 |
| Net interest revenue after provision for loan losses | 41,452 | 22,861 | 123,262 | (63,665) |
| Fee revenue: | | | | |
| Service charges and fees | 7,696 | 7,534 | 23,295 | 21,862 |
| Mortgage loan and other related fees | 2,800 | 1,148 | 7,221 | 3,594 |
| Brokerage fees | 709 | 836 | 2,331 | 2,204 |
| Securities gains, net | | | 7,047 | 838 |
| Loss from prepayment of debt | | | (6,681) | (791) |
| Other | 2,559 | 1,980 | 8,797 | 9,534 |
| Total fee revenue | 13,764 | 11,498 | 42,010 | 37,241 |
| Total revenue | 55,216 | 34,359 | 165,272 | (26,424) |
| Operating expenses: | | | | |
| Salaries and employee benefits | 22,918 | 25,262 | 72,440 | 76,622 |
| Communications and equipment | 3,254 | 3,284 | 9,620 | 10,006 |

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| | | | | |
|--|-----------------|--------------------|------------------|---------------------|
| Occupancy | 3,539 | 3,794 | 10,849 | 11,673 |
| Advertising and public relations | 934 | 1,052 | 2,868 | 3,347 |
| Postage, printing and supplies | 954 | 1,036 | 2,849 | 3,239 |
| Professional fees | 2,180 | 2,051 | 6,107 | 7,731 |
| Foreclosed property | 3,706 | 2,813 | 9,382 | 69,603 |
| FDIC assessments and other regulatory charges | 2,537 | 2,603 | 7,592 | 11,660 |
| Amortization of intangibles | 728 | 748 | 2,190 | 2,270 |
| Other | 4,033 | 3,877 | 12,151 | 14,368 |
| Total operating expenses | 44,783 | 46,520 | 136,048 | 210,519 |
| Net income (loss) before income taxes | 10,433 | (12,161) | 29,224 | (236,943) |
| Income tax (benefit) expense | (135) | (822) | 629 | (296) |
| Net income (loss) | 10,568 | (11,339) | 28,595 | (236,647) |
| Preferred stock dividends and discount accretion | 3,041 | 3,019 | 9,103 | 8,813 |
| Net income (loss) available to common shareholders | \$ 7,527 | \$ (14,358) | \$ 19,492 | \$ (245,460) |
| Earnings (loss) per common share - Basic / Diluted | \$.13 | \$ (.25) | \$.34 | \$ (7.23) |
| Weighted average common shares outstanding - Basic / Diluted | 57,880 | 57,599 | 57,826 | 33,973 |

See accompanying notes to consolidated financial statements.

Table of Contents**UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Comprehensive Income (Loss) (Unaudited)**

| <i>(in thousands)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ 10,568 | \$ (11,339) | \$ 28,595 | \$ (236,647) |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on available for sale securities: | | | | |
| Unrealized holding gains (losses) arising during period | 5,813 | (2,852) | 6,737 | 7,156 |
| Reclassification adjustment for gains included in net income | | | (7,047) | (838) |
| Amortization of gains included in net income (loss) on available for sale securities transferred to held to maturity | (499) | (563) | (1,312) | (1,730) |
| Amortization of gains included in net income (loss) on derivative financial instruments accounted for as cash flow hedges | (763) | (2,948) | (3,077) | (12,570) |
| Unrealized losses on derivative financial instruments accounted for as cash flow hedges | (3,943) | | (8,798) | |
| Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plans | 154 | | 462 | |
| Total other comprehensive income (loss) | 762 | (6,363) | (13,035) | (7,982) |
| Comprehensive income (loss) | \$ 11,330 | \$ (17,702) | \$ 15,560 | \$ (244,629) |

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)

| | September 30, 2012 (unaudited) | December 31, 2011 (audited) | September 30, 2011 (unaudited) |
|--|--------------------------------------|-----------------------------------|--------------------------------------|
| ASSETS | | | |
| Cash and due from banks | \$ 57,270 | \$ 53,807 | \$ 57,780 |
| Interest-bearing deposits in banks | 119,355 | 139,609 | 241,440 |
| Federal funds sold, reverse repurchase agreements, securities lending, commercial paper and short-term investments | 45,000 | 185,000 | |
| Cash and cash equivalents | 221,625 | 378,416 | 299,220 |
| Securities available for sale | 1,761,994 | 1,790,047 | 1,769,083 |
| Securities held to maturity (fair value \$281,336, \$343,531 and \$369,020) | 262,648 | 330,203 | 353,739 |
| Mortgage loans held for sale | 30,571 | 23,881 | 22,050 |
| Loans, net of unearned income | 4,137,845 | 4,109,614 | 4,109,875 |
| Less allowance for loan losses | (107,642) | (114,468) | (146,092) |
| Loans, net | 4,030,203 | 3,995,146 | 3,963,783 |
| Assets covered by loss sharing agreements with the FDIC | 53,070 | 78,145 | 83,623 |
| Premises and equipment, net | 170,532 | 175,088 | 176,839 |
| Bank owned life insurance | 81,574 | 80,599 | 80,452 |
| Accrued interest receivable | 19,133 | 20,693 | 19,744 |
| Goodwill and other intangible assets | 6,237 | 8,428 | 9,175 |
| Foreclosed property | 26,958 | 32,859 | 44,263 |
| Other assets | 34,690 | 69,915 | 72,302 |
| Total assets | \$ 6,699,235 | \$ 6,983,420 | \$ 6,894,273 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities: | | | |
| Deposits: | | | |
| Demand | \$ 1,210,703 | \$ 992,109 | \$ 966,452 |
| NOW | 1,184,341 | 1,509,896 | 1,299,512 |
| Money market | 1,126,312 | 1,038,778 | 1,030,370 |
| Savings | 222,431 | 199,007 | 200,231 |
| Time: | | | |
| Less than \$100,000 | 1,123,672 | 1,332,394 | 1,393,559 |
| Greater than \$100,000 | 731,766 | 847,152 | 905,183 |
| Brokered | 223,474 | 178,647 | 209,998 |
| Total deposits | 5,822,699 | 6,097,983 | 6,005,305 |
| Federal funds purchased, repurchase agreements, and other short-term borrowings | 53,243 | 102,577 | 102,883 |
| Federal Home Loan Bank advances | 50,125 | 40,625 | 40,625 |
| Long-term debt | 120,285 | 120,225 | 120,206 |
| Unsettled securities purchases | 24,319 | 10,325 | 10,585 |
| Accrued expenses and other liabilities | 43,309 | 36,199 | 31,302 |
| Total liabilities | 6,113,980 | 6,407,934 | 6,310,906 |

Shareholders' equity:

Preferred stock, \$1 par value; 10,000,000 shares authorized;

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| | | | |
|--|---------------------|---------------------|---------------------|
| 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 | 178,183 | 177,092 | 176,739 |
| 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; 42,393,319, 41,647,100 and 41,595,692 shares issued and outstanding | 42,393 | 41,647 | 41,596 |
| Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 15,316,794, 15,914,209 and 15,914,209 shares issued and outstanding | 15,317 | 15,914 | 15,914 |
| Common stock issuable; 129,270, 93,681 and 88,501 shares | 3,247 | 3,233 | 3,590 |
| Capital surplus | 1,056,998 | 1,054,940 | 1,053,565 |
| Accumulated deficit | (711,369) | (730,861) | (737,736) |
| Accumulated other comprehensive (loss) income | (16,344) | (3,309) | 12,869 |
| Total shareholders equity | 585,255 | 575,486 | 583,367 |
| Total liabilities and shareholders equity | \$ 6,699,235 | \$ 6,983,420 | \$ 6,894,273 |

See accompanying notes to consolidated financial statements.

Table of Contents**UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Changes in Shareholders' Equity (Unaudited)****For the Nine Months Ended September 30,**

| <i>(in thousands, except share and per share data)</i> | Preferred Stock | | | | | Non-Voting Common Stock | | Common Stock | Capital Surplus | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|-----------------|------------|----------|----------|-----------|-------------------------|--------------|--------------|-----------------|---------------------|---|------------|
| | Series A | Series B | Series D | Series F | Series G | Common Stock | Common Stock | Issuable | | | | |
| Balance, December 31, 2010 | \$ 217 | \$ 175,711 | \$ | \$ | \$ | \$ 18,937 | \$ | \$ 3,894 | \$ 741,244 | \$ (492,276) | \$ 20,851 | \$ 468,578 |
| Net loss | | | | | | | | | | (236,647) | | (236,647) |
| Other comprehensive loss | | | | | | | | | | | (7,982) | (7,982) |
| Preferred for common equity exchange related to tax benefits preservation plan (1,551,126 common shares) | | | 16,613 | | | (1,551) | | | (15,062) | | | |
| Penalty received on incomplete private equity transaction | | | | | | | | | 3,250 | | | 3,250 |
| Conversion of Series F and Series G Preferred Stock (20,618,156 voting and 15,914,209 non-voting common shares) | | | | 195,872 | (151,185) | 20,618 | 15,914 | | 310,525 | | | |
| Common stock issued to dividend reinvestment plan and employee benefit plans (113,787 shares) | | | | | | 114 | | | 987 | | | 1,101 |
| Common and preferred stock issued (3,467,699 common shares) | | | 195,872 | 151,185 | 3,468 | | | | 11,035 | | | 361,560 |
| Amortization of stock options and restricted stock awards | | | | | | | | | 1,485 | | | 1,485 |
| Vesting of restricted stock (6,709 shares issued, 6,382 shares deferred) | | | | | | 7 | | 54 | (61) | | | |
| Deferred compensation plan, | | | | | | | | 183 | | | | 183 |

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| | | | | | | | | | | | | | |
|--|--------|------------|-----------|----|----|-----------|-----------|----------|--------------|--------------|------------|----|------------|
| net, including dividend equivalents | | | | | | | | | | | | | |
| Shares issued from deferred compensation plan (3,466 shares) | | | | | | 3 | | (541) | | 538 | | | |
| Tax on option exercise and restricted stock vesting | | | | | | | | | | (376) | | | (376) |
| Preferred stock dividends: | | | | | | | | | | | | | |
| Series A | | | | | | | | | | (10) | | | (10) |
| Series B | | 1,028 | | | | | | | | (7,798) | | | (6,770) |
| Series D | | | | | | | | | | (1,005) | | | (1,005) |
| Balance, September 30, 2011 | \$ 217 | \$ 176,739 | \$ 16,613 | \$ | \$ | \$ 41,596 | \$ 15,914 | \$ 3,590 | \$ 1,056,565 | \$ (737,736) | \$ 12,869 | \$ | \$ 583,367 |
| 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 | | | | | | | | | | 28,595 | | | 28,595 |
| Other comprehensive loss | | | | | | | | | | | (13,035) | | (13,035) |
| Common stock issued to dividend reinvestment plan and to employee benefit plans (87,086 shares) | | | | | | 86 | | | | 616 | | | 702 |
| Conversion of non-voting common stock to voting common stock (597,415 shares) | | | | | | 597 | (597) | | | | | | |
| Amortization of stock options and restricted stock awards | | | | | | | | | | 1,412 | | | 1,412 |
| Vesting of restricted stock, net of shares surrendered to cover payroll taxes (59,081 shares issued, 36,673 shares deferred) | | | | | | 60 | | 155 | | (257) | | | (42) |
| Deferred compensation plan, net, including dividend equivalents | | | | | | | | | | 149 | | | 149 |
| Shares issued from deferred compensation plan (2,637 shares) | | | | | | 3 | | (290) | | 287 | | | |
| Preferred stock dividends: | | | | | | | | | | | | | |

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| | | | | | | | | | | | |
|----------|-------|--|--|--|--|--|--|--|--|---------|---------|
| Series A | | | | | | | | | | (9) | (9) |
| Series B | 1,091 | | | | | | | | | (7,841) | (6,750) |
| Series D | | | | | | | | | | (1,253) | (1,253) |

| | | | | | | | | | | | | |
|--|--------|------------|-----------|----|----|-----------|-----------|----------|--------------|--------------|-------------|------------|
| Balance, September 30, 2012 | \$ 217 | \$ 178,183 | \$ 16,613 | \$ | \$ | \$ 42,393 | \$ 15,317 | \$ 3,247 | \$ 1,056,998 | \$ (711,369) | \$ (16,344) | \$ 585,255 |
|--|--------|------------|-----------|----|----|-----------|-----------|----------|--------------|--------------|-------------|------------|

See accompanying notes to consolidated financial statements.

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

| <i>(in thousands)</i> | Nine Months Ended September 30, | |
|---|--|------------------|
| | 2012 | 2011 |
| Operating activities: | | |
| Net income (loss) | \$ 28,595 | \$ (236,647) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 24,478 | 14,670 |
| Provision for loan losses | 48,500 | 237,000 |
| Stock based compensation | 1,412 | 1,485 |
| Securities gains, net | (7,047) | (838) |
| Losses and write downs on sales of other real estate owned | 5,687 | 61,473 |
| Loss on prepayment of borrowings | 6,681 | 791 |
| Changes in assets and liabilities: | | |
| Other assets and accrued interest receivable | 40,708 | 29,854 |
| Accrued expenses and other liabilities | (3,108) | (2,739) |
| Mortgage loans held for sale | (6,690) | 13,858 |
| Net cash provided by operating activities | 139,216 | 118,907 |
| Investing activities: | | |
| Investment securities held to maturity: | | |
| Proceeds from maturities and calls | 65,040 | 52,520 |
| Purchases | | (142,777) |
| Investment securities available for sale: | | |
| Proceeds from sales | 371,103 | 106,603 |
| Proceeds from maturities and calls | 492,768 | 363,333 |
| Purchases | (818,048) | (1,000,378) |
| Net (increase) decrease in loans | (104,806) | 106,341 |
| Proceeds from loan sales | | 99,298 |
| Proceeds collected from FDIC under loss sharing agreements | 7,301 | 29,987 |
| Proceeds from sales of premises and equipment | 667 | 636 |
| Purchases of premises and equipment | (3,231) | (6,442) |
| Proceeds from sale of other real estate | 22,309 | 70,951 |
| Net cash provided by (used in) investing activities | 33,103 | (319,928) |
| Financing activities: | | |
| Net change in deposits | (275,284) | (463,867) |
| Net change in federal funds purchased, repurchase agreements, and other short-term borrowings | (53,814) | 1,816 |
| Proceeds from Federal Home Loan Bank advances | 1,629,000 | |
| Settlement of Federal Home Loan Bank advances | (1,621,701) | (15,291) |
| Repayments of long-term debt | | (30,000) |
| Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans | 702 | 1,101 |
| Proceeds from issuance of common and preferred stock, net of offering costs | | 361,560 |
| Proceeds from penalty on incomplete private equity transaction | | 3,250 |
| Cash dividends on preferred stock | (8,013) | (7,785) |
| Net cash used in financing activities | (329,110) | (149,216) |
| Net change in cash and cash equivalents | (156,791) | (350,237) |

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| | | |
|---|-------------------|-------------------|
| Cash and cash equivalents at beginning of period | 378,416 | 649,457 |
| Cash and cash equivalents at end of period | \$ 221,625 | \$ 299,220 |

Supplemental disclosures of cash flow information:

| | | |
|---|-----------|-----------|
| Cash paid (received) during the period for: | | |
| Interest | \$ 32,668 | \$ 55,580 |
| Income taxes | (27,103) | 179 |
| Unsettled securities purchases | 24,319 | 10,585 |

See accompanying notes to consolidated financial statements.

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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/A for the year ended December 31, 2011.

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 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*.

Note 2 Accounting Standards Updates

In August 2012, the FASB issued Accounting Standards Update No. 2012-03, *Technical Amendments and Corrections to SEC sections*. It amends various paragraphs related to SEC Staff Accounting Bulletin No. 114, which revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series; SEC Release No. 33-9250, which makes technical amendments to various rules and forms under the Securities Act of 1933 to conform those rules and forms to the ASC; and makes technical corrections related to FASB Accounting Standards Update No. 2010-22, *Accounting for Various Topics - Technical Corrections to SEC Paragraphs*. The update was effective upon issuance and did not have a material impact on United s financial position, results of operations or disclosures.

In October 2012, the FASB issued Accounting Standards Update No. 2012-04, *Technical Corrections and Improvement*. It makes conforming amendments related to fair value measurements within the ASC as well as other technical corrections covering a broad range of topics. The amendments in the update that did not have transition guidance were effective upon issuance and the amendments subject to transition guidance will be effective for fiscal periods beginning after December 15, 2012, for public entities. The guidance is not expected to have a material impact on United s financial position, results of operations or disclosures.

Note 3 Mergers and Acquisitions

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

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

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

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

The table below shows the components of covered assets at September 30, 2012, December 31, 2011 and September 30, 2011 (*in thousands*).

| | Purchased Impaired Loans | Other Purchased Loans | Other | Total |
|--|---|--------------------------------------|--------------|--------------|
| September 30, 2012 | | | | |
| Commercial (secured by real estate) | \$ | \$ 25,808 | \$ | \$ 25,808 |
| Commercial & industrial | | 1,065 | | 1,065 |
| Construction and land development | 405 | 4,088 | | 4,493 |
| Residential mortgage | 116 | 5,466 | | 5,582 |
| Consumer installment | 1 | 101 | | 102 |
| Total covered loans | 522 | 36,528 | | 37,050 |
| Covered foreclosed property | | | 7,050 | 7,050 |
| Estimated loss reimbursement from the FDIC | | | 8,970 | 8,970 |
| Total covered assets | \$ 522 | \$ 36,528 | \$ 16,020 | \$ 53,070 |
| December 31, 2011 | | | | |
| Commercial (secured by real estate) | \$ | \$ 32,934 | \$ | \$ 32,934 |
| Commercial & industrial | | 2,133 | | 2,133 |
| Construction and land development | 547 | 10,592 | | 11,139 |
| Residential mortgage | 145 | 7,970 | | 8,115 |
| Consumer installment | 5 | 156 | | 161 |
| Total covered loans | 697 | 53,785 | | 54,482 |
| Covered foreclosed property | | | 10,371 | 10,371 |
| Estimated loss reimbursement from the FDIC | | | 13,292 | 13,292 |
| Total covered assets | \$ 697 | \$ 53,785 | \$ 23,663 | \$ 78,145 |
| September 30, 2011 | | | | |
| Commercial (secured by real estate) | \$ | \$ 34,546 | \$ | \$ 34,546 |
| Commercial & industrial | | 2,485 | | 2,485 |
| Construction and land development | 1,771 | 10,282 | | 12,053 |
| Residential mortgage | 186 | 8,376 | | 8,562 |
| Consumer installment | 6 | 181 | | 187 |
| Total covered loans | 1,963 | 55,870 | | 57,833 |
| Covered foreclosed property | | | 11,488 | 11,488 |
| Estimated loss reimbursement from the FDIC | | | 14,302 | 14,302 |
| Total covered assets | \$ 1,963 | \$ 55,870 | \$ 25,790 | \$ 83,623 |

Note 4 Reverse Repurchase Agreements / Securities Lending Transactions

United enters into reverse repurchase agreements in order to invest short-term funds. In addition, United enters into repurchase agreements and reverse repurchase agreements and offsetting securities lending transactions with the same counterparty in transactions commonly referred to as

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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*.

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

The following table presents a summary of amounts outstanding under reverse repurchase agreements and securities lending transactions including those entered into in connection with the same counterparty under master netting agreements as of September 30, 2012 and December 31, 2011 (*in thousands*). There were no balances outstanding at September 30, 2011.

| | September 30, 2012 | | Net Balance (Asset) |
|--|--------------------|-------------------|------------------------|
| | Assets | Liabilities | |
| September 30, 2012 | | | |
| Repurchase agreements / reverse repurchase agreements subject to master netting agreements | \$ 225,000 | \$ 225,000 | \$ |
| Offsetting securities lending transactions subject to master netting arrangements | 100,000 | 100,000 | |
| Other reverse repurchase agreements | 45,000 | | 45,000 |
| Total | \$ 370,000 | \$ 325,000 | \$ 45,000 |
| Weighted average interest rate | 1.19% | .41% | |
| December 31, 2011 | | | |
| Repurchase agreements / reverse repurchase agreements subject to master netting agreements | \$ 60,000 | \$ 60,000 | \$ |
| Other reverse repurchase agreements | 185,000 | | 185,000 |
| Total | \$ 245,000 | \$ 60,000 | \$ 185,000 |
| Weighted average interest rate | 1.07% | .38% | |

Note 5 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 and nine month periods ended September 30, 2012 and 2011 (*in thousands*).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|--|------|------------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Proceeds from sales | \$ | \$ | \$ 371,103 | \$ 106,603 |
| Gross gains on sales | \$ | \$ | \$ 7,047 | \$ 1,169 |
| Gross losses on sales | | | | (331) |
| Net gains on sales of securities | \$ | \$ | \$ 7,047 | \$ 838 |

Securities with a carrying value of \$1.28 billion, \$1.72 billion, and \$1.89 billion were pledged to secure public deposits and other secured borrowings at September 30, 2012, December 31, 2011 and September 30, 2011, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the FHLB with currently pledged securities.

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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.

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

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2012, December 31, 2011 and September 30, 2011 are as follows (*in thousands*).

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| <u>As of September 30, 2012</u> | | | | |
| State and political subdivisions | \$ 51,790 | \$ 5,795 | \$ | \$ 57,585 |
| Mortgage-backed securities ⁽¹⁾ | 210,858 | 12,893 | | 223,751 |
| Total | \$ 262,648 | \$ 18,688 | \$ | \$ 281,336 |
| <u>As of December 31, 2011</u> | | | | |
| U.S. Government agencies | \$ 5,000 | \$ 6 | \$ | \$ 5,006 |
| State and political subdivisions | 51,903 | 4,058 | 13 | 55,948 |
| Mortgage-backed securities ⁽¹⁾ | 273,300 | 9,619 | 342 | 282,577 |
| Total | \$ 330,203 | \$ 13,683 | \$ 355 | \$ 343,531 |
| <u>As of September 30, 2011</u> | | | | |
| U.S. Government agencies | \$ 5,000 | \$ 17 | \$ | \$ 5,017 |
| State and political subdivisions | 50,185 | 3,721 | 22 | 53,884 |
| Mortgage-backed securities ⁽¹⁾ | 298,554 | 11,871 | 306 | 310,119 |
| Total | \$ 353,739 | \$ 15,609 | \$ 328 | \$ 369,020 |

⁽¹⁾ All are residential type mortgage-backed securities

The cost basis, unrealized gains and losses, and fair value of securities available for sale at September 30, 2012, December 31, 2011 and September 30, 2011 are presented below (*in thousands*).

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| <u>As of September 30, 2012</u> | | | | |
| State and political subdivisions | \$ 27,403 | \$ 1,478 | \$ 3 | \$ 28,878 |
| Mortgage-backed securities ⁽¹⁾ | 1,356,002 | 27,689 | 751 | 1,382,940 |
| Corporate bonds | 148,315 | 450 | 5,613 | 143,152 |
| Asset-backed securities | 204,522 | 713 | 806 | 204,429 |
| Other | 2,595 | | | 2,595 |
| Total | \$ 1,738,837 | \$ 30,330 | \$ 7,173 | \$ 1,761,994 |

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As of December 31, 2011

| | | | | |
|---|--------------|-----------|-----------|--------------|
| U.S. Government agencies | \$ 43,592 | \$ 158 | \$ | \$ 43,750 |
| State and political subdivisions | 24,997 | 1,345 | 3 | 26,339 |
| Mortgage-backed securities ⁽¹⁾ | 1,576,064 | 33,988 | 143 | 1,609,909 |
| Corporate bonds | 119,110 | | 11,432 | 107,678 |
| Other | 2,371 | | | 2,371 |
| Total | \$ 1,766,134 | \$ 35,491 | \$ 11,578 | \$ 1,790,047 |

As of September 30, 2011

| | | | | |
|---|--------------|-----------|----------|--------------|
| U.S. Government agencies | \$ 33,597 | \$ 109 | \$ | \$ 33,706 |
| State and political subdivisions | 25,435 | 1,400 | 4 | 26,831 |
| Mortgage-backed securities ⁽¹⁾ | 1,556,639 | 39,177 | 416 | 1,595,400 |
| Corporate bonds | 119,066 | | 8,424 | 110,642 |
| Other | 2,504 | | | 2,504 |
| Total | \$ 1,737,241 | \$ 40,686 | \$ 8,844 | \$ 1,769,083 |

⁽¹⁾ All are residential type mortgage-backed securities

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

The following table summarizes held to maturity securities in an unrealized loss position as of December 31, 2011 and September 30, 2011 (*in thousands*). As of September 30, 2012, there were no held to maturity securities in an unrealized loss position.

| | Less than 12 Months | | 12 Months or More | | Total | |
|----------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| As of December 31, 2011 | | | | | | |
| State and political subdivisions | \$ | \$ | \$ 363 | \$ 13 | \$ 363 | \$ 13 |
| Mortgage-backed securities | 10,967 | 342 | | | 10,967 | 342 |
| Total unrealized loss position | \$ 10,967 | \$ 342 | \$ 363 | \$ 13 | \$ 11,330 | \$ 355 |
| As of September 30, 2011 | | | | | | |
| State and political subdivisions | \$ 354 | \$ 22 | \$ | \$ | \$ 354 | \$ 22 |
| Mortgage-backed securities | 9,828 | 306 | | | 9,828 | 306 |
| Total unrealized loss position | \$ 10,182 | \$ 328 | \$ | \$ | \$ 10,182 | \$ 328 |

The following table summarizes available for sale securities in an unrealized loss position as of September 30, 2012, December 31, 2011 and September 30, 2011 (*in thousands*).

| | Less than 12 Months | | 12 Months or More | | Total | |
|----------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| As of September 30, 2012 | | | | | | |
| State and political subdivisions | \$ | \$ | \$ 12 | \$ 3 | \$ 12 | \$ 3 |
| Mortgage-backed securities | 105,296 | 741 | 17,059 | 10 | 122,355 | 751 |
| Corporate bonds | 4,893 | 10 | 113,590 | 5,603 | 118,483 | 5,613 |
| Asset-backed securities | 90,766 | 806 | | | 90,766 | 806 |
| Total unrealized loss position | \$ 200,955 | \$ 1,557 | \$ 130,661 | \$ 5,616 | \$ 331,616 | \$ 7,173 |
| As of December 31, 2011 | | | | | | |
| State and political subdivisions | \$ | \$ | \$ 11 | \$ 3 | \$ 11 | \$ 3 |
| Mortgage-backed securities | 98,687 | 110 | 22,719 | 33 | 121,406 | 143 |
| Corporate bonds | 42,864 | 5,197 | 64,765 | 6,235 | 107,629 | 11,432 |
| Total unrealized loss position | \$ 141,551 | \$ 5,307 | \$ 87,495 | \$ 6,271 | \$ 229,046 | \$ 11,578 |
| As of September 30, 2011 | | | | | | |
| State and political subdivisions | \$ | \$ | \$ 10 | \$ 4 | \$ 10 | \$ 4 |
| Mortgage-backed securities | 255,896 | 416 | | | 255,896 | 416 |
| Corporate bonds | 44,251 | 3,765 | 66,341 | 4,659 | 110,592 | 8,424 |
| Total unrealized loss position | \$ 300,147 | \$ 4,181 | \$ 66,351 | \$ 4,663 | \$ 366,498 | \$ 8,844 |

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At September 30, 2012, there were 41 available for sale securities and no 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 September 30, 2012, December 31, 2011 and September 30, 2011 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 or nine months ended September 30, 2012 or 2011.

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The amortized cost and fair value of held to maturity and available for sale securities at September 30, 2012, by contractual maturity, are presented in the following table (*in thousands*).

| | Available for Sale | | Held to Maturity | |
|--|--------------------|--------------|------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| State and political subdivisions: | | | | |
| Within 1 year | \$ 5,960 | \$ 5,969 | \$ | \$ |
| 1 to 5 years | 15,266 | 16,321 | 8,589 | 9,379 |
| 5 to 10 years | 5,329 | 5,656 | 21,558 | 24,064 |
| More than 10 years | 848 | 932 | 21,643 | 24,142 |
| | 27,403 | 28,878 | 51,790 | 57,585 |
| Corporate bonds: | | | | |
| 1 to 5 years | 38,002 | 37,503 | | |
| 5 to 10 years | 109,313 | 105,349 | | |
| More than 10 years | 1,000 | 300 | | |
| | 148,315 | 143,152 | | |
| Asset-backed securities | | | | |
| 1 to 5 years | 61,429 | 61,108 | | |
| 5 to 10 years | 134,885 | 135,212 | | |
| More than 10 years | 8,208 | 8,109 | | |
| | 204,522 | 204,429 | | |
| Other: | | | | |
| More than 10 years | 2,595 | 2,595 | | |
| | 2,595 | 2,595 | | |
| Total securities other than mortgage-backed securities: | | | | |
| Within 1 year | 5,960 | 5,969 | | |
| 1 to 5 years | 114,697 | 114,932 | 8,589 | 9,379 |
| 5 to 10 years | 249,527 | 246,217 | 21,558 | 24,064 |
| More than 10 years | 12,651 | 11,936 | 21,643 | 24,142 |
| Mortgage-backed securities | 1,356,002 | 1,382,940 | 210,858 | 223,751 |
| | \$ 1,738,837 | \$ 1,761,994 | \$ 262,648 | \$ 281,336 |

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.

Effective July 1, 2012, United changed the time period over which it amortizes premiums on pass through mortgage backed securities. Previously, United amortized premiums over the average life of the securities which resulted in the recognition of greater amortization charges

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in the early years of the bond's life. The effect on amortization of management's recent strategy of purchasing high premium securities to protect net interest revenue in the event of rising interest rates led management to the decision to change the amortization period. Effective July 1, 2012, United began amortizing premiums on these securities to the final payment window date as published by Bloomberg. Management believes that the premium amortization charges resulting from amortizing to the final payment window date, together with the related premium amortization on principal pay-downs, more closely approach the level yield amortization required by GAAP, particularly as it relates to these securities. The change in accounting estimate increased interest revenue on investment securities in the third quarter by approximately \$2 million and earnings per share by \$.03.

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 6 Loans and Allowance for Loan Losses**

Major classifications of loans as of September 30, 2012, December 31, 2011 and September 30, 2011, are summarized as follows (*in thousands*).

| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| Commercial (secured by real estate) | \$ 1,819,155 | \$ 1,821,414 | \$ 1,771,101 |
| Commercial & industrial | 459,997 | 428,249 | 429,043 |
| Commercial construction | 160,765 | 164,155 | 168,531 |
| | | | |
| Total commercial | 2,439,917 | 2,413,818 | 2,368,675 |
| Residential mortgage | 1,174,236 | 1,134,902 | 1,149,678 |
| Residential construction | 388,742 | 448,391 | 474,552 |
| Consumer installment | 134,950 | 112,503 | 116,970 |
| | | | |
| Total loans | 4,137,845 | 4,109,614 | 4,109,875 |
| Less allowance for loan losses | (107,642) | (114,468) | (146,092) |
| | | | |
| Loans, net | \$ 4,030,203 | \$ 3,995,146 | \$ 3,963,783 |

The Bank makes loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina and east Tennessee. 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.

Changes in the allowance for loan losses for the three and nine months ended September 30, 2012 and 2011 are summarized as follows (*in thousands*).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance beginning of period | \$ 112,705 | \$ 127,638 | \$ 114,468 | \$ 174,695 |
| Provision for loan losses | 15,500 | 36,000 | 48,500 | 237,000 |
| Charge-offs: | | | | |
| Commercial (secured by real estate) | 8,445 | 2,270 | 16,791 | 54,410 |
| Commercial & industrial | 343 | 866 | 1,987 | 5,832 |
| Commercial construction | 3,198 | 1,705 | 3,650 | 52,400 |
| Residential mortgage | 3,575 | 6,399 | 13,356 | 47,742 |
| Residential construction | 6,231 | 7,668 | 21,706 | 106,692 |
| Consumer installment | 442 | 970 | 1,603 | 2,949 |
| | | | | |
| Total loans charged-off | 22,234 | 19,878 | 59,093 | 270,025 |
| | | | | |
| Recoveries: | | | | |
| Commercial (secured by real estate) | 271 | 78 | 571 | 352 |

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| | | | | |
|--------------------------|------------|------------|------------|------------|
| Commercial & industrial | 602 | 446 | 802 | 849 |
| Commercial construction | 8 | 80 | 38 | 191 |
| Residential mortgage | 48 | 289 | 592 | 660 |
| Residential construction | 555 | 1,287 | 1,153 | 1,544 |
| Consumer installment | 187 | 152 | 611 | 826 |
| Total recoveries | 1,671 | 2,332 | 3,767 | 4,422 |
| Net charge-offs | 20,563 | 17,546 | 55,326 | 265,603 |
| Balance end of period | \$ 107,642 | \$ 146,092 | \$ 107,642 | \$ 146,092 |

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

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 September 30, 2012, December 31, 2011 and September 30, 2011 (*in thousands*).

| Nine Months Ended September 30, 2012 | Commercial (Secured by Real Estate) | | Commercial & Industrial | Commercial Construction | Residential Mortgage | Residential Construction | Consumer Installment | Unallocated | Total |
|---|--|------------|-------------------------|-------------------------|----------------------|--------------------------|----------------------|--------------|-------|
| | Allowance for loan losses: | | | | | | | | |
| Beginning balance | \$ 31,644 | \$ 5,681 | \$ 6,097 | \$ 29,076 | \$ 30,379 | \$ 2,124 | \$ 9,467 | \$ 114,468 | |
| Charge-offs | (16,791) | (1,987) | (3,650) | (13,356) | (21,706) | (1,603) | | (59,093) | |
| Recoveries | 571 | 802 | 38 | 592 | 1,153 | 611 | | 3,767 | |
| Provision | 11,351 | 362 | 6,101 | 11,163 | 18,233 | 1,738 | (448) | 48,500 | |
| Ending balance | \$ 26,775 | \$ 4,858 | \$ 8,586 | \$ 27,475 | \$ 28,059 | \$ 2,870 | \$ 9,019 | \$ 107,642 | |
| Ending allowance attributable to loans: | | | | | | | | | |
| Individually evaluated for impairment | \$ 6,692 | \$ 725 | \$ 2,289 | \$ 1,856 | \$ 1,270 | \$ 21 | \$ | \$ 12,853 | |
| Collectively evaluated for impairment | 20,083 | 4,133 | 6,297 | 25,619 | 26,789 | 2,849 | 9,019 | 94,789 | |
| Total ending allowance balance | \$ 26,775 | \$ 4,858 | \$ 8,586 | \$ 27,475 | \$ 28,059 | \$ 2,870 | \$ 9,019 | \$ 107,642 | |
| Loans: | | | | | | | | | |
| Individually evaluated for impairment | \$ 119,023 | \$ 53,531 | \$ 42,249 | \$ 21,678 | \$ 31,576 | \$ 498 | \$ | \$ 268,555 | |
| Collectively evaluated for impairment | 1,700,132 | 406,466 | 118,516 | 1,152,558 | 357,166 | 134,452 | | 3,869,290 | |
| Total loans | \$ 1,819,155 | \$ 459,997 | \$ 160,765 | \$ 1,174,236 | \$ 388,742 | \$ 134,950 | \$ | \$ 4,137,845 | |
| December 31, 2011 | | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Ending allowance attributable to loans: | | | | | | | | | |
| Individually evaluated for impairment | \$ 7,491 | \$ 1,117 | \$ 236 | \$ 2,234 | \$ 3,731 | \$ 16 | \$ | \$ 14,825 | |
| Collectively evaluated for impairment | 24,153 | 4,564 | 5,861 | 26,842 | 26,648 | 2,108 | 9,467 | 99,643 | |
| Total ending allowance balance | \$ 31,644 | \$ 5,681 | \$ 6,097 | \$ 29,076 | \$ 30,379 | \$ 2,124 | \$ 9,467 | \$ 114,468 | |
| Loans: | | | | | | | | | |
| Individually evaluated for impairment | \$ 107,831 | \$ 57,828 | \$ 26,245 | \$ 18,376 | \$ 46,687 | \$ 292 | \$ | \$ 257,259 | |
| Collectively evaluated for impairment | 1,713,583 | 370,421 | 137,910 | 1,116,526 | 401,704 | 112,211 | | 3,852,355 | |
| Total loans | \$ 1,821,414 | \$ 428,249 | \$ 164,155 | \$ 1,134,902 | \$ 448,391 | \$ 112,503 | \$ | \$ 4,109,614 | |

Nine Months Ended September 30, 2011

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| Allowance for loan losses: | | | | | | | | | | | | | | | | |
|---|----|-----------|----|---------|----|----------|----|-----------|----|-----------|----|---------|----|--------|----|-----------|
| Beginning balance | \$ | 31,191 | \$ | 7,580 | \$ | 6,780 | \$ | 22,305 | \$ | 92,571 | \$ | 3,030 | \$ | 11,238 | \$ | 174,695 |
| Charge-offs | | (54,410) | | (5,832) | | (52,400) | | (47,742) | | (106,692) | | (2,949) | | | | (270,025) |
| Recoveries | | 352 | | 849 | | 191 | | 660 | | 1,544 | | 826 | | | | 4,422 |
| Provision | | 48,344 | | 20,174 | | 54,133 | | 53,786 | | 57,842 | | 1,296 | | 1,425 | | 237,000 |
| Ending balance | \$ | 25,477 | \$ | 22,771 | \$ | 8,704 | \$ | 29,009 | \$ | 45,265 | \$ | 2,203 | \$ | 12,663 | \$ | 146,092 |
| Ending allowance attributable to loans: | | | | | | | | | | | | | | | | |
| Individually evaluated for impairment | \$ | 4,070 | \$ | 17,067 | \$ | 4,038 | \$ | 1,062 | \$ | 7,267 | \$ | 37 | \$ | | \$ | 33,541 |
| Collectively evaluated for impairment | | 21,407 | | 5,704 | | 4,666 | | 27,947 | | 37,998 | | 2,166 | | 12,663 | | 112,551 |
| Total ending allowance balance | \$ | 25,477 | \$ | 22,771 | \$ | 8,704 | \$ | 29,009 | \$ | 45,265 | \$ | 2,203 | \$ | 12,663 | \$ | 146,092 |
| Loans: | | | | | | | | | | | | | | | | |
| Individually evaluated for impairment | \$ | 54,126 | \$ | 52,433 | \$ | 23,844 | \$ | 8,043 | \$ | 44,189 | \$ | 95 | \$ | | \$ | 182,730 |
| Collectively evaluated for impairment | | 1,716,975 | | 376,610 | | 144,687 | | 1,141,635 | | 430,363 | | 116,875 | | | | 3,927,145 |
| Total loans | \$ | 1,771,101 | \$ | 429,043 | \$ | 168,531 | \$ | 1,149,678 | \$ | 474,552 | \$ | 116,970 | \$ | | \$ | 4,109,875 |

In calculating specific reserves, United reviews all loans that are on nonaccrual with a balance of \$500,000 or greater for impairment, as well as accruing substandard relationships greater than \$2 million and all troubled debt restructurings (TDRs). 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. Impaired loans are 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. 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.

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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 accomplished 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.

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.

At September 30, 2012, December 31, 2011 and September 30, 2011, loans with a carrying value of \$1.78 billion, \$1.52 billion and \$1.37 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

The recorded investments in individually evaluated impaired loans at September 30, 2012, December 31, 2011 and September 30, 2011 were as follows (*in thousands*).

| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
|--|-----------------------|----------------------|-----------------------|
| Period-end loans with no allocated allowance for loan losses | \$ 174,113 | \$ 188,509 | \$ 66,636 |
| Period-end loans with allocated allowance for loan losses | 94,442 | 68,750 | 116,094 |
| Total | \$ 268,555 | \$ 257,259 | \$ 182,730 |
| Amount of allowance for loan losses allocated | \$ 12,853 | \$ 14,825 | \$ 33,541 |

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three and nine months ended September 30, 2012 and 2011 (*in thousands*).

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| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Average balance of individually evaluated impaired loans during period | \$ 275,960 | \$ 109,164 | \$ 281,307 | \$ 81,031 |
| Interest income recognized during impairment | 2,110 | 797 | 6,798 | 797 |
| Cash-basis interest income recognized | 2,932 | 630 | 9,340 | 630 |

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

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2012, December 31, 2011 and September 30, 2011 (*in thousands*).

| | September 30, 2012 | | | December 31, 2011 | | | September 30, 2011 | | |
|--|--------------------------------|------------------------|--|--------------------------------|------------------------|--|--------------------------------|------------------------|--|
| | 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 | Allowance for Loan Losses Allocated |
| With no related allowance recorded: | | | | | | | | | |
| Commercial (secured by real estate) | \$ 85,137 | \$ 77,801 | \$ | \$ 82,887 | \$ 76,215 | \$ | \$ 45,242 | \$ 38,242 | \$ |
| Commercial & industrial | 76,247 | 51,247 | | 77,628 | 52,628 | | 48 | 48 | |
| Commercial construction | 17,739 | 16,656 | | 24,927 | 23,609 | | 6,803 | 6,309 | |
| Total commercial | 179,123 | 145,704 | | 185,442 | 152,452 | | 52,093 | 44,599 | |
| Residential mortgage | 11,091 | 8,746 | | 13,845 | 10,804 | | 7,745 | 5,588 | |
| Residential construction | 32,228 | 19,601 | | 38,955 | 25,190 | | 31,646 | 16,421 | |
| Consumer installment | 62 | 62 | | 63 | 63 | | 28 | 28 | |
| Total with no related allowance recorded | 222,504 | 174,113 | | 238,305 | 188,509 | | 91,512 | 66,636 | |
| With an allowance recorded: | | | | | | | | | |
| Commercial (secured by real estate) | 44,590 | 41,222 | 6,692 | 31,806 | 31,616 | 7,491 | 16,173 | 15,884 | 4,070 |
| Commercial & industrial | 2,321 | 2,284 | 725 | 5,200 | 5,200 | 1,117 | 54,259 | 52,385 | 17,067 |
| Commercial construction | 26,476 | 25,593 | 2,289 | 2,636 | 2,636 | 236 | 17,850 | 17,535 | 4,038 |
| Total commercial | 73,387 | 69,099 | 9,706 | 39,642 | 39,452 | 8,844 | 88,282 | 85,804 | 25,175 |
| Residential mortgage | 13,410 | 12,932 | 1,856 | 7,642 | 7,572 | 2,234 | 2,455 | 2,455 | 1,062 |
| Residential construction | 13,105 | 11,975 | 1,270 | 21,629 | 21,497 | 3,731 | 28,428 | 27,768 | 7,267 |
| Consumer installment | 444 | 436 | 21 | 235 | 229 | 16 | 67 | 67 | 37 |
| Total with an allowance recorded | 100,346 | 94,442 | 12,853 | 69,148 | 68,750 | 14,825 | 119,232 | 116,094 | 33,541 |
| Total | \$ 322,850 | \$ 268,555 | \$ 12,853 | \$ 307,453 | \$ 257,259 | \$ 14,825 | \$ 210,744 | \$ 182,730 | \$ 33,541 |

There were no loans more than 90 days past due and still accruing interest at September 30, 2012, December 31, 2011 or September 30, 2011. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment through the general reserve process and individually evaluated impaired loans with larger balances.

The following table presents the recorded investment (unpaid principal less amounts charged-off) in nonaccrual loans by loan class as of September 30, 2012, December 31, 2011 and September 30, 2011 (*in thousands*).

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| | Nonaccrual Loans | | |
|---|-----------------------|----------------------|-----------------------|
| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
| Commercial (secured by real estate) | \$ 25,896 | \$ 27,322 | \$ 21,998 |
| Commercial & industrial | 32,678 | 34,613 | 53,009 |
| Commercial construction | 18,590 | 16,655 | 11,370 |
| | | | |
| Total commercial | 77,164 | 78,590 | 86,377 |
| Residential mortgage | 13,996 | 22,358 | 22,671 |
| Residential construction | 22,935 | 25,523 | 34,472 |
| Consumer installment | 906 | 1,008 | 964 |
| | | | |
| Total | \$ 115,001 | \$ 127,479 | \$ 144,484 |
| | | | |
| Balance as a percentage of unpaid principal | 68.8% | 71.3% | 77.8% |

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

The following table presents the aging of the recorded investment in past due loans as of September 30, 2012, December 31, 2011 and September 30, 2011 by class of loans (*in thousands*).

| As of September 30, 2012 | Loans Past Due | | | Total | Loans Not | |
|-------------------------------------|----------------|--------------|-----------|-----------|--------------|--------------|
| | 30 - 59 Days | 60 - 89 Days | > 90 Days | | Past Due | Total |
| Commercial (secured by real estate) | \$ 5,395 | \$ 5,210 | \$ 11,103 | \$ 21,708 | \$ 1,797,447 | \$ 1,819,155 |
| Commercial & industrial | 1,499 | 295 | 696 | 2,490 | 457,507 | 459,997 |
| Commercial construction | 213 | 880 | 3,838 | 4,931 | 155,834 | 160,765 |
| Total commercial | 7,107 | 6,385 | 15,637 | 29,129 | 2,410,788 | 2,439,917 |
| Residential mortgage | 11,771 | 4,798 | 5,556 | 22,125 | 1,152,111 | 1,174,236 |
| Residential construction | 4,318 | 2,319 | 11,054 | 17,691 | 371,051 | 388,742 |
| Consumer installment | 1,269 | 219 | 394 | 1,882 | 133,068 | 134,950 |
| Total loans | \$ 24,465 | \$ 13,721 | \$ 32,641 | \$ 70,827 | \$ 4,067,018 | \$ 4,137,845 |
| As of December 31, 2011 | | | | | | |
| Commercial (secured by real estate) | \$ 8,036 | \$ 4,182 | \$ 10,614 | \$ 22,832 | \$ 1,798,582 | \$ 1,821,414 |
| Commercial & industrial | 3,869 | 411 | 407 | 4,687 | 423,562 | 428,249 |
| Commercial construction | 166 | | 1,128 | 1,294 | 162,861 | 164,155 |
| Total commercial | 12,071 | 4,593 | 12,149 | 28,813 | 2,385,005 | 2,413,818 |
| Residential mortgage | 15,185 | 4,617 | 9,071 | 28,873 | 1,106,029 | 1,134,902 |
| Residential construction | 3,940 | 2,636 | 10,270 | 16,846 | 431,545 | 448,391 |
| Consumer installment | 1,534 | 308 | 430 | 2,272 | 110,231 | 112,503 |
| Total loans | \$ 32,730 | \$ 12,154 | \$ 31,920 | \$ 76,804 | \$ 4,032,810 | \$ 4,109,614 |
| As of September 30, 2011 | | | | | | |
| Commercial (secured by real estate) | \$ 4,587 | \$ 4,730 | \$ 10,594 | \$ 19,911 | \$ 1,751,190 | \$ 1,771,101 |
| Commercial & industrial | 1,141 | 1,507 | 691 | 3,339 | 425,704 | 429,043 |
| Commercial construction | 149 | 173 | 2,107 | 2,429 | 166,102 | 168,531 |
| Total commercial | 5,877 | 6,410 | 13,392 | 25,679 | 2,342,996 | 2,368,675 |
| Residential mortgage | 13,979 | 3,308 | 12,471 | 29,758 | 1,119,920 | 1,149,678 |
| Residential construction | 2,685 | 2,403 | 14,546 | 19,634 | 454,918 | 474,552 |
| Consumer installment | 1,531 | 404 | 291 | 2,226 | 114,744 | 116,970 |
| Total loans | \$ 24,072 | \$ 12,525 | \$ 40,700 | \$ 77,297 | \$ 4,032,578 | \$ 4,109,875 |

As of September 30, 2012, December 31, 2011, and September 30, 2011, \$10.8 million, \$8.65 million and \$7.75 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 \$377,000, \$1.12 million, and \$1.06 million as of September 30, 2012, December 31, 2011 and September 30, 2011, 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

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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.

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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 September 30, 2012, December 31, 2011 and September 30, 2011 (*dollars in thousands*).

| | September 30, 2012 | | | December 31, 2011 | | | September 30, 2011 | | |
|-------------------------------------|---------------------|--|---|---------------------|--|---|---------------------|--|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial (secured by real estate) | 101 | \$ 84,672 | \$ 79,645 | 74 | \$ 70,380 | \$ 69,054 | 31 | \$ 41,177 | \$ 38,177 |
| Commercial & industrial | 30 | 7,237 | 7,199 | 18 | 806 | 806 | 7 | 304 | 304 |
| Commercial construction | 25 | 37,832 | 35,866 | 11 | 18,053 | 18,053 | 7 | 14,123 | 14,123 |
| Total commercial | 156 | 129,741 | 122,710 | 103 | 89,239 | 87,913 | 45 | 55,604 | 52,604 |
| Residential mortgage | 114 | 18,226 | 17,487 | 80 | 11,943 | 11,379 | 16 | 2,792 | 2,635 |
| Residential construction | 73 | 28,629 | 24,772 | 54 | 24,921 | 24,145 | 46 | 21,369 | 20,374 |
| Consumer installment | 50 | 1,371 | 1,363 | 34 | 298 | 293 | 3 | 95 | 95 |
| Total loans | 393 | \$ 177,967 | \$ 166,332 | 271 | \$ 126,401 | \$ 123,730 | 110 | \$ 79,860 | \$ 75,708 |

Loans modified under the terms of a TDR during the three and nine months ended September 30, 2012 and 2011 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 and nine months ended September 30, 2012 and 2011, respectively, that were initially restructured within one year prior to the three and nine months ended September 30, 2012, respectively (*dollars in thousands*).

| Troubled Debt Restructurings for the Three Months Ended September 30, | Number of Contracts | Pre-Modification | Post-Modification | Subsequently Defaulted During the Three Months Ended September 30, 2012 | |
|--|---------------------|---------------------------------|---------------------------------|---|---------------------|
| | | Outstanding Recorded Investment | Outstanding Recorded Investment | Number of Contracts | Recorded Investment |
| 2012 | | | | | |
| Commercial (secured by real estate) | 13 | \$ 7,914 | \$ 7,836 | 3 | \$ 324 |
| Commercial & industrial | 3 | 162 | 162 | | |
| Commercial construction | 6 | 5,531 | 5,451 | | |
| Total commercial | 22 | 13,607 | 13,449 | 3 | 324 |
| Residential mortgage | 15 | 2,252 | 2,102 | 2 | 47 |
| Residential construction | 12 | 6,569 | 6,188 | 10 | 2,953 |
| Consumer installment | 7 | 44 | 43 | 1 | 2 |
| Total loans | 56 | \$ 22,472 | \$ 21,782 | 16 | \$ 3,326 |

| Troubled Debt Restructurings for the Nine Months Ended September 30, 2012 | Number of Contracts | Pre- | Post- | Subsequently Defaulted During the Nine Months Ended September 30, 2012 | |
|---|---------------------------|---|---|---|------------------------|
| | | Modification Outstanding Recorded Investment | Modification Outstanding Recorded Investment | Number of Contracts | Recorded Investment |
| Commercial (secured by real estate) | 47 | \$ 30,828 | \$ 29,305 | 6 | \$ 2,631 |
| Commercial & industrial | 20 | 3,484 | 3,484 | 2 | 48 |
| Commercial construction | 20 | 34,014 | 33,934 | 2 | 4,174 |
| Total commercial | 87 | 68,326 | 66,723 | 10 | 6,853 |
| Residential mortgage | 59 | 12,819 | 12,487 | 6 | 447 |
| Residential construction | 46 | 17,958 | 15,738 | 14 | 4,550 |
| Consumer installment | 22 | 314 | 308 | 2 | 8 |
| Total loans | 214 | \$ 99,417 | \$ 95,256 | 32 | \$ 11,858 |

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

As of September 30, 2012, December 31, 2011 and September 30, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (*in thousands*).

| | Pass | Watch | Substandard | Doubtful / Loss | Not Rated | Total |
|-------------------------------------|--------------|------------|-------------|-----------------------|-----------|--------------|
| As of September 30, 2012 | | | | | | |
| Commercial (secured by real estate) | \$ 1,591,322 | \$ 75,606 | \$ 152,227 | \$ | \$ | \$ 1,819,155 |
| Commercial & industrial | 403,460 | 4,179 | 51,418 | | 940 | 459,997 |
| Commercial construction | 108,909 | 6,086 | 45,770 | | | 160,765 |
| Total commercial | 2,103,691 | 85,871 | 249,415 | | 940 | 2,439,917 |
| Residential mortgage | 1,051,402 | 36,640 | 86,194 | | | 1,174,236 |
| Residential construction | 292,003 | 38,635 | 58,104 | | | 388,742 |
| Consumer installment | 130,277 | 881 | 3,792 | | | 134,950 |
| Total loans | \$ 3,577,373 | \$ 162,027 | \$ 397,505 | \$ | \$ 940 | \$ 4,137,845 |
| As of December 31, 2011 | | | | | | |
| Commercial (secured by real estate) | \$ 1,561,204 | \$ 89,830 | \$ 170,380 | \$ | \$ | \$ 1,821,414 |
| Commercial & industrial | 369,343 | 7,630 | 50,366 | | 910 | 428,249 |
| Commercial construction | 114,817 | 14,173 | 35,165 | | | 164,155 |

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| | | | | | |
|--------------------------|-----------|---------|---------|-----|-----------|
| Total commercial | 2,045,364 | 111,633 | 255,911 | 910 | 2,413,818 |
| Residential mortgage | 993,779 | 42,323 | 98,800 | | 1,134,902 |
| Residential construction | 312,527 | 38,386 | 97,478 | | 448,391 |
| Consumer installment | 107,333 | 1,411 | 3,759 | | 112,503 |

| | | | | | |
|-------------|--------------|------------|------------|--------|--------------|
| Total loans | \$ 3,459,003 | \$ 193,753 | \$ 455,948 | \$ 910 | \$ 4,109,614 |
|-------------|--------------|------------|------------|--------|--------------|

As of September 30, 2011

| | | | | | |
|-------------------------------------|--------------|-----------|------------|--------|--------------|
| Commercial (secured by real estate) | \$ 1,520,604 | \$ 94,147 | \$ 156,350 | \$ 880 | \$ 1,771,101 |
| Commercial & industrial | 337,796 | 6,986 | 83,381 | | 429,043 |
| Commercial construction | 115,021 | 15,611 | 37,899 | | 168,531 |

| | | | | | |
|--------------------------|-----------|---------|---------|-----|-----------|
| Total commercial | 1,973,421 | 116,744 | 277,630 | 880 | 2,368,675 |
| Residential mortgage | 1,012,423 | 37,892 | 99,363 | | 1,149,678 |
| Residential construction | 320,567 | 43,340 | 110,645 | | 474,552 |
| Consumer installment | 112,457 | 847 | 3,666 | | 116,970 |

| | | | | | |
|-------------|--------------|------------|------------|--------|--------------|
| Total loans | \$ 3,418,868 | \$ 198,823 | \$ 491,304 | \$ 880 | \$ 4,109,875 |
|-------------|--------------|------------|------------|--------|--------------|

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 7 Foreclosed Property**

Major classifications of foreclosed properties at September 30, 2012, December 31, 2011 and September 30, 2011 are summarized as follows (*in thousands*).

| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
|---|-----------------------|----------------------|-----------------------|
| Commercial real estate | \$ 9,613 | \$ 10,866 | \$ 11,873 |
| Commercial construction | 3,121 | 3,336 | 5,862 |
| Total commercial | 12,734 | 14,202 | 17,735 |
| Residential mortgage | 6,509 | 7,840 | 9,397 |
| Residential construction | 19,043 | 29,799 | 42,295 |
| Total foreclosed property | 38,286 | 51,841 | 69,427 |
| Less valuation allowance | 11,328 | 18,982 | 25,164 |
| Foreclosed property, net | \$ 26,958 | \$ 32,859 | \$ 44,263 |
| Balance as a percentage of original loan unpaid principal | 36.4% | 35.9% | 33.4% |

Activity in the valuation allowance for foreclosed property is presented in the following table (*in thousands*).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance at beginning of period | \$ 11,872 | \$ 30,386 | \$ 18,982 | \$ 16,565 |
| Additions charged to expense | 2,394 | 1,772 | 5,513 | 53,475 |
| Direct write downs | (2,938) | (6,994) | (13,167) | (44,876) |
| Balance at end of period | \$ 11,328 | \$ 25,164 | \$ 11,328 | \$ 25,164 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net loss (gain) on sales | \$ 350 | \$ (804) | \$ 174 | \$ 7,998 |
| Provision for unrealized losses | 2,394 | 1,772 | 5,513 | 53,475 |
| Operating expenses | 962 | 1,845 | 3,695 | 8,130 |
| Total foreclosed property expense | \$ 3,706 | \$ 2,813 | \$ 9,382 | \$ 69,603 |

Note 8 Earnings Per Share

United is required to report on the face of the consolidated statement of operations, earnings (loss) per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings (loss) 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.

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

During the three and nine months ended September 30, 2012 and 2011, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (*in thousands*).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Series A - 6% fixed | \$ 3 | \$ 3 | \$ 9 | \$ 10 |
| Series B - 5% fixed until December 6, 2013, 9% thereafter | 2,619 | 2,598 | 7,841 | 7,798 |
| Series D - LIBOR plus 9.6875%, resets quarterly | 419 | 418 | 1,253 | 1,005 |
| Total preferred stock dividends | \$ 3,041 | \$ 3,019 | \$ 9,103 | \$ 8,813 |

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 (loss) in order to arrive at net income (loss) available to common shareholders. There were no dilutive securities outstanding for the three and nine months ended September 30, 2012. There is no dilution from potentially dilutive securities for the three and nine months ended September 30, 2011, due to the anti-dilutive effect of the net loss for those periods.

The following table sets forth the computation of basic and diluted loss per share for the three and nine months ended September 30, 2012 and 2011 (*in thousands, except per share data*).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) available to common shareholders | \$ 7,527 | \$ (14,358) | \$ 19,492 | \$ (245,460) |
| Weighted average shares outstanding: | | | | |
| Basic | 57,880 | 57,599 | 57,826 | 33,973 |
| Effect of dilutive securities | | | | |
| Convertible securities | | | | |
| Stock options | | | | |
| Warrants | | | | |
| Diluted | 57,880 | 57,599 | 57,826 | 33,973 |
| Earnings (loss) per common share: | | | | |
| Basic | \$.13 | \$ (.25) | \$.34 | \$ (7.23) |
| Diluted | \$.13 | \$ (.25) | \$.34 | \$ (7.23) |

At September 30, 2012, 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

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of \$100 per share; 486,405 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$97.80; 488,850 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 owned by Elm Ridge Off Shore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the Elm Ridge Parties), exercisable at \$12.50 per share.

During the third quarter, the rights of Fletcher to purchase \$65 million in convertible preferred stock expired. Such preferred stock would have been convertible at \$26.25 per share into 2,476,191 common shares and, if those rights to preferred stock had been exercised, would have also resulted into the issuance of warrants that were indirectly convertible into 1,162,791 common shares at a price equivalent to \$30.10 per share. As previously disclosed on United s Current Report on Form 8-K filed on July 6, 2012 and Quarterly Report on Form 10-Q for the second quarter of 2012, FILB Co-Investments LLC (FILB) has sued United based on claims arising from purported contractual rights that FILB claims were assigned to it by Fletcher. FILB alleges that, among other things, the investment period with respect to FILB s purportedly assigned right to purchase United s preferred stock is continuing due to an alleged registration failure under the Fletcher stock purchase agreement. United believes the lawsuit is meritless for several reasons, and is defending it aggressively.

Table of Contents**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 September 30, 2012, December 31, 2011 and September 30, 2011 (*in thousands*).

Derivatives accounted for as hedges under ASC 815

| | Balance Sheet Location | September 30, 2012 | Fair Value December 31, 2011 | September 30, 2011 |
|-------------------------------|------------------------|--------------------|------------------------------|--------------------|
| Interest Rate Products | | | | |
| Asset derivatives | Other assets | \$ 182 | \$ | \$ |
| Liability derivatives | Other liabilities | \$ 9,758 | \$ 422 | \$ |

Derivatives not accounted for as hedges under ASC 815

| | Balance Sheet Location | September 30, 2012 | Fair Value December 31, 2011 | September 30, 2011 |
|-------------------------------|------------------------|--------------------|------------------------------|--------------------|
| Interest Rate Products | | | | |
| Asset derivatives | Other assets | \$ 596 | \$ | \$ |
| Liability derivatives | Other liabilities | \$ 605 | \$ | \$ |

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 September 30, 2012, 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.

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United's current cash flow hedges are for the purpose of converting variable rate deposits and wholesale borrowings to a fixed rate to protect the company in a rising rate environment. The swaps are forward starting and do not become effective until 2014. At September 30, 2012, United had five swap contracts outstanding with a total notional amount of \$400 million that were designated as cash flow hedges. United had no active derivative contracts outstanding at December 31, 2011 or September 30, 2011 that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated, and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. 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 September 30, 2012, 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. Such gains are being deferred and recognized

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

over the remaining life of the contract on a straight line basis. During the three and nine months ended September 30, 2012, United accelerated the reclassification of \$114,000 and \$238,000, 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 an additional \$1.54 million of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in 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 amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. At September 30, 2012, United had nine interest rate swaps with an aggregate notional amount of \$122 million that were designated as fair value hedges of interest rate risk. As of September 30, 2011, United had no active derivatives designated as fair value hedges of interest rate risk.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2012, United recognized net gains of \$766,000 and \$577,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$745,000 and \$1.57 million for the three and nine months ended September 30, 2012, related to United's fair value hedges, which includes net settlements on the derivatives. There were no active fair value hedges during the first nine months of 2011.

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

The tables below present the effect of United's derivative financial instruments on the consolidated statement of operations for the three and nine months ended September 30, 2012 and 2011.

Derivatives in Fair Value Hedging Relationships (in thousands).

| Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income on Derivative | | Amount of Gain (Loss) Recognized in Income on Hedged Item | |
|---|---|------|--|------|
| | 2012 | 2011 | 2012 | 2011 |
| on Derivative | | | | |
| Three Months Ended September 30, | | | | |
| Other fee revenue | \$ 922 | \$ | \$ (156) | \$ |
| Nine Months Ended September 30, | | | | |
| Other fee revenue | \$ 1,745 | \$ | \$ (1,168) | \$ |

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) |
|---|--|
|---|--|

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| | 2012 | 2011 | Location | 2012 | 2011 |
|---|------------|------|------------------|----------|-----------|
| Three Months Ended September 30, | | | | | |
| | | | Interest revenue | \$ 649 | \$ 2,373 |
| | | | Other income | 114 | 575 |
| Interest rate products | \$ (3,943) | \$ | Total | \$ 763 | \$ 2,948 |
| Nine Months Ended September 30, | | | | | |
| | | | Interest revenue | \$ 2,839 | \$ 7,885 |
| | | | Other income | 238 | 4,687 |
| Interest rate products | \$ (8,798) | \$ | Total | \$ 3,077 | \$ 12,572 |

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****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 September 30, 2012, collateral totaling \$11.1 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.

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 plan). As of September 30, 2012, 1,203,000 additional awards could be granted under the plan. Through September 30, 2012, 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 nine months of 2012.

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (\$000) |
|-----------------------------------|----------|---------------------------------|---|-----------------------------------|
| Outstanding at December 31, 2011 | 583,647 | \$ 94.48 | | |
| Forfeited | (2,562) | 47.63 | | |
| Expired | (94,680) | 78.73 | | |
| Outstanding at September 30, 2012 | 486,405 | 97.80 | 3.8 | \$ |
| Exercisable at September 30, 2012 | 465,090 | 101.18 | 3.7 | |

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 nine month periods ended September 30, 2012. 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.

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

| | Nine Months Ended | |
|--------------------------|-------------------|--------|
| | September 30, | |
| | 2012 | 2011 |
| Expected volatility | NA | 33.00% |
| Expected dividend yield | NA | 0.00% |
| Expected life (in years) | NA | 5.00 |
| Risk-free rate | NA | 2.05% |

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

Compensation expense relating to stock options of \$190,000 and \$651,000 was included in earnings for the nine months ended September 30, 2012 and 2011, respectively. Deferred tax benefits of \$74,000 and \$253,000, respectively, were included in the determination of income tax expense for the nine month periods ended September 30, 2012 and 2011. 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 nine months of 2012 or 2011.

The table below presents the activity in restricted stock and restricted stock unit awards for the first nine months of 2012.

| Restricted Stock | Shares | Weighted-Average Grant-Date Fair Value |
|--|----------------|---|
| Outstanding at December 31, 2011 | 414,644 | \$ 12.19 |
| Granted | 194,854 | 8.73 |
| Exercised | (108,915) | 15.09 |
| Cancelled | (11,733) | 10.25 |
| Outstanding at September 30, 2012 | 488,850 | 10.72 |
| Vested at September 30, 2012 | 15,490 | 35.62 |

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 nine months ended September 30, 2012 and 2011, compensation expense of \$1.18 million and \$779,000, respectively, was recognized related to restricted stock and restricted stock unit awards. The total intrinsic value of restricted stock and restricted stock units was \$4.10 million at September 30, 2012.

As of September 30, 2012, there was \$4.01 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 2.14 years. The aggregate grant date fair value of options and restricted stock and restricted stock unit awards that vested during the nine months ended September 30, 2012, was \$2.47 million.

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 nine months ended September 30, 2012 and 2011, United issued 87,086 and 113,787 shares, respectively, and increased capital by \$702,000 and \$1.10 million, 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 September 30, 2012 and 2011, 129,270 and 88,501 shares, respectively, were issuable under the deferred compensation plan.

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On February 22, 2011, United entered into a Share Exchange Agreement with the Elm Ridge Parties. Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to United 1,551,126 shares of United's common stock in exchange for 16,613 shares of United's cumulative perpetual preferred stock, Series D, and warrants to purchase 1,551,126 common shares with an exercise price of \$12.50 per share that expires on August 22, 2013. This exchange transaction did not result in a net increase or decrease to total shareholders' equity for the year ended December 31, 2011.

Table of Contents**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 12 Assets and Liabilities Measured at Fair Value****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of September 30, 2012, December 31, 2011 and September 30, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall (*in thousands*).

| September 30, 2012 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|-----------------|---------------------|----------------|---------------------|
| Assets | | | | |
| Securities available for sale: | | | | |
| State and political subdivisions | \$ | \$ 28,878 | \$ | \$ 28,878 |
| Mortgage-backed securities | | 1,382,940 | | 1,382,940 |
| Corporate bonds | | 142,802 | 350 | 143,152 |
| Asset-backed securities | | 204,429 | | 204,429 |
| Other | | 2,595 | | 2,595 |
| Deferred compensation plan assets | 3,072 | | | 3,072 |
| Derivative financial instruments | | 778 | | 778 |
| Total | \$ 3,072 | \$ 1,762,422 | \$ 350 | \$ 1,765,844 |
| Liabilities | | | | |
| Deferred compensation plan liability | \$ 3,072 | \$ | \$ | \$ 3,072 |
| Brokered certificates of deposit | | 122,211 | | 122,211 |
| Derivative financial instruments | | 10,363 | | 10,363 |
| Total liabilities | \$ 3,072 | \$ 132,574 | \$ | \$ 135,646 |
| | | | | |
| December 31, 2011 | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Securities available for sale: | | | | |
| U.S. Government agencies | \$ | \$ 43,750 | \$ | \$ 43,750 |
| State and political subdivisions | | 26,339 | | 26,339 |
| Mortgage-backed securities | | 1,609,909 | | 1,609,909 |
| Corporate bonds | | 107,328 | 350 | 107,678 |
| Other | | 2,371 | | 2,371 |
| Deferred compensation plan assets | 2,859 | | | 2,859 |
| Total | \$ 2,859 | \$ 1,789,697 | \$ 350 | \$ 1,792,906 |
| Liabilities | | | | |
| Deferred compensation plan liability | \$ 2,859 | \$ | \$ | \$ 2,859 |
| Brokered certificates of deposit | | 13,107 | | 13,107 |
| Derivative financial instruments | | 422 | | 422 |
| Total liabilities | \$ 2,859 | \$ 13,529 | \$ | \$ 16,388 |

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

| September 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|-----------------|---------------------|-----------------|---------------------|
| Assets | | | | |
| Securities available for sale: | | | | |
| U.S. Government agencies | \$ | \$ 33,706 | \$ | \$ 33,706 |
| State and political subdivisions | | 26,831 | | 26,831 |
| Mortgage-backed securities | | 1,591,604 | 3,796 | 1,595,400 |
| Corporate bonds | | 110,292 | 350 | 110,642 |
| Other | | 2,504 | | 2,504 |
| Deferred compensation plan assets | 2,659 | | | 2,659 |
| Total | \$ 2,659 | \$ 1,764,937 | \$ 4,146 | \$ 1,771,742 |
| Liabilities | | | | |
| Deferred compensation plan liability | \$ 2,659 | \$ | \$ | \$ 2,659 |
| Total liabilities | \$ 2,659 | \$ | \$ | \$ 2,659 |

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

| | Securities Available for Sale Three Months Ended September 30, | | Securities Available for Sale Nine Months Ended September 30, | |
|---------------------------------|--|-----------------|---|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance at beginning of period | \$ 350 | \$ 4,479 | \$ 350 | \$ 5,284 |
| Amounts included in earnings | | (5) | | (18) |
| Paydowns | | (328) | | (1,120) |
| Balance at end of period | \$ 350 | \$ 4,146 | \$ 350 | \$ 4,146 |

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 September 30, 2012, December 31, 2011 and September 30, 2011, aggregated by the level in the fair value hierarchy within which those measurements fall (*in thousands*).

| September 30, 2012 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|-----------|-----------|-------------------|-------------------|
| Assets | | | | |
| Loans | \$ | \$ | \$ 172,909 | \$ 172,909 |
| Foreclosed properties | | | 20,369 | 20,369 |
| Total | \$ | \$ | \$ 193,278 | \$ 193,278 |

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

| December 31, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|----------------|----------------|----------------|--------------|
| Assets | | | | |
| Loans | \$ | \$ | \$ 133,828 | \$ 133,828 |
| Foreclosed properties | | | 29,102 | 29,102 |
| Total | \$ | \$ | \$ 162,930 | \$ 162,930 |
| | | | | |
| September 30, 2011 | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Loans | \$ | \$ | \$ 140,577 | \$ 140,577 |
| Foreclosed properties | | | 38,823 | 38,823 |
| Total | \$ | \$ | \$ 179,400 | \$ 179,400 |

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, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet 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.

Table of Contents**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 September 30, 2012, December 31, 2011, and September 30, 2011 are as follows (*in thousands*).

| | Carrying Amount | September 30, 2012 Fair Value Level | | | Total |
|---------------------------------|--------------------|--|------------|-----------|------------|
| | | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Securities held to maturity | \$ 262,648 | \$ | \$ 281,336 | \$ | \$ 281,336 |
| Loans, net | 4,030,203 | | | 3,954,607 | 3,954,607 |
| Liabilities: | | | | | |
| Deposits | 5,822,699 | | 5,848,540 | | 5,848,540 |
| Federal Home Loan Bank advances | 50,125 | | 50,125 | | 50,125 |
| Long-term debt | 120,285 | | | 113,624 | 113,624 |

| | December 31, 2011 | | September 30, 2011 | |
|---------------------------------|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Securities held to maturity | \$ 330,203 | \$ 343,531 | \$ 353,739 | \$ 369,020 |
| Loans, net | 3,995,146 | 3,800,343 | 3,963,783 | 3,787,214 |
| Liabilities: | | | | |
| Deposits | 6,097,983 | 6,093,772 | 6,005,305 | 5,998,994 |
| Federal Home Loan Bank advances | 40,625 | 43,236 | 40,625 | 43,685 |
| Long-term debt | 120,225 | 115,327 | 120,206 | 114,673 |

Note 13 Reclassification

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. On June 17, 2011, United completed the reclassification of its common stock in the form of a 1-for-5 reverse stock split, or recombination, whereby each five shares of United's common stock was reclassified into one share of common stock and each five shares of United's non-voting common stock was reclassified into one share of non-voting common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

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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 or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and 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/A for the year ended December 31, 2011, 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;

the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy were to continue to deteriorate;

our ability to raise capital as may be necessary;

our ability to maintain liquidity or access other sources of funding;

changes in the cost and availability of funding;

the success of the local economies in which we operate;

our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;

changes in prevailing interest rates may negatively affect our net income and the value of our assets;

the accounting and reporting policies of United;

if our allowance for loan losses is not sufficient to cover actual loan losses;

we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;

competition from financial institutions and other financial service providers;

the U.S. Treasury may change the terms of our fixed rate cumulative perpetual preferred stock, Series B (the Series B preferred stock);

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 Wall Street Reform Act of 2010 and related regulations and other changes in financial services laws and regulations;

the failure of other financial institutions;

a special assessment that may be imposed by the Federal Deposit Insurance Corporation (the FDIC) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings;

the formal investigation by the Securities and Exchange Commission (the SEC) or any penalty, sanction or further restatement of our previously issued financial statements that may result from such investigation;

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 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.

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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 September 30, 2012, United had total consolidated assets of \$6.70 billion, total loans of \$4.14 billion, excluding the loans acquired from Southern Community Bank (SCB) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of \$5.82 billion and shareholders' equity of \$585 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, Georgia metropolitan statistical area (the Atlanta MSA), the Gainesville, Georgia metropolitan statistical area (the Gainesville MSA), coastal Georgia, western North Carolina, and east Tennessee.

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 35.

United reported a net income of \$10.6 million for the third quarter of 2012. This compared to a net loss of \$11.3 million for the third quarter of 2011. Diluted earnings per common share was \$.13 for the third quarter of 2012, compared to diluted loss per common share of \$.25 for the third quarter of 2011.

For the nine months ended September 30, 2012, United reported net income of \$28.6 million. This compared to a net loss of \$237 million for the first nine months of 2011, which reflects the credit losses taken in the first quarter associated with United's problem asset disposition plan (the Problem Asset Disposition Plan). United's Board of Directors adopted the Problem Asset Disposition Plan in the first quarter of 2011 following a private placement transaction that raised \$380 million in new capital (the Private Placement). Diluted earnings per common share was \$.34 for the nine months ended September 30, 2012, compared with a loss per common share of \$7.23 for the same period in 2011.

United's provision for loan losses was \$15.5 million for the three months ended September 30, 2012, compared to \$36.0 million for the same period in 2011. The third quarter 2011 provision for loan losses included \$25.0 million specifically related to United's largest lending relationship. Net charge-offs for the third quarter of 2012 were \$20.6 million, compared to \$17.5 million for the third quarter of 2011. For the nine months ended September 30, 2012, United's provision for loan losses was \$48.5 million, compared to \$237 million for the same period of 2011. Net charge-offs for the first nine months of 2012 were \$55.3 million, compared to \$266 million for the first nine months of 2011.

Since the execution of the Problem Asset Disposition Plan in the first quarter of 2011, United's allowance for loan losses analysis has indicated a lower allowance requirement each quarter than the previous quarter resulting in provisions for loan losses that fall below the amount of net charge-offs. The only exception was the third quarter of 2011 due to the classification of United's largest lending relationship. As United's historical loss experience and other credit measures have improved, the amount of estimated loss inherent in the loan portfolio, as measured by United's quarterly analysis of the allowance for loan losses, has decreased accordingly. In addition, third quarter 2012 net charge-offs included \$4.71 million of charge-offs related to note sales and short sales of the collateral underlying certain notes of which \$3.57 million of specific reserves had been established in the second quarter.

During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of \$166 million and nonperforming loans with a pre-charge down carrying amount of \$101 million were collectively written down to the expected sales proceeds of \$80.6 million, in conjunction with a bulk loan sale that was part of the Problem Asset Disposition Plan (the Bulk Loan Sale). United recognized net charge-offs of \$186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter 2011 charge-offs of \$7.27 million.

As of September 30, 2012, United's allowance for loan losses was \$108 million, or 2.60% of loans, compared to \$146 million, or 3.55% of loans, at September 30, 2011. Nonperforming assets of \$142 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 2.12% of total assets at September 30, 2012 from 2.74% as of September 30, 2011. Nonperforming asset levels are impacted significantly by the inflow of new nonperforming loans and United's ability to liquidate foreclosed properties. During the third quarter of 2011, United classified its largest lending relationship of \$76.6 million, which caused nonperforming assets to increase for that period. Since

that time, nonperforming assets have trended downward.

Taxable equivalent net interest revenue was \$57.4 million for the third quarter of 2012, compared to \$59.3 million for the same period of 2011. The decrease in net interest revenue was primarily the result of the lower yields on the loan and securities portfolios, which were due to intense loan pricing competition and reinvestment of maturing securities proceeds at record low rates as well as \$179

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million in lower average investment securities balances for the quarter. Average loans for the quarter declined \$46.7 million from the third quarter of 2011. The impact of the decrease in average loan balances was substantially offset by lower deposit rates. Net interest margin increased from 3.55% for the three months ended September 30, 2011 to 3.60% for the same period in 2012. For the nine months ended September 30, 2012, taxable equivalent net interest revenue was \$173 million, compared to \$175 million for the same period of 2011. Net interest margin increased from 3.42% for the nine months ended September 30, 2011 to 3.52% for the same period in 2012.

Fee revenue increased \$2.27 million, or 20%, from the third quarter of 2011 and increased \$4.77 million, or 13%, from the first nine months of 2011. The quarterly and year to date increases were due to higher mortgage loan and related fees as well as an increase in service charges and fees. Mortgage refinancing activity continued to accelerate through the third quarter of 2012, as mortgage rates fell to record low levels. New service fees on demand deposit accounts that became effective January 1, 2012 more than offset lower overdraft fees.

For the third quarter of 2012, operating expenses of \$44.8 million were down \$1.74 million from the third quarter of 2011. Lower salary and employee benefits accounted for \$2.34 million of the decrease and were partially offset by 893,000 in higher foreclosed property costs. For the nine months ended September 30, 2012, operating expenses of \$136 million were down \$74.5 million from the same period of 2011. Foreclosed property costs were down \$60.2 million from the first nine months of 2011, due to the writedowns taken in 2011 associated with the Problem Asset Disposition Plan. In addition, salaries and employee benefits were down \$4.18 million and FDIC assessments and other regulatory charges were down \$4.07 million for the nine months ended September 30, 2012 compared to the same period in 2011.

Recent Developments

On October 3, 2012, United completed a private offering (the Offering) of \$35 million aggregate principal amount of 9.0% Senior Notes due 2017 (the Notes). The Notes were sold to three institutional purchasers (the Purchasers) at an offering price of 100% of face amount. Sandler O'Neill & Partners, L.P. served as the placement agent. The proceeds from the Offering of the Notes will be used for general corporate purposes and, principally, to repay \$30.5 million in subordinated debt of United that matures on December 15, 2012.

The Notes were issued pursuant to an indenture (the Indenture), dated as of October 3, 2012, between United and Wilmington Trust, National Association, as trustee. Interest on the Notes will be payable semi-annually on April 15 and October 15 of each year, beginning on April 15, 2013. The Notes are not redeemable and will mature on October 15, 2017. The Indenture contains covenants that, among other things, limit the ability of United to create liens on the stock of its bank subsidiary.

In connection with the Offering, United agreed to use its commercially reasonable efforts to file within 90 days with the SEC and cause to become effective, a resale registration statement for the benefit of the Purchasers relating to their potential resale of the Notes.

As previously disclosed on United's Current Report on Form 8-K filed on October 22, 2012, United's Audit Committee, after a thorough and a competitive process, authorized management to engage PricewaterhouseCoopers LLP (PwC) as its independent registered public accounting firm for the year ending December 31, 2013. PwC will replace the current independent registered public accounting firm, Porter Keadle Moore, LLC, upon the completion of the audit for the year ending December 31, 2012.

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

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not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 35.

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

| <i>(in thousands, except per share data; taxable equivalent)</i> | 2012 | | 2011 | | Third Quarter | | For the Nine Months Ended | | YTD |
|--|-----------------|-----------------|-----------------|-----------------|--------------------|------------------|---------------------------|---------------------|------------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | 2012-2011 Change | 2012 | 2011 | 2012-2011 Change |
| INCOME SUMMARY | | | | | | | | | |
| Interest revenue | \$ 65,978 | \$ 66,780 | \$ 70,221 | \$ 71,905 | \$ 74,543 | | \$ 202,979 | \$ 227,439 | |
| Interest expense | 8,607 | 9,944 | 11,357 | 12,855 | 15,262 | | 29,908 | 52,820 | |
| Net interest revenue | 57,371 | 56,836 | 58,864 | 59,050 | 59,281 | (3) % | 173,071 | 174,619 | (1) % |
| Provision for loan losses | 15,500 | 18,000 | 15,000 | 14,000 | 36,000 | | 48,500 | 237,000 | |
| Fee revenue | 13,764 | 12,867 | 15,379 | 12,667 | 11,498 | 20 | 42,010 | 37,241 | 13 |
| Total revenue | 55,635 | 51,703 | 59,243 | 57,717 | 34,779 | | 166,581 | (25,140) | |
| Operating expenses | 44,783 | 44,310 | 46,955 | 51,080 | 46,520 | (4) | 136,048 | 210,519 | (35) |
| Income (loss) before income taxes | 10,852 | 7,393 | 12,288 | 6,637 | (11,741) | | 30,533 | (235,659) | |
| Income tax expense (benefit) | 284 | 894 | 760 | (3,264) | (402) | | 1,938 | 988 | |
| Net income (loss) | 10,568 | 6,499 | 11,528 | 9,901 | (11,339) | | 28,595 | (236,647) | |
| Preferred dividends and discount accretion | 3,041 | 3,032 | 3,030 | 3,025 | 3,019 | | 9,103 | 8,813 | |
| Net income (loss) available to common shareholders | \$ 7,527 | \$ 3,467 | \$ 8,498 | \$ 6,876 | \$ (14,358) | | \$ 19,492 | \$ (245,460) | |
| PERFORMANCE MEASURES | | | | | | | | | |
| Per common share: | | | | | | | | | |
| Diluted income (loss) | \$.13 | \$.06 | \$.15 | \$.12 | \$ (.25) | | \$.34 | \$ (7.23) | |
| Book value | 6.75 | 6.61 | 6.68 | 6.62 | 6.77 | | 6.75 | 6.77 | |
| Tangible book value ⁽²⁾ | 6.64 | 6.48 | 6.54 | 6.47 | 6.61 | | 6.64 | 6.61 | |
| Key performance ratios: | | | | | | | | | |
| Return on equity ⁽¹⁾⁽³⁾ | 7.43% | 3.51% | 8.78% | 7.40% | (15.06) % | | 6.57% | (151.32)% | |
| Return on assets ⁽³⁾ | .63 | .37 | .66 | .56 | (.64) | | .53 | (4.37) | |
| Net interest margin ⁽³⁾ | 3.60 | 3.43 | 3.53 | 3.51 | 3.55 | | 3.52 | 3.42 | |
| Efficiency ratio | 62.95 | 63.84 | 63.31 | 71.23 | 65.73 | | 63.36 | 99.39 | |
| Equity to assets | 8.75 | 8.33 | 8.19 | 8.28 | 8.55 | | 8.42 | 7.58 | |
| Tangible equity to assets ⁽²⁾ | 8.66 | 8.24 | 8.08 | 8.16 | 8.42 | | 8.32 | 7.47 | |
| Tangible common equity to assets ⁽²⁾ | 5.73 | 5.45 | 5.33 | 5.38 | 5.65 | | 5.50 | 3.23 | |
| Tangible common equity to risk-weighted assets ⁽²⁾ | 8.44 | 8.37 | 8.21 | 8.25 | 8.52 | | 8.44 | 8.52 | |
| ASSET QUALITY * | | | | | | | | | |
| Non-performing loans | \$ 115,001 | \$ 115,340 | \$ 129,704 | \$ 127,479 | \$ 144,484 | | \$ 115,001 | \$ 144,484 | |
| Foreclosed properties | 26,958 | 30,421 | 31,887 | 32,859 | 44,263 | | 26,958 | 44,263 | |

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| | | | | | | | | | |
|---|----------|----------|----------|----------|----------|-----|----------|----------|-----|
| Total non-performing assets (NPAs) | 141,959 | 145,761 | 161,591 | 160,338 | 188,747 | | 141,959 | 188,747 | |
| Allowance for loan losses | 107,642 | 112,705 | 113,601 | 114,468 | 146,092 | | 107,642 | 146,092 | |
| Net charge-offs | 20,563 | 18,896 | 15,867 | 45,624 | 17,546 | | 55,326 | 265,603 | |
| Allowance for loan losses to loans | 2.60% | 2.74% | 2.75% | 2.79% | 3.55% | | 2.60% | 3.55% | |
| Net charge-offs to average loans ⁽³⁾ | 1.99 | 1.85 | 1.55 | 4.39 | 1.68 | | 1.80 | 8.28 | |
| NPAs to loans and foreclosed properties | 3.41 | 3.51 | 3.88 | 3.87 | 4.54 | | 3.41 | 4.54 | |
| NPAs to total assets | 2.12 | 2.16 | 2.25 | 2.30 | 2.74 | | 2.12 | 2.74 | |
| AVERAGE BALANCES | | | | | | | | | |
| <i>(\$ in millions)</i> | | | | | | | | | |
| Loans | \$ 4,147 | \$ 4,156 | \$ 4,168 | \$ 4,175 | \$ 4,194 | (1) | \$ 4,157 | \$ 4,352 | (4) |
| Investment securities | 1,971 | 2,145 | 2,153 | 2,141 | 2,150 | (8) | 2,089 | 1,952 | 7 |
| Earning assets | 6,346 | 6,665 | 6,700 | 6,688 | 6,630 | (4) | 6,569 | 6,817 | (4) |
| Total assets | 6,648 | 6,993 | 7,045 | 7,019 | 7,000 | (5) | 6,894 | 7,246 | (5) |
| Deposits | 5,789 | 5,853 | 6,028 | 6,115 | 6,061 | (4) | 5,890 | 6,329 | (7) |
| Shareholders' equity | 582 | 583 | 577 | 581 | 598 | (3) | 580 | 549 | 6 |
| Common shares - basic (thousands) | 57,880 | 57,840 | 57,764 | 57,646 | 57,599 | | 57,826 | 33,973 | |
| Common shares - diluted (thousands) | 57,880 | 57,840 | 57,764 | 57,646 | 57,599 | | 57,826 | 33,973 | |
| AT PERIOD END (\$ in millions) | | | | | | | | | |
| Loans* | \$ 4,138 | \$ 4,119 | \$ 4,128 | \$ 4,110 | \$ 4,110 | 1 | \$ 4,138 | \$ 4,110 | 1 |
| Investment securities | 2,025 | 1,984 | 2,202 | 2,120 | 2,123 | (5) | 2,025 | 2,123 | (5) |
| Total assets | 6,699 | 6,737 | 7,174 | 6,983 | 6,894 | (3) | 6,699 | 6,894 | (3) |
| Deposits | 5,823 | 5,822 | 6,001 | 6,098 | 6,005 | (3) | 5,823 | 6,005 | (3) |
| Shareholders' equity | 585 | 576 | 580 | 575 | 583 | | 585 | 583 | |
| Common shares outstanding (thousands) | 57,710 | 57,641 | 57,603 | 57,561 | 57,510 | | 57,710 | 57,510 | |

(1) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (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 of Contents**Table 1 Continued - Non-GAAP Performance Measures Reconciliation****Selected Financial Information**

| <i>(in thousands, except per share data; taxable equivalent)</i> | 2012 | | | 2011 | | For the Nine Months Ended | |
|--|---------------|----------------|---------------|----------------|---------------|---------------------------|--------------|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | 2012 | 2011 |
| Interest revenue reconciliation | | | | | | | |
| Interest revenue - taxable equivalent | \$ 65,978 | \$ 66,780 | \$ 70,221 | \$ 71,905 | \$ 74,543 | \$ 202,979 | \$ 227,439 |
| Taxable equivalent adjustment | (419) | (444) | (446) | (423) | (420) | (1,309) | (1,284) |
| Interest revenue (GAAP) | \$ 65,559 | \$ 66,336 | \$ 69,775 | \$ 71,482 | \$ 74,123 | \$ 201,670 | \$ 226,155 |
| Net interest revenue reconciliation | | | | | | | |
| Net interest revenue - taxable equivalent | \$ 57,371 | \$ 56,836 | \$ 58,864 | \$ 59,050 | \$ 59,281 | \$ 173,071 | \$ 174,619 |
| Taxable equivalent adjustment | (419) | (444) | (446) | (423) | (420) | (1,309) | (1,284) |
| Net interest revenue (GAAP) | \$ 56,952 | \$ 56,392 | \$ 58,418 | \$ 58,627 | \$ 58,861 | \$ 171,762 | \$ 173,335 |
| Total revenue reconciliation | | | | | | | |
| Total operating revenue | \$ 55,635 | \$ 51,703 | \$ 59,243 | \$ 57,717 | \$ 34,779 | \$ 166,581 | \$ (25,140) |
| Taxable equivalent adjustment | (419) | (444) | (446) | (423) | (420) | (1,309) | (1,284) |
| Total revenue (GAAP) | \$ 55,216 | \$ 51,259 | \$ 58,797 | \$ 57,294 | \$ 34,359 | \$ 165,272 | \$ (26,424) |
| Income (loss) before taxes reconciliation | | | | | | | |
| Income (loss) before taxes | \$ 10,852 | \$ 7,393 | \$ 12,288 | \$ 6,637 | \$ (11,741) | \$ 30,533 | \$ (235,659) |
| Taxable equivalent adjustment | (419) | (444) | (446) | (423) | (420) | (1,309) | (1,284) |
| Income (loss) before taxes (GAAP) | \$ 10,433 | \$ 6,949 | \$ 11,842 | \$ 6,214 | \$ (12,161) | \$ 29,224 | \$ (236,943) |
| Income tax (benefit) expense reconciliation | | | | | | | |
| Income tax (benefit) expense | \$ 284 | \$ 894 | \$ 760 | \$ (3,264) | \$ (402) | \$ 1,938 | \$ 988 |
| Taxable equivalent adjustment | (419) | (444) | (446) | (423) | (420) | (1,309) | (1,284) |
| Income tax (benefit) expense (GAAP) | \$ (135) | \$ 450 | \$ 314 | \$ (3,687) | \$ (822) | \$ 629 | \$ (296) |
| Book value per common share reconciliation | | | | | | | |
| Tangible book value per common share | \$ 6.64 | \$ 6.48 | \$ 6.54 | \$ 6.47 | \$ 6.61 | \$ 6.64 | \$ 6.61 |
| Effect of goodwill and other intangibles | .11 | .13 | .14 | .15 | .16 | .11 | .16 |
| Book value per common share (GAAP) | \$ 6.75 | \$ 6.61 | \$ 6.68 | \$ 6.62 | \$ 6.77 | \$ 6.75 | \$ 6.77 |
| Average equity to assets reconciliation | | | | | | | |
| Tangible common equity to assets | 5.73% | 5.45% | 5.33% | 5.38% | 5.65% | 5.50% | 3.23% |
| Effect of preferred equity | 2.93 | 2.79 | 2.75 | 2.78 | 2.77 | 2.82 | 4.24 |
| Tangible equity to assets | 8.66 | 8.24 | 8.08 | 8.16 | 8.42 | 8.32 | 7.47 |

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| | | | | | | | |
|--|---------|---------|---------|---------|--------|--------|--------|
| Effect of goodwill and other intangibles | .09 | .09 | .11 | .12 | .13 | .10 | .11 |
| Equity to assets (GAAP) | 8.75% | 8.33% | 8.19% | 8.28% | 8.55% | 8.42% | 7.58% |
| Tangible common equity to risk-weighted assets reconciliation | | | | | | | |
| Tangible common equity to risk-weighted assets | 8.44% | 8.37% | 8.21% | 8.25% | 8.52% | 8.44% | 8.52% |
| Effect of other comprehensive income | .36 | .28 | .10 | (.03) | (.29) | .36 | (.29) |
| Effect of trust preferred | 1.17 | 1.19 | 1.15 | 1.18 | 1.19 | 1.17 | 1.19 |
| Effect of preferred equity | 4.29 | 4.35 | 4.23 | 4.29 | 4.33 | 4.29 | 4.33 |
| Tier I capital ratio (Regulatory) | 14.26 % | 14.19 % | 13.69 % | 13.69 % | 13.75% | 14.26% | 13.75% |

Results of Operations

United reported net income of \$10.6 million for the third quarter of 2012. This compared to a net loss of \$11.3 million for the same period in 2011. For the third quarter of 2012, diluted earnings per common share was \$.13. This compared to a loss per common share of \$.25 for the third quarter of 2011. The classification of United's largest loan relationship and establishment of a \$25 million specific reserve for expected losses on that relationship resulted in the loss in the third quarter of 2011. For the nine months ended September 30, 2012, United reported net income of \$28.6 million compared to a net loss of \$237 million for the same period in 2011. The loss for the nine months ended September 30, 2011 reflects the Board of Directors' decision in the first quarter of 2011 to adopt the Problem Asset Disposition Plan to quickly dispose of problem assets following the Private Placement at the end of the first quarter. Diluted earnings per common share was \$.34 for the nine months ended September 30, 2012, compared with a loss per common share of \$7.23 for the same period in 2011.

Table of Contents**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 September 30, 2012 was \$57.4 million, down \$1.91 million, or 3%, from the third quarter of 2011. The decrease in net interest revenue for the third quarter of 2012 compared to the third quarter of 2011 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.

Average loans decreased \$46.7 million, or 1%, from the third quarter of last year. The decrease in the loan portfolio has begun to stabilize, however there is a high level of competition for quality lending relationships, which continues to put pressure on pricing. While loan balances have declined, United continues to make new loans. During the third quarter of 2012, United funded \$137 million in new loans, primarily commercial, small business and residential real estate loans in north Georgia, the Atlanta MSA, east Tennessee and coastal Georgia. The increase in residential real estate loans is primarily the result of the promotion of a new home equity line product.

Average interest-earning assets for the third quarter of 2012 decreased \$284 million, or 4%, from the same period in 2011. In addition to the decrease in average loans, average investment securities decreased \$179 million from the third quarter of 2011. The average yield on interest-earning assets for the three months ended September 30, 2012, was 4.14%, down 33 basis points from 4.47% for the same period of 2011. The most significant factors in the lower earning asset yield were the lower average yields on the loan and securities portfolios. For the third quarter of 2012, the yield on loans decreased 44 basis points and the yield on securities decreased 55 basis points from the same period a year ago. Partially offsetting the lower loan and securities yields was a higher average yield on other interest-earnings 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 \$569 million, or 11%, from the third quarter of 2011 due to the rolling off of higher-cost brokered deposits and certificates of deposit as core transaction deposits increased \$232 million while overall funding needs decreased. The average cost of interest-bearing liabilities for the third quarter of 2012 was .71% compared to 1.12% for the same period of 2011, reflecting United's ability to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits.

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 September 30, 2012 and 2011, the net interest spread was 3.43% and 3.35%, respectively, while the net interest margin was 3.60% and 3.55%, respectively. Much of the improvement in both ratios is due to shrinking the balance sheet through a smaller securities portfolio and a smaller balance of certificates of deposit.

For the first nine months of 2012, net interest revenue was \$173 million, a decrease of \$1.55 million, or 1%, from the first nine months of 2011. Average earning assets decreased \$248 million, or 4%, during the first nine months of 2012 compared to the same period a year earlier. The yield on earning assets decreased 33 basis points from 4.46% for the nine months ended September 30, 2011 to 4.13% for the nine months ended September 30, 2012 due to declining average loan yields and the abnormally high prepayment activity on mortgage-backed securities in the securities portfolio during 2012. This prepayment activity suppressed the securities portfolio yield by accelerating the amortization of bond purchase premiums and the yields at which the proceeds were reinvested fell short of the yields of the bonds they replaced. The cost of interest-bearing liabilities over the same period decreased 45 basis points. The combined effect of a lower level of interest-earning assets and the decrease in yield on interest-earning assets, which was less than the decrease in cost of interest-bearing liabilities resulted in the net interest margin increasing 10 basis points from the nine months ended September 30, 2011 to the nine months ended September 30, 2012.

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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 September 30, 2012 and 2011.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended September 30,

| <i>(dollars in thousands, taxable equivalent)</i> | 2012 | | | 2011 | | |
|--|----------------------------|-----------------|----------------------|----------------------------|-----------------|----------------------|
| | Average Balance | Interest | Avg. Rate | Average Balance | Interest | Avg. Rate |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income ⁽¹⁾⁽²⁾ | \$ 4,147,220 | \$ 53,963 | 5.18 % | \$ 4,193,951 | \$ 59,394 | 5.62 % |
| Taxable securities ⁽³⁾ | 1,947,780 | 10,481 | 2.15 | 2,125,154 | 14,324 | 2.70 |
| Tax-exempt securities ⁽¹⁾⁽³⁾ | 22,895 | 368 | 6.43 | 24,675 | 399 | 6.47 |
| Federal funds sold and other interest-earning assets | 227,950 | 1,166 | 2.05 | 286,194 | 426 | .60 |
| Total interest-earning assets | 6,345,845 | 65,978 | 4.14 | 6,629,974 | 74,543 | 4.47 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (112,034) | | | (128,654) | | |
| Cash and due from banks | 51,705 | | | 53,500 | | |
| Premises and equipment | 171,608 | | | 177,798 | | |
| Other assets ⁽³⁾ | 190,439 | | | 267,349 | | |
| Total assets | \$ 6,647,563 | | | \$ 6,999,967 | | |
| Liabilities and Shareholders Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | \$ 1,176,087 | 447 | .15 | \$ 1,258,929 | 831 | .26 |
| Money market | 1,157,655 | 599 | .21 | 1,024,559 | 1,129 | .44 |
| Savings | 221,186 | 37 | .07 | 199,793 | 52 | .10 |
| Time less than \$100,000 | 1,144,103 | 2,260 | .79 | 1,448,024 | 4,539 | 1.24 |
| Time greater than \$100,000 | 750,828 | 1,876 | .99 | 940,864 | 3,456 | 1.46 |
| Brokered time deposits | 176,114 | 476 | 1.08 | 260,423 | 1,091 | 1.66 |
| Total interest-bearing deposits | 4,625,973 | 5,695 | .49 | 5,132,592 | 11,098 | .86 |
| Federal funds purchased and other borrowings | 55,994 | 514 | 3.65 | 103,850 | 1,081 | 4.13 |
| Federal Home Loan Bank advances | 44,473 | 26 | .23 | 40,625 | 441 | 4.31 |
| Long-term debt | 120,276 | 2,372 | 7.85 | 138,457 | 2,642 | 7.57 |
| Total borrowed funds | 220,743 | 2,912 | 5.25 | 282,932 | 4,164 | 5.84 |
| Total interest-bearing liabilities | 4,846,716 | 8,607 | .71 | 5,415,524 | 15,262 | 1.12 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 1,163,471 | | | 928,788 | | |
| Other liabilities | 55,607 | | | 57,427 | | |
| Total liabilities | 6,065,794 | | | 6,401,739 | | |

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| | | |
|---|---------------------|---------------------|
| Shareholders' equity | 581,769 | 598,228 |
| Total liabilities and shareholders' equity | \$ 6,647,563 | \$ 6,999,967 |
| Net interest revenue | \$ 57,371 | \$ 59,281 |
| Net interest-rate spread | 3.43 % | 3.35 % |
| Net interest margin ⁽⁴⁾ | 3.60 % | 3.55 % |

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$22.9 million in 2012 and \$37.9 million in 2011 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.

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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 nine months ended September 30, 2012 and 2011.

Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Nine Months Ended September 30,

| <i>(dollars in thousands, taxable equivalent)</i> | Average Balance | 2012 Interest | Avg. Rate | Average Balance | 2011 Interest | Avg. Rate |
|--|---------------------|------------------|--------------|---------------------|------------------|--------------|
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income ⁽¹⁾⁽²⁾ | \$ 4,157,057 | \$ 164,101 | 5.27 % | \$ 4,351,524 | \$ 181,422 | 5.57 % |
| Taxable securities ⁽³⁾ | 2,065,112 | 34,035 | 2.20 | 1,926,365 | 42,210 | 2.92 |
| Tax-exempt securities ⁽¹⁾⁽³⁾ | 24,187 | 1,207 | 6.65 | 25,178 | 1,234 | 6.53 |
| Federal funds sold and other interest-earning assets | 322,998 | 3,636 | 1.50 | 514,392 | 2,573 | .67 |
| Total interest-earning assets | 6,569,354 | 202,979 | 4.13 | 6,817,459 | 227,439 | 4.46 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (115,252) | | | (145,689) | | |
| Cash and due from banks | 52,755 | | | 102,251 | | |
| Premises and equipment | 173,410 | | | 178,694 | | |
| Other assets ⁽³⁾ | 214,068 | | | 293,386 | | |
| Total assets | \$ 6,894,335 | | | \$ 7,246,101 | | |
| Liabilities and Shareholders Equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | \$ 1,304,159 | 1,587 | .16 | \$ 1,313,752 | 3,191 | .32 |
| Money market | 1,120,091 | 1,901 | .23 | 977,863 | 4,656 | .64 |
| Savings | 214,280 | 112 | .07 | 194,433 | 193 | .13 |
| Time less than \$100,000 | 1,199,563 | 7,806 | .87 | 1,509,753 | 14,980 | 1.33 |
| Time greater than \$100,000 | 783,370 | 6,354 | 1.08 | 973,335 | 11,480 | 1.58 |
| Brokered time deposits | 162,682 | 1,684 | 1.38 | 475,687 | 5,353 | 1.50 |
| Total interest-bearing deposits | 4,784,145 | 19,444 | .54 | 5,444,823 | 39,853 | .98 |
| Federal funds purchased and other borrowings | 85,022 | 2,463 | 3.87 | 102,711 | 3,197 | 4.16 |
| Federal Home Loan Bank advances | 153,539 | 882 | .77 | 49,442 | 1,601 | 4.33 |
| Long-term debt | 120,256 | 7,119 | 7.91 | 146,221 | 8,169 | 7.47 |
| Total borrowed funds | 358,817 | 10,464 | 3.90 | 298,374 | 12,967 | 5.81 |
| Total interest-bearing liabilities | 5,142,962 | 29,908 | .78 | 5,743,197 | 52,820 | 1.23 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 1,105,607 | | | 884,417 | | |
| Other liabilities | 65,390 | | | 69,131 | | |
| Total liabilities | 6,313,959 | | | 6,696,745 | | |

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| | | |
|---|---------------------|---------------------|
| Shareholders' equity | 580,376 | 549,356 |
| Total liabilities and shareholders' equity | \$ 6,894,335 | \$ 7,246,101 |
| Net interest revenue | \$ 173,071 | \$ 174,619 |
| Net interest-rate spread | 3.35 % | 3.23 % |
| Net interest margin ⁽⁴⁾ | 3.52 % | 3.42 % |

- (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 \$24.1 million in 2012 and \$32.4 million in 2011 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.

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

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

| | Three Months Ended September 30, 2012 | | | Nine Months Ended September 30, 2012 | | |
|--|--|-------------------|-------------------|--|-------------------|-------------------|
| | Compared to 2011 | | | Compared to 2011 | | |
| | Increase (decrease) Due to Changes in | | | Increase (decrease) Due to Changes in | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest-earning assets: | | | | | | |
| Loans | \$ (655) | \$ (4,776) | \$ (5,431) | \$ (7,911) | \$ (9,410) | \$ (17,321) |
| Taxable securities | (1,125) | (2,718) | (3,843) | 2,871 | (11,046) | (8,175) |
| Tax-exempt securities | (29) | (2) | (31) | (49) | 22 | (27) |
| Federal funds sold and other interest-earning assets | (103) | 843 | 740 | (1,232) | 2,295 | 1,063 |
| Total interest-earning assets | (1,912) | (6,653) | (8,565) | (6,321) | (18,139) | (24,460) |
| Interest-bearing liabilities: | | | | | | |
| NOW accounts | (52) | (332) | (384) | (23) | (1,581) | (1,604) |
| Money market accounts | 132 | (662) | (530) | 597 | (3,352) | (2,755) |
| Savings deposits | 6 | (21) | (15) | 18 | (99) | (81) |
| Time deposits less than \$100,000 | (825) | (1,454) | (2,279) | (2,682) | (4,492) | (7,174) |
| Time deposits greater than \$100,000 | (612) | (968) | (1,580) | (1,971) | (3,155) | (5,126) |
| Brokered deposits | (293) | (322) | (615) | (3,271) | (398) | (3,669) |
| Total interest-bearing deposits | (1,644) | (3,759) | (5,403) | (7,332) | (13,077) | (20,409) |
| Federal funds purchased & other borrowings | (451) | (116) | (567) | (523) | (211) | (734) |
| Federal Home Loan Bank advances | 38 | (453) | (415) | 1,377 | (2,096) | (719) |
| Long-term debt | (357) | 87 | (270) | (1,515) | 465 | (1,050) |
| Total borrowed funds | (770) | (482) | (1,252) | (661) | (1,842) | (2,503) |
| Total interest-bearing liabilities | (2,414) | (4,241) | (6,655) | (7,993) | (14,919) | (22,912) |
| Increase (decrease) in net interest revenue | \$ 502 | \$ (2,412) | \$ (1,910) | \$ 1,672 | \$ (3,220) | \$ (1,548) |

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 \$15.5 million and \$48.5 million, respectively, for the third quarter and the first nine months of 2012, respectively, compared to \$36.0 million and \$237 million, respectively, for the same periods in 2011. The provision for loan losses in 2011 reflects \$25 million in the third quarter specifically related to United's largest loan relationship. The provision for the first nine months of 2011 also reflects the execution of the Problem Asset Disposition Plan which included losses from the Bulk Loan Sale in the first and second quarters. 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. For the three and nine months ended September 30, 2012, net loan charge-offs as an annualized percentage of average outstanding loans were 1.99% and 1.80%, respectively, compared to 1.68% and 8.28%, respectively, for the same periods in 2011. About \$4.70 million in net charge-offs taken during the third quarter of 2012 were due to note sales and short sales of performing substandard and nonperforming loans that

had been assigned specific reserves in the previous quarter.

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 non-performing assets over the last four 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 States markets. Additional discussion on credit quality and the allowance for loan losses is included in the Asset Quality and Risk Elements section of this report on page 44.

Table of Contents**Fee Revenue**

Operating fee revenue for the three and nine months ended September 30, 2012 was \$13.8 million and \$42.0 million, respectively, an increase of \$2.27 million, or 20%, compared to third quarter of 2011, and an increase of \$4.77 million, or 13%, from the year-to-date period of 2011. The following table presents the components of fee revenue for the third quarters and first nine months of 2012 and 2011.

Table 5 - Fee Revenue

(in thousands)

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|--------------------------------|--------------------|--------------------|-----------------|-----------|--------------------|--------------------|-----------------|-----------|
| | September 30, 2012 | September 30, 2011 | Amount | Percent | September 30, 2012 | September 30, 2011 | Amount | Percent |
| Overdraft fees | \$ 3,362 | \$ 3,541 | \$ (179) | (5) | \$ 9,839 | \$ 10,709 | \$ (870) | (8) |
| Debit card fees | 3,063 | 3,302 | (239) | (7) | 9,407 | 9,111 | 296 | 3 |
| Other service charges and fees | 1,271 | 691 | 580 | 84 | 4,049 | 2,042 | 2,007 | 98 |
| Service charges and fees | 7,696 | 7,534 | 162 | 2 | 23,295 | 21,862 | 1,433 | 7 |
| Mortgage loan and related fees | 2,800 | 1,148 | 1,652 | 144 | 7,221 | 3,594 | 3,627 | 101 |
| Brokerage fees | 709 | 836 | (127) | (15) | 2,331 | 2,204 | 127 | 6 |
| Securities gains, net | | | | | 7,047 | 838 | 6,209 | |
| Losses from prepayment of debt | | | | | (6,681) | (791) | (5,890) | |
| Hedge ineffectiveness | 608 | 575 | 33 | | 543 | 4,687 | (4,144) | |
| Other | 1,951 | 1,405 | 546 | 39 | 8,254 | 4,847 | 3,407 | 70 |
| Total fee revenue | \$ 13,764 | \$ 11,498 | \$ 2,266 | 20 | \$ 42,010 | \$ 37,241 | \$ 4,769 | 13 |

Service charges and fees of \$7.70 million were up \$162,000, or 2%, from the third quarter of 2011. For the first nine months of 2012, service charges and fees of \$23.3 million were up \$1.43 million, or 7%, from the same period in 2011. The increase was primarily due to new charges on low balance deposit accounts that more than offset a decline in overdraft fees resulting from decreased utilization of our courtesy overdraft services.

Mortgage loans and related fees for the third quarter and first nine months of 2012 were up \$1.65 million, or 144%, and \$3.63 million, or 101%, respectively, from the same periods in 2011. In the third quarter of 2012, United closed 685 loans totaling \$108 million compared with 387 loans totaling \$57 million in the third quarter of 2011. Origination volumes were driven by the changing interest rate environment which had a significant impact on refinancing activity. Year-to-date mortgage production in 2012 amounted to 1,709 loans totaling \$269 million, compared to 1,217 loans totaling \$182 million for the same period in 2011.

There were no net securities gains in the third quarter of 2012 or 2011 and \$7.05 million and \$838,000, respectively, for the first nine months of 2012 and 2011. For the first nine months of 2012 and 2011, United also recognized charges from the prepayment of Federal Home Loan Bank advances and structured repurchase agreements. The losses were part of the same balance sheet management activities that resulted in the securities gains. The balance sheet management activities included the sale of \$175 million in securities and the prepayment of \$75 million in fixed rate borrowings during the second quarter of 2012, the effect of which was to reduce sensitivity to rising interest rates and improve the net interest margin. The securities gains and prepayment losses were mostly offsetting and had little net impact on financial results in the periods incurred.

In the third quarter of 2012, United recognized \$608,000 in net gains from hedge ineffectiveness compared with \$575,000 in the third quarter of 2011. Third quarter 2012 hedge ineffectiveness is reported net of \$271,500 in accelerated amortization of prepaid broker fees on a brokered certificate of deposit that was called during the quarter. The brokered certificate of deposit was called at the same time the callable swap that was hedging the brokered certificate of deposit was called. The accelerated amortization is presented as a component of hedge ineffectiveness as the broker fee was embedded in the swap contract that was hedging the fair value of the brokered certificate of deposit and therefore resulted in an offsetting gain at the time the swap was called.

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For the first nine months of 2012, United recognized \$543,000 in gains from hedge ineffectiveness compared with \$4.69 million in gains for the same period of 2011. Much of the hedge ineffectiveness relates to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the original term of the derivative instrument. The ineffectiveness, which was caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains. In 2012, much of the hedge ineffectiveness gains and losses resulted from ineffectiveness on fair value hedges of brokered deposits.

Other fee revenue of \$1.95 million for the third quarter of 2012 was up \$546,000, or 39%. Fees from customer swap transactions earned under United's recently initiated back-to-back customer swap program account for \$279,000 of the increase. Also contributing to the increase were gains and losses on United's deferred compensation plan assets. In the third quarter of 2012, United reported gains of \$153,000 compared with losses of \$386,000 for the same period of 2011. Gains and losses on deferred compensation plan assets are completely offset in salaries and employee benefit expense by losses and gains on United's deferred compensation plan liability.

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For the first nine months of 2012, other fee revenue of \$8.25 million was up \$3.41 million, or 70%, from the same period in 2011. The first nine months of 2012 included \$1.10 million in interest received for 2008's federal tax refund and \$728,000 in gains from the sale of low income housing tax credits, which were recorded in the first quarter. Mark to market adjustments on deferred compensation plan assets account for most of the remaining increase.

Operating Expenses

The following table presents the components of operating expenses for the three and nine months ended September 30, 2012 and 2011.

Table 6 - Operating Expenses

(in thousands)

| | Three Months Ended | | Change | | Nine Months Ended | | Change | |
|--|--------------------|--------------------|------------|---------|--------------------|--------------------|-------------|---------|
| | September 30, 2012 | September 30, 2011 | Amount | Percent | September 30, 2012 | September 30, 2011 | Amount | Percent |
| Salaries and employee benefits | \$ 22,918 | \$ 25,262 | \$ (2,344) | (9) | \$ 72,440 | \$ 76,622 | \$ (4,182) | (5) |
| Communications and equipment | 3,254 | 3,284 | (30) | (1) | 9,620 | 10,006 | (386) | (4) |
| Occupancy | 3,539 | 3,794 | (255) | (7) | 10,849 | 11,673 | (824) | (7) |
| Advertising and public relations | 934 | 1,052 | (118) | (11) | 2,868 | 3,347 | (479) | (14) |
| Postage, printing and supplies | 954 | 1,036 | (82) | (8) | 2,849 | 3,239 | (390) | (12) |
| Professional fees | 2,180 | 2,051 | 129 | 6 | 6,107 | 7,731 | (1,624) | (21) |
| FDIC assessments and other regulatory charges | 2,537 | 2,603 | (66) | (3) | 7,592 | 11,660 | (4,068) | (35) |
| Amortization of intangibles | 728 | 748 | (20) | (3) | 2,190 | 2,270 | (80) | (4) |
| Other | 4,033 | 3,877 | 156 | 4 | 12,151 | 14,368 | (2,217) | (15) |
| Total excluding foreclosed property expenses | 41,077 | 43,707 | (2,630) | (6) | 126,666 | 140,916 | (14,250) | (10) |
| Net losses (gains) on sales of foreclosed properties | 350 | (804) | 1,154 | | 174 | 7,998 | (7,824) | |
| Foreclosed property write downs | 2,394 | 1,772 | 622 | | 5,513 | 53,475 | (47,962) | |
| Foreclosed property maintenance expenses | 962 | 1,845 | (883) | (48) | 3,695 | 8,130 | (4,435) | (55) |
| Total operating expenses | \$ 44,783 | \$ 46,520 | \$ (1,737) | (4) | \$ 136,048 | \$ 210,519 | \$ (74,471) | (35) |

Operating expenses for the third quarter of 2012 totaled \$44.8 million, down \$1.74 million, or 4%, from the third quarter of 2011. For the nine months ended September 30, 2012, operating expenses totaled \$136 million, down \$74.5 million, or 35%, from the same period in 2011. Higher foreclosed property losses incurred in connection with United's Problem Asset Disposition Plan were reflected in the nine months ended September 30, 2011. Excluding foreclosed property costs, total operating expenses were \$41.1 million and \$127 million, respectively, for the three and nine months ended September 30, 2012, down \$2.63 million, or 6%, from the third quarter of 2011 and down \$14.3 million, or 10%, from a year ago. Decreases in operating expenses occurred in nearly every category reflecting management's focused efforts in reducing costs and improving operating efficiency.

Salaries and employee benefits for the third quarter of 2012 were \$22.9 million, down \$2.34 million, or 9%, from the same period of 2011. For the first nine months of 2012, salaries and employee benefits of \$72.4 million were down \$4.18 million, or 5%, from the first nine months of 2011. The decrease was due to a combination of reduced staffing, lower group medical insurance costs and a 50% reduction in the matching contribution on United's 401(k) and profit sharing plan that became effective on April 1, 2012. Headcount totaled 1,592 at September 30, 2012, compared to 1,762 at September 30, 2011, a decrease of 170 positions.

Occupancy expense of \$3.54 million and \$10.8 million, respectively, for the third quarter and first nine months of 2012 was down \$255,000, or 7%, and down \$824,000, or 7%, respectively, compared to the same periods of 2011. The decrease was across all subcategories of occupancy expense including building maintenance, insurance and depreciation.

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Advertising and public relations expense for the third quarter of 2012 totaled \$934,000, down \$118,000, or 11%, from the third quarter of 2011. For the nine months ended September 30, 2012 and 2011, advertising and public relations expense totaled \$2.87 million and \$3.35 million, respectively. The decrease for both periods is due to efforts to reduce discretionary spending.

Postage, printing and supplies expense for the third quarter of 2012 totaled \$954,000, down \$82,000, or 8%, from the same period of 2011. For the nine months ended September 30, 2012 and 2011, postage, printing and supplies expense totaled \$2.85 million and \$3.24 million, respectively. The decrease was primarily due to lower postage and outside courier expenses reflecting further use of electronic statements and technology.

Professional fees for the third quarter of 2012 of \$2.18 million were up \$129,000, or 6%, from the same period in 2011. For the nine months ended September 30, 2012 professional fees of \$6.11 million were down \$1.62 million, or 21%, primarily due to professional service costs associated with the Bulk Loan Sale that were incurred in the first quarter of 2011.

FDIC assessments and other regulatory charges of \$2.54 million and \$7.59 million, respectively, for the third quarter and first nine months of 2012, decreased \$66,000, or 3%, from the third quarter of 2011 and decreased \$4.07 million, or 35%, compared to the first nine months of 2011. The FDIC's change to an asset based formula effective April 1, 2011 was more favorable to United and lowered United's assessment. United's assessment rate was reduced further late in the second quarter of 2011.

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Other expense of \$4.03 million for the third quarter of 2012 increased \$156,000 from the third quarter of 2011. Year-to-date, other expense of \$12.2 million decreased \$2.22 million from the first nine months of 2011. The year-to-date decrease was primarily due to \$2.60 million of property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale in the first quarter of 2011. The increase for the quarter was primarily due to higher loan collection costs and other lending support.

Net losses on sales of foreclosed property totaled \$350,000 for the third quarter of 2012, compared to net gains on sale of \$804,000 for the third quarter of 2011. For the nine months ended September 30, 2012, net losses on sale were \$174,000 compared to net losses on sale of \$8.00 million for the same period of the prior year. Foreclosed property write-downs for the third quarter and first nine months of 2012 were \$2.39 million and \$5.51 million, respectively, compared to \$1.77 million and \$53.5 million, respectively, a year ago. The year to date decrease reflected higher write downs in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan. The third quarter increase reflects some property value deterioration on reappraised properties. Foreclosed property maintenance expenses include legal fees, property taxes, marketing costs, utility services, maintenance and repair charges that totaled \$962,000 and \$3.70 million, respectively, for the third quarter and first nine months of 2012 compared with \$1.85 million and \$8.13 million, respectively, a year ago.

Income Taxes

Income tax benefit for the third quarter of 2012 was \$135,000 as compared with income tax benefit of \$822,000 for the third quarter of 2011, representing an effective tax rate of approximately (1.29)% and 6.76%, respectively. Because of the full valuation allowance on United's net deferred tax asset, United's tax expense on its pre-tax earnings represents adjustments to its reserve for uncertain tax positions and amounts payable under the Federal Alternative Minimum Tax.

At September 30, 2012, United reported no net deferred tax asset due to a full valuation allowance of \$272 million. The Financial Accounting Standard's Board Accounting Standards Codification (ASC) 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 a return to profitability for four consecutive quarterly periods and improvements in our profitability, capital levels, 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 experience of our financial performance and credit quality during the third quarter of 2012, the reliability of financial and credit projections may be given more weight in future periods if our current trends and performance continue.

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

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

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 15 to the consolidated financial statements filed with United's Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents**Balance Sheet Review**

Total assets at September 30, 2012, December 31, 2011 and September 30, 2011 were \$6.70 billion, \$6.98 billion and \$6.89 billion, respectively. Average total assets for the third quarter of 2012 were \$6.65 billion, down from \$7.00 billion in the third quarter of 2011.

The following table presents a summary of the loan portfolio.

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

(in thousands)

| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| By Loan Type | | | |
| Commercial (secured by real estate) | \$ 1,819,155 | \$ 1,821,414 | \$ 1,771,101 |
| Commercial & industrial | 459,997 | 428,249 | 429,043 |
| Commercial construction | 160,765 | 164,155 | 168,531 |
| Total commercial | 2,439,917 | 2,413,818 | 2,368,675 |
| Residential mortgage | 1,174,236 | 1,134,902 | 1,149,678 |
| Residential construction | 388,742 | 448,391 | 474,552 |
| Consumer installment | 134,950 | 112,503 | 116,970 |
| Total loans | \$ 4,137,845 | \$ 4,109,614 | \$ 4,109,875 |
| As a percentage of total loans: | | | |
| Commercial (secured by real estate) | 44% | 44% | 43% |
| Commercial & industrial | 11 | 10 | 10 |
| Commercial construction | 4 | 4 | 4 |
| Total commercial | 59 | 58 | 57 |
| Residential mortgage | 28 | 28 | 28 |
| Residential construction | 10 | 11 | 12 |
| Consumer installment | 3 | 3 | 3 |
| Total | 100% | 100% | 100% |
| By Geographic Location | | | |
| North Georgia | \$ 1,383,439 | \$ 1,425,811 | \$ 1,478,179 |
| Atlanta MSA | 1,257,548 | 1,219,652 | 1,192,496 |
| North Carolina | 578,643 | 597,446 | 607,284 |
| Coastal Georgia | 379,747 | 346,189 | 315,597 |
| Gainesville MSA | 255,897 | 264,567 | 271,705 |
| East Tennessee | 282,571 | 255,949 | 244,614 |
| Total loans | \$ 4,137,845 | \$ 4,109,614 | \$ 4,109,875 |

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 September 30, 2012, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were \$4.14 billion, an increase of \$28.0 million, or 1%, from September 30, 2011. The rate of loan growth began to decline in the first quarter of 2007 and the balances have continued to decline over the last four 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,

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which further slowed construction activities and acquisition and development projects. The resulting recession that began in the housing market led to high rates of unemployment that resulted in stress in the other segments of United's loan portfolio. Despite the weak economy and lack of loan demand, United has continued to pursue lending opportunities which resulted in \$137 million in new loans funded during the third quarter of 2012 and net positive loan

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growth of \$28.2 million in the first nine months of 2012. The rate of decrease in the loan portfolio dropped significantly following the execution of the Problem Asset Disposition Plan in the first quarter of 2011 and has continued to stabilize resulting in the modest growth in the first nine months of 2012. The increase from December 31, 2011 and a year ago in residential mortgage in the table above reflects a successful home equity line promotion that has gained traction in United's footprint. The increase in consumer installment loans reflects purchases of approximately \$20 million in indirect auto loans over the last two 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, 2011.

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

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

| | September 30, 2012 | June 30, 2012 | March 31, 2012 | December 31, 2011 | September 30, 2011 |
|--------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| By Category | | | | | |
| Commercial (sec. by RE) | \$ 126,332 | \$ 148,418 | \$ 133,840 | \$ 143,058 | \$ 134,356 |
| Commercial & industrial | 18,740 | 15,916 | 17,217 | 15,753 | 24,868 |
| Commercial construction | 27,180 | 37,876 | 23,256 | 18,510 | 26,530 |
| Total commercial | 172,252 | 202,210 | 174,313 | 177,321 | 185,754 |
| Residential mortgage | 72,198 | 73,277 | 75,736 | 76,442 | 76,707 |
| Residential construction | 35,170 | 45,450 | 64,274 | 71,955 | 76,179 |
| Consumer installment | 2,886 | 2,706 | 2,610 | 2,751 | 2,703 |
| Total | \$ 282,506 | \$ 323,643 | \$ 316,933 | \$ 328,469 | \$ 341,343 |
| By Market | | | | | |
| North Georgia | \$ 116,871 | \$ 121,358 | \$ 131,253 | \$ 134,945 | \$ 156,063 |
| Atlanta MSA | 79,242 | 105,647 | 94,191 | 99,453 | 97,906 |
| North Carolina | 34,998 | 38,049 | 38,792 | 40,302 | 36,724 |
| Coastal Georgia | 12,998 | 20,164 | 19,342 | 24,985 | 23,966 |
| Gainesville MSA | 21,219 | 20,524 | 18,745 | 17,338 | 19,615 |
| East Tennessee | 17,178 | 17,901 | 14,610 | 11,446 | 7,069 |
| Total loans | \$ 282,506 | \$ 323,643 | \$ 316,933 | \$ 328,469 | \$ 341,343 |

At September 30, 2012, performing substandard loans totaled \$283 million and decreased \$41.1 million from the prior quarter-end, and decreased \$58.8 million from a year ago. The decrease from the second quarter of 2012 was primarily in commercial loans in the Atlanta MSA. The decrease from the third quarter of 2011 was primarily in residential construction, primarily in north Georgia, the Atlanta MSA and coastal Georgia.

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

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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.

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The following table presents a summary of the changes in the allowance for loan losses for the three and nine months ended September 30, 2012 and 2011.

Table 9 - Allowance for Loan Losses

(in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | | | | |
|---|-------------------------------------|--------------|---------------------------------|--|-----------|-------|--------------|
| | 2012 | 2011 | 2012 | Problem (1) Asset Disposition Plan | | Other | Total |
| Balance beginning of period | \$ 112,705 | \$ 127,638 | \$ 114,468 | | | | \$ 174,695 |
| Provision for loan losses | 15,500 | 36,000 | 48,500 | | | | 237,000 |
| Charge-offs: | | | | | | | |
| Commercial (secured by real estate) | 8,445 | 2,270 | 16,791 | \$ 44,052 | \$ 10,358 | | 54,410 |
| Commercial (commercial and industrial) | 343 | 866 | 1,987 | 3,411 | 2,421 | | 5,832 |
| Commercial construction | 3,198 | 1,705 | 3,650 | 47,237 | 5,163 | | 52,400 |
| Residential mortgage | 3,575 | 6,399 | 13,356 | 30,139 | 17,603 | | 47,742 |
| Residential construction | 6,231 | 7,668 | 21,706 | 78,653 | 28,039 | | 106,692 |
| Consumer installment | 442 | 970 | 1,603 | 297 | 2,652 | | 2,949 |
| Total loans charged-off | 22,234 | 19,878 | 59,093 | 203,789 | 66,236 | | 270,025 |
| Recoveries: | | | | | | | |
| Commercial (secured by real estate) | 271 | 78 | 571 | | 352 | | 352 |
| Commercial (commercial and industrial) | 602 | 446 | 802 | | 849 | | 849 |
| Commercial construction | 8 | 80 | 38 | | 191 | | 191 |
| Residential mortgage | 48 | 289 | 592 | | 660 | | 660 |
| Residential construction | 555 | 1,287 | 1,153 | | 1,544 | | 1,544 |
| Consumer installment | 187 | 152 | 611 | | 826 | | 826 |
| Total recoveries | 1,671 | 2,332 | 3,767 | | 4,422 | | 4,422 |
| Net charge-offs | 20,563 | 17,546 | 55,326 | \$ 203,789 | \$ 61,814 | | 265,603 |
| Balance end of period | \$ 107,642 | \$ 146,092 | \$ 107,642 | | | | \$ 146,092 |
| Total loans: * | | | | | | | |
| At period-end | \$ 4,137,845 | \$ 4,109,875 | \$ 4,137,845 | | | | \$ 4,109,875 |
| Average | 4,107,608 | 4,132,526 | 4,112,727 | | | | 4,286,260 |
| Allowance as a percentage of period-end loans | 2.60% | 3.55% | 2.60 | | | | 3.55% |
| As a percentage of average loans: | | | | | | | |
| Net charge-offs (annualized) | 1.99 | 1.68 | 1.80 | | | | 8.28 |
| Provision for loan losses (annualized) | 1.50 | 3.46 | 1.58 | | | | 7.39 |
| Allowance as a percentage of non-performing loans | 94 | 101 | 94 | | | | 101 |

* Excludes loans covered by loss sharing agreements with the FDIC

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

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

At September 30, 2012 the allowance for loan losses was \$108 million, or 2.60% of loans, compared with \$114 million, or 2.79% of loans, at December 31, 2011 and \$146 million, or 3.55% of loans, at September 30, 2011. The declining balance of the allowance for loan losses over the last four quarters reflects an overall improving trend in credit quality of the loan portfolio.

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Management believes that the allowance for loan losses at September 30, 2012 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 10 - Nonperforming Assets*(in thousands)*

| | September 30, 2012 | December 31, 2011 | September 30, 2011 |
|--|-----------------------|----------------------|-----------------------|
| Nonperforming loans* | \$ 115,001 | \$ 127,479 | \$ 144,484 |
| Foreclosed properties (OREO) | 26,958 | 32,859 | 44,263 |
| Total nonperforming assets | \$ 141,959 | \$ 160,338 | \$ 188,747 |
| Nonperforming loans as a percentage of total loans | 2.78% | 3.10% | 3.52 |
| Nonperforming assets as a percentage of total loans and OREO | 3.41 | 3.87 | 4.54 |
| Nonperforming assets as a percentage of total assets | 2.12 | 2.30 | 2.74 |

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

At September 30, 2012, nonperforming loans were \$115 million, compared to \$127 million at December 31, 2011 and \$144 million at September 30, 2011. 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 \$142 million at September 30, 2012, compared with \$160 million at December 31, 2011 and \$189 million at September 30, 2011. United sold \$8.82 million and \$27.9 million, respectively, of foreclosed properties during the third quarter and first nine months of 2012 which helped to lower the balance of foreclosed properties by 39% compared to September 30, 2011.

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.

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

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

| | September 30, 2012 | | | December 31, 2011 | | | September 30, 2011 | | |
|---|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|----------------------|--------------------------|----------------------|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| BY CATEGORY | | | | | | | | | |
| Commercial (sec. by RE) | \$ 25,896 | \$ 8,767 | \$ 34,663 | \$ 27,322 | \$ 9,745 | \$ 37,067 | \$ 21,998 | \$ 8,880 | \$ 30,878 |
| Commercial & industrial | 32,678 | | 32,678 | 34,613 | | 34,613 | 53,009 | | 53,009 |
| Commercial construction | 18,590 | 3,121 | 21,711 | 16,655 | 3,336 | 19,991 | 11,370 | 5,862 | 17,232 |
| Total commercial | 77,164 | 11,888 | 89,052 | 78,590 | 13,081 | 91,671 | 86,377 | 14,742 | 101,119 |
| Residential mortgage | 13,996 | 6,031 | 20,027 | 22,358 | 6,927 | 29,285 | 22,671 | 7,960 | 30,631 |
| Residential construction | 22,935 | 9,039 | 31,974 | 25,523 | 12,851 | 38,374 | 34,472 | 21,561 | 56,033 |
| Consumer installment | 906 | | 906 | 1,008 | | 1,008 | 964 | | 964 |
| Total NPAs | \$ 115,001 | \$ 26,958 | \$ 141,959 | \$ 127,479 | \$ 32,859 | \$ 160,338 | \$ 144,484 | \$ 44,263 | \$ 188,747 |
| Balance as a % of Unpaid Principal | | | | | | | | | |
| | 68.8% | 36.4% | 58.8% | 71.3% | 35.9% | 59.3% | 77.8% ⁽²⁾ | 33.4% | 59.3% ⁽²⁾ |
| BY MARKET | | | | | | | | | |
| North Georgia | \$ 72,211 | \$ 14,582 | \$ 86,793 | \$ 88,600 | \$ 15,136 | \$ 103,736 | \$ 105,078 | \$ 17,467 | \$ 122,545 |
| Atlanta MSA | 21,349 | 5,926 | 27,275 | 14,480 | 6,169 | 20,649 | 13,350 | 12,971 | 26,321 |
| North Carolina | 9,622 | 2,771 | 12,393 | 15,100 | 5,365 | 20,465 | 13,243 | 7,941 | 21,184 |
| Coastal Georgia Gainesville MSA | 6,822 | 864 | 7,686 | 5,248 | 1,620 | 6,868 | 5,600 | 2,354 | 7,954 |
| East Tennessee | 840 | 1,328 | 2,168 | 2,069 | 3,760 | 5,829 | 5,311 | 2,495 | 7,806 |
| | 4,157 | 1,487 | 5,644 | 1,982 | 809 | 2,791 | 1,902 | 1,035 | 2,937 |
| Total NPAs | \$ 115,001 | \$ 26,958 | \$ 141,959 | \$ 127,479 | \$ 32,859 | \$ 160,338 | \$ 144,484 | \$ 44,263 | \$ 188,747 |

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

⁽²⁾ These amounts were significantly impacted by the placing of United's largest lending relationship on nonaccrual status. Excluding that loan relationship which had a \$25 million special allowance allocation as of September 30, 2011, the balance of nonaccrual loans and total nonperforming assets as a percentage of unpaid principal was 62.2% and 46.4%, respectively, at September 30, 2011.

Nonperforming assets in the residential construction category were \$32.0 million at September 30, 2012, compared with \$56.0 million at September 30, 2011, a decrease of \$24.1 million, or 43%. Commercial nonperforming assets decreased from \$101 million at September 30, 2011 to \$89.1 million at September 30, 2012. Residential mortgage non-performing assets of \$20.0 million decreased \$10.6 million from

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September 30, 2011.

At September 30, 2012, December 31, 2011, and September 30, 2011 United had \$166 million, \$124 million and \$75.7 million respectively, in loans with terms that have been modified in a troubled debt restructuring (TDR). Included therein were \$28.0 million, \$17.9 million and \$5.91 million of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of \$138 million, \$106 million and \$69.8 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At September 30, 2012, December 31, 2011, and September 30, 2011, there were \$269 million, \$257 million and \$183 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification. Included in impaired loans at September 30, 2012, December 31, 2011 and September 30, 2011, was \$174 million, \$189 million and \$66.6 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at September 30, 2012, December 31, 2011 and September 30, 2011, of \$94.4 million, \$68.8 million and \$116 million, respectively, had specific reserves that totaled \$12.9 million, \$14.8 million and \$33.5 million, respectively. The average recorded investment in impaired loans for the third quarters of 2012 and 2011 was \$276 million and \$109 million, respectively. For the three and nine months ended September 30, 2012, United recognized \$2.11 million and \$6.80 million, respectively, in interest revenue on impaired loans. For both the three and nine months ended September 30, 2011, United recognized \$797,000 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.

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

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

| | Third Quarter 2012 | | | Third Quarter 2011 | | |
|--|---------------------|--------------------------|---------------|---------------------|--------------------------|---------------|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| Beginning Balance | \$ 115,340 | \$ 30,421 | \$ 145,761 | \$ 71,065 | \$ 47,584 | \$ 118,649 |
| Loans placed on non-accrual ⁽¹⁾ | 30,535 | | 30,535 | 103,365 | | 103,365 |
| Payments received | (3,646) | | (3,646) | (3,995) | | (3,995) |
| Loan charge-offs | (19,227) | | (19,227) | (15,335) | | (15,335) |
| Foreclosures | (8,001) | 8,001 | | (10,616) | 10,616 | |
| Capitalized costs | | 102 | 102 | | 818 | 818 |
| Note / property sales | | (8,822) | (8,822) | | (13,787) | (13,787) |
| Write downs | | (2,394) | (2,394) | | (1,772) | (1,772) |
| Net gains (losses) on sales | | (350) | (350) | | 804 | 804 |
| Ending Balance | \$ 115,001 | \$ 26,958 | \$ 141,959 | \$ 144,484 | \$ 44,263 | \$ 188,747 |

| | First Nine Months 2012 | | | First Nine Months 2011 ⁽²⁾ | | |
|--|------------------------|--------------------------|---------------|---------------------------------------|--------------------------|---------------|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| Beginning Balance | \$ 127,479 | \$ 32,859 | \$ 160,338 | \$ 179,094 | \$ 142,208 | \$ 321,302 |
| Loans placed on non-accrual ⁽¹⁾ | 92,336 | | 92,336 | 194,006 | | 194,006 |
| Payments received | (24,618) | | (24,618) | (15,247) | | (15,247) |
| Loan charge-offs | (53,342) | | (53,342) | (78,192) | | (78,192) |
| Foreclosures | (26,854) | 26,854 | | (49,693) | 49,693 | |
| Capitalized costs | | 846 | 846 | | 1,108 | 1,108 |
| Note / property sales | | (27,914) | (27,914) | (11,400) | (87,273) | (98,673) |
| Loans transferred to held for sale | | | | (74,084) | | (74,084) |
| Write downs | | (5,513) | (5,513) | | (53,475) | (53,475) |
| Net losses on sales | | (174) | (174) | | (7,998) | (7,998) |
| Ending Balance | \$ 115,001 | \$ 26,958 | \$ 141,959 | \$ 144,484 | \$ 44,263 | \$ 188,747 |

⁽¹⁾ Includes \$76.6 million from United's largest loan relationship that was placed on nonaccrual in the third quarter of 2011.

⁽²⁾ The NPA activity shown for the first nine months of 2011 is presented with all activity related to loans transferred to the held for sale classification on one line as if those loans were transferred to held for sale at the beginning of the period. During the first quarter of 2011, \$27.1 million in loans transferred to held for sale were placed on nonaccrual, \$1.1 million in payments were received on nonaccrual loans transferred to held for sale and \$66.6 million in charge-offs were recorded on nonaccrual loans transferred to held for sale to mark them down to the expected proceeds from the sale.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the 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*.

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For the third quarter and first nine months of 2012, United transferred \$8.00 million and \$26.9 million, respectively, of loans into foreclosed property. During the same periods, proceeds from sales of foreclosed property were \$8.82 million and \$27.9 million, respectively, which includes \$1.13 million and \$5.61 million of sales that were financed by United, respectively. During the third quarter and first nine months of 2011, United transferred \$10.6 million and \$49.7 million, respectively, of loans into foreclosed property. During the same periods, proceeds from sales of foreclosed properties were \$13.8 million and \$87.3 million, respectively, which includes \$3.1 million and \$16.3 million, respectively, of sales that were financed by United. During the first quarter of 2011, United recorded \$48.6 million in write-downs on foreclosed property in order to expedite sales in the following quarters as part of its Problem Asset Disposition Plan.

Table of Contents***Investment Securities***

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits. Total investment securities at September 30, 2012 decreased \$98.2 million from a year ago.

At September 30, 2012, United had securities held to maturity with a carrying amount of \$263 million and securities available for sale totaling \$1.76 billion. At September 30, 2012, December 31, 2011, and September 30, 2011, the securities portfolio represented approximately 30%, 30% and 31% of total assets, respectively.

The investment securities portfolio primarily consists of U.S. government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, U.S. government agency securities, corporate 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 deposits as of September 30, 2012 were \$5.82 billion, a decrease of \$183 million from September 30, 2011. Total non-interest-bearing demand deposit accounts of \$1.21 billion increased \$244 million, or 25%, due to the success of core deposit programs. Also impacted by the programs were NOW, money market and savings accounts of \$2.53 billion which decreased \$2.97 million, or less than 1%, from September 30, 2011.

Total time deposits, excluding brokered deposits, as of September 30, 2012 were \$1.86 billion, down \$443 million from September 30, 2011. Time deposits less than \$100,000 totaled \$1.12 billion, a decrease of \$270 million, or 19%, from a year ago. Time deposits of \$100,000 and greater totaled \$732 million as of September 30, 2012, a decrease of \$173 million, or 19%, from September 30, 2011. 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.

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank (FHLB) of Atlanta. Through this affiliation, FHLB secured advances totaled \$50.1 million and \$40.6 million, respectively, as of September 30, 2012 and 2011. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at September 30, 2012 had fixed interest rates of .22% or less. During the nine months ended September 30, 2012 and 2011, United prepaid approximately \$25.0 million and \$14.5 million, respectively, of fixed-rate advances and incurred prepayment charges of \$1.72 million and \$791,000, respectively. Additional information regarding FHLB advances is provided in Note 11 to the consolidated financial statements included in United's Annual Report on Form 10-K for the year ended December 31, 2011.

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At September 30, 2012 and 2011, United had \$53.2 million and \$103 million, respectively, in repurchase agreements and other short-term borrowings outstanding. During the second quarter of 2012, United prepaid \$50 million in structured repurchase agreements and incurred prepayment charges of \$4.48 million. 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.

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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 September 30, 2012 and 2011 made use of the down scenarios problematic. The following table presents United's interest sensitivity position at September 30, 2012 and 2011.

Table 13 - Interest Sensitivity

| Change in Rates | Increase (Decrease) in Net Interest Revenue from Base Scenario at September 30, | | | |
|--------------------------|--|-------|-------|------|
| | 2012 | | 2011 | |
| | Shock | Ramp | Shock | Ramp |
| 200 basis point increase | 5.3% | 2.3% | 3.6% | 1.8% |
| 25 basis point decrease | (1.1) | (1.1) | 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 addition to net interest revenue simulation modeling, another tool that management uses to monitor interest rate sensitivity is economic value of equity (EVE) modeling, which measures the degree to which the estimated net market value of United's assets, liabilities and off-balance sheet

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instruments would change given an immediate change in interest rates. United's policy limits the change in EVE to a decrease of 5% for each incremental 100 basis point increase or decrease in interest rates. At September 30, 2012 the model results for a 300 basis point immediate increase in rates indicated an approximate 4.7% decrease in EVE, compared to September 30, 2011 when the model results indicated an approximate 5.3% decrease in EVE.

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.

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

Table 14 - Derivative Financial Instruments

(in thousands)

| Category of Instrument | Hedge Designation | Hedged Item | Current Notional | Trade Date | Effective Date | Maturity Date | Pay Rate | Receive Rate | Fair Value Asset | Fair Value Liability |
|--------------------------|-------------------|-----------------------------|------------------|------------|----------------|---------------|-----------------------------|--------------|------------------|----------------------|
| Five Fixed Callable Swap | Fair Value | Brokered CD | \$ 15,000 | 10/12/11 | 11/10/11 | 11/10/31 | 3 mo. LIBOR minus 60 bps | (A) | \$ | \$ 1 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 17,000 | 02/14/12 | 02/27/12 | 08/27/27 | 3 mo. LIBOR minus 45 bps | (B) | | 57 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 15,500 | 03/05/12 | 03/23/12 | 09/23/27 | 3 mo. LIBOR minus 45 bps | (C) | | 21 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 14,000 | 04/04/12 | 04/25/12 | 10/25/27 | 3 mo. LIBOR minus 40 bps | 3.00000% | | 104 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 12,500 | 05/16/12 | 06/08/12 | 06/08/32 | 3 mo. LIBOR minus 43 bps | (D) | | |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 13,000 | 06/12/12 | 06/28/12 | 06/28/32 | 3 mo. LIBOR minus 38.5 bps | (E) | | 1 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 12,500 | 07/03/12 | 07/27/12 | 07/27/32 | 3 mo. LIBOR minus 38.5 bps | (F) | | 1 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 12,000 | 08/01/12 | 08/23/12 | 08/23/32 | 3 mo. LIBOR minus 38.25 bps | (G) | | 2 |
| Five Fixed Callable Swap | Fair Value | Brokered CD | 10,000 | 08/29/12 | 09/24/12 | 09/24/12 | 3 mo. LIBOR minus 38 bps | (H) | | 1 |
| Fixed Swap | Cash Flow | Short-Term, Fixed Rate Debt | 50,000 | 04/02/12 | 04/07/14 | 04/07/17 | 1.69500% | 3 mo. LIBOR | | 1,3 |
| Fixed Swap | Cash Flow | Short-Term, Fixed Rate Debt | 50,000 | 04/02/12 | 04/21/14 | 04/21/17 | 1.72125% | 3 mo. LIBOR | | 1,3 |
| Fixed Swap | Cash Flow | Short-Term, Fixed Rate Debt | 100,000 | 04/10/12 | 03/03/14 | 03/01/17 | 1.43750% | 3 mo. LIBOR | | 1,9 |
| Fixed Swap | Cash Flow | Money Market Deposits | 100,000 | 05/02/12 | 05/01/14 | 05/01/19 | 1.88750% | 1 mo. LIBOR | | 3,0 |
| Fixed Swap | Cash Flow | Money Market Deposits | 100,000 | 05/31/12 | 07/01/14 | 07/01/18 | 1.39250% | 1 mo. LIBOR | | 1,1 |
| Total Hedging Positions | | | \$ 521,500 | | | | | | \$ 182 | \$ 9,7 |

- (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.
- (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

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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) 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 September 30, 2012, United had \$1.54 million 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 \$1.54 million is expected to be reclassified into interest revenue over the next twelve months.

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.

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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.

Because substantially all of United's liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law and an informal memorandum of understanding the Bank has entered into with the FDIC and the Georgia Department of Banking and Finance (the Bank MOU), United currently has limited internal capital resources to meet these obligations. United has not received a dividend from the Bank since 2008 and does not anticipate receiving dividends from the Bank until 2013.

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 \$30.6 million at September 30, 2012, 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 September 30, 2012, United had sufficient qualifying collateral to increase FHLB advances by \$1.05 billion and Federal Reserve discount window capacity of \$496 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 \$139 million for the nine months ended September 30, 2012. The net income of \$28.6 million for the nine month period included non-cash expenses for the provision for loan losses of \$48.5 million; depreciation, amortization and accretion of \$24.5 million and losses and write downs on foreclosed property of \$5.69 million. In addition, other assets decreased \$40.7 million primarily due to a federal tax refund received in the second quarter. Net cash provided by investing activities of \$33.1 million consisted primarily of the proceeds from sales, maturities and calls of securities totaling \$929 million partially offset by securities purchases of \$818 million, a net increase in loans of \$105 million, and purchases of premises and equipment of \$3.23 million. Net cash used in financing activities of \$329 million consisted primarily of a \$275 million decrease in deposits and a \$46.5 million decrease in wholesale borrowings. In the opinion of management, United's liquidity position at September 30, 2012, was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at September 30, 2012 was \$585 million, an increase of \$9.77 million from December 31, 2011. 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 \$22.8 million from December 31, 2011.

United accrued \$3.04 million and \$9.10 million, respectively, in dividends, including accretion of discounts, on Series A, Series B and Series D preferred stock in the third quarter and first nine months of 2012.

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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.

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In addition, in the lawsuit filed by FILB Co-Investments, LLC (FILB) against United that was previously disclosed in United's Current Report on Form 8-K filed on July 6, 2012 and United's second quarter Quarterly Report on Form 10-Q, FILB alleges, like Fletcher, that United's 2011 reclassification of its common stock should be ignored for purposes of calculating the number of shares United's common stock issuable upon the redemption of United's preferred stock and thus result in increasing the number of shares of United common stock that FILB could otherwise obtain. United believes the lawsuit is meritless for several reasons, and will defend it aggressively.

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 the Bank MOU which requires, among other things, that the Bank maintain its Tier 1 leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10% during the life of the 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 2012 and 2011.

Table 15 - Stock Price Information

| | 2012 | | | | 2011 | | | |
|----------------|----------|---------|---------|------------------|----------|---------|----------|------------------|
| | High | Low | Close | Avg Daily Volume | High | Low | Close | Avg Daily Volume |
| First quarter | \$ 10.30 | \$ 6.37 | \$ 9.75 | 142,987 | \$ 11.85 | \$ 5.95 | \$ 11.65 | 227,321 |
| Second quarter | 9.77 | 7.76 | 8.57 | 145,132 | 14.65 | 9.80 | 10.56 | 139,741 |
| Third quarter | 8.82 | 6.12 | 8.39 | 329,475 | 11.33 | 7.67 | 8.49 | 214,303 |
| Fourth quarter | | | | | 8.90 | 6.22 | 6.99 | 202,024 |

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

The Federal Reserve Board 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.

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The following table shows United's capital ratios, as calculated under regulatory guidelines, at September 30, 2012, December 31, 2011 and September 30, 2011.

Table 16 - Capital Ratios

(dollars in thousands)

| | Regulatory Guidelines | | United Community Banks, Inc. (Consolidated) | | | | United Community Bank | |
|--------------------|-----------------------|---------------------|---|-------------------|--------------------|--------------------|-----------------------|--------------------|
| | Well | Minimum Capitalized | September 30, 2012 | December 31, 2011 | September 30, 2011 | September 30, 2012 | December 31, 2011 | September 30, 2011 |
| Risk-based ratios: | | | | | | | | |
| Tier I capital | 4.0% | 6.0% | 14.26% | 13.69% | 13.75% | 14.47% | 13.60% | 13.54% |
| Total capital | 8.0 | 10.0 | 15.83 | 15.41 | 15.63 | 15.73 | 14.87 | 14.82 |
| Leverage ratio | 3.0 | 5.0 | 9.76 | 8.83 | 8.79 | 9.92 | 8.78 | 8.66 |
| Tier I capital | | | \$ 648,499 | \$ 618,695 | \$ 614,382 | \$ 658,020 | \$ 614,534 | \$ 604,420 |
| Total capital | | | 719,990 | 696,881 | 698,436 | 715,492 | 671,718 | 661,322 |

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 September 30, 2012 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2011. The interest rate sensitivity position at September 30, 2012 is included in management's discussion and analysis on page 50 of this report.

Item 4. Controls and Procedures

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the Company's disclosure controls and procedures as of September 30, 2012. Based on, and as of the date of that evaluation, United's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

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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/A for the year ended December 31, 2011.

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

Table of Contents**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 |

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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: November 7, 2012