UNITED COMMUNITY BANKS INC
Form 10-K
March 01, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the Fiscal Year Ended December 31, 2012**

**Commission File Number 001-35095**

# UNITED COMMUNITY BANKS, INC.

**(Exact name of registrant as specified in its charter)**

| **Georgia** | **58-1807304** |
| --- | --- |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

| **125 Highway 515 East, Blairsville, Georgia** | **30512** |
|---|---|
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (706) 781-2265**

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

**Name of exchange on which registered: Nasdaq Global Select**

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

**Common Stock, $1.00 par value**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ | 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 x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $483,964,000 (based on shares held by non-affiliates at $8.57 per share, the closing stock price on the Nasdaq stock market on June 30, 2012).

As of January 31, 2013, 57,752,268 shares of common stock were issued and outstanding including 42,435,474 voting shares and 15,316,794 non-voting shares. Also outstanding were presently exercisable options to acquire 461,708 shares, presently exercisable warrants to acquire 3,312,470 shares and 131,420 shares issuable under United Community Banks, Inc. s deferred compensation plan.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s Proxy Statement for the 2013 Annual Meeting of Shareholders are incorporated herein into Part III by reference.

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**PART I**

**ITEM 1. BUSINESS.**

United Community Banks, Inc. ( United ), a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the BHC Act ), was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, Blairsville, Georgia, now known as United Community Bank, Blairsville, Georgia (the Bank ).

Since the early 1990 s, United has actively expanded its market coverage through organic growth complemented by selective acquisitions, primarily of banks whose managements share United s community banking and customer service philosophies. Although those acquisitions have directly contributed to United s growth, their contribution has primarily been to provide United access to new markets with attractive organic growth potential. Organic growth in assets includes growth through existing offices as well as growth at de novo locations and post-acquisition growth at acquired banking offices.

To emphasize its commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of separate community banks , which as of December 31, 2012, operated at 105 locations throughout north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina, east Tennessee and the Greenville-Mauldin-Easley, South Carolina MSA. In 2012, United expanded into Greenville, South Carolina by opening a loan production office. The community banks offer a full range of retail and corporate banking services, including checking, savings and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services and other financial services, and are led by local bank presidents (referred to herein as the Community Bank Presidents ) and management with significant experience in, and ties to, their communities. Each of the Community Bank Presidents has authority, alone or with other local officers, to make most credit decisions.

The Bank, through its full-service retail mortgage lending division, United Community Mortgage Services ( UCMS ), is approved as a seller/servicer for the Federal National Mortgage Association ( Fannie Mae ) and the Federal Home Loan Mortgage Corporation ( Freddie Mac ) and provides fixed and adjustable-rate home mortgages. During 2012, the Bank originated $370 million of residential mortgage loans throughout its footprint in Georgia, North Carolina and Tennessee for the purchase of homes and to refinance existing mortgage debt. Substantially all of these mortgages were sold into the secondary market without recourse to the Bank, other than for breaches of warranties.

Acquired in 2000, Brintech, Inc. ( Brintech ), a former subsidiary of the Bank, was a consulting firm for the financial services industry. United sold Brintech on March 31, 2010 and has excluded its results of operations from loss from continuing operations in the consolidated statement of operations.

The Bank owns an insurance agency, United Community Insurance Services, Inc. ( UCIS ), known as United Community Advisory Services, which is a subsidiary of the Bank. United also owns a captive insurance subsidiary, United Community Risk Management Services, Inc. ( UCRMSI ) that provides risk management services for United and its subsidiaries.

United provides retail brokerage services through an affiliation with a third party broker/dealer.

**Reverse Stock Split**

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

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**Forward-Looking Statements**

This Form 10-K 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 experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the 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 United States Department of the Treasury ( 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 Act and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the FDIC on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings;
- the 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 do not 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-K.

**Monetary Policy and Economic Conditions**

United s profitability depends to a substantial extent on the difference between interest revenue received from loans, investments, and other earning assets, and the interest paid on deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of United, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities, particularly the Board of Governors of the Federal Reserve System (the Federal Reserve ). The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits.

**Competition**

The market for banking and bank-related services is highly competitive. United actively competes in its market areas, which include north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina, east Tennessee and the Greenville-Mauldin-Easley, South Carolina MSA, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies, and brokerage firms.

The table on the following page displays the respective percentage of total bank and thrift deposits for the last five years in each county where the Bank has deposit operations. The table also indicates the Bank s ranking by deposit size in each county. All information in the table was obtained from the Federal Deposit Insurance Corporation Summary of Deposits as of June 30 of each year. The following information only shows market share in deposit gathering, which may not be indicative of market presence in other areas.

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**Share of Local Deposit Markets by County Banks and Savings Institutions**

| | Market Share | | | | | Rank in Market | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2012 | 2011 | 2010 | 2009 | 2008 |
| **Atlanta, Georgia MSA** | | | | | | | | | | |
| Bartow | 9% | 12% | 9% | 8% | 7% | 4 | 3 | 4 | 5 | 7 |
| Carroll | 6 | 6 | 5 | 4 | 3 | 6 | 6 | 7 | 7 | 9 |
| Cherokee | 5 | 4 | 4 | 4 | 4 | 9 | 9 | 9 | 9 | 9 |
| Cobb | 3 | 3 | 3 | 3 | 4 | 10 | 10 | 10 | 7 | 8 |
| Coweta | 2 | 2 | 2 | 3 | 1 | 10 | 10 | 10 | 10 | 12 |
| Dawson | 36 | 36 | 30 | 29 | 33 | 1 | 1 | 1 | 1 | 1 |
| DeKalb | 1 | 1 | 1 | 1 | 1 | 18 | 21 | 21 | 18 | 16 |
| Douglas | 2 | 2 | 1 | 1 | 2 | 12 | 11 | 13 | 13 | 10 |
| Fayette | 7 | 8 | 9 | 11 | 2 | 6 | 5 | 4 | 4 | 12 |
| Forsyth | 6 | 3 | 2 | 3 | 2 | 7 | 11 | 13 | 11 | 13 |
| Fulton | 1 | 1 | 1 | 1 | 1 | 20 | 20 | 18 | 20 | 17 |
| Gwinnett | 3 | 3 | 3 | 3 | 4 | 8 | 7 | 8 | 7 | 7 |
| Henry | 5 | 4 | 4 | 4 | 3 | 7 | 7 | 9 | 8 | 10 |
| Newton | 3 | 3 | 3 | 3 | 4 | 8 | 8 | 8 | 9 | 7 |
| Paulding | 5 | 5 | 3 | 2 | 2 | 6 | 7 | 8 | 12 | 11 |
| Pickens | 4 | 3 | 2 | 2 | 3 | 6 | 7 | 7 | 7 | 7 |
| Rockdale | 12 | 12 | 12 | 12 | 11 | 4 | 4 | 4 | 3 | 5 |
| Walton | 1 | 2 | 1 | 1 | 1 | 10 | 10 | 10 | 10 | 11 |
| **Gainesville, Georgia MSA** | | | | | | | | | | |
| Hall | 12 | 14 | 14 | 13 | 12 | 5 | 3 | 3 | 4 | 4 |
| **North Georgia** | | | | | | | | | | |
| Chattooga | 40 | 40 | 39 | 40 | 41 | 1 | 1 | 1 | 1 | 1 |
| Fannin | 49 | 52 | 49 | 50 | 52 | 1 | 1 | 1 | 1 | 1 |
| Floyd | 16 | 16 | 14 | 13 | 13 | 2 | 1 | 3 | 3 | 4 |
| Gilmer | 25 | 25 | 15 | 14 | 14 | 2 | 2 | 2 | 2 | 2 |
| Habersham | 22 | 20 | 16 | 14 | 14 | 2 | 2 | 3 | 3 | 3 |
| Jackson | 6 | 6 | 5 | 4 | 3 | 6 | 7 | 8 | 8 | 10 |
| Lumpkin | 29 | 29 | 28 | 29 | 32 | 2 | 2 | 2 | 1 | 1 |
| Rabun | 13 | 12 | 11 | 10 | 11 | 3 | 5 | 5 | 5 | 5 |
| Towns | 48 | 41 | 37 | 27 | 29 | 2 | 2 | 2 | 2 | 2 |
| Union | 83 | 84 | 86 | 88 | 88 | 1 | 1 | 1 | 1 | 1 |
| White | 44 | 46 | 43 | 39 | 40 | 1 | 1 | 1 | 1 | 1 |
| **Tennessee** | | | | | | | | | | |
| Blount | 1 | 2 | 2 | 3 | 3 | 11 | 11 | 11 | 11 | 9 |
| Bradley | 5 | 5 | 5 | 5 | 5 | 7 | 7 | 7 | 7 | 7 |
| Knox | 1 | 1 | 1 | 1 | 1 | 26 | 23 | 25 | 16 | 14 |
| Loudon | 13 | 14 | 14 | 16 | 19 | 3 | 3 | 3 | 3 | 2 |
| McMinn | 3 | 2 | 2 | 3 | 3 | 9 | 9 | 9 | 9 | 8 |
| Monroe | 4 | 4 | 3 | 4 | 3 | 7 | 7 | 8 | 7 | 8 |
| Roane | 8 | 8 | 8 | 10 | 11 | 6 | 6 | 6 | 4 | 3 |
| **Coastal Georgia** | | | | | | | | | | |
| Chatham | 1 | 1 | 1 | 1 | 2 | 10 | 10 | 10 | 11 | 11 |
| Glynn | 12 | 18 | 15 | 13 | 16 | 3 | 2 | 3 | 3 | 3 |
| Ware | 3 | 4 | 4 | 7 | 10 | 9 | 9 | 8 | 7 | 4 |
| **North Carolina** | | | | | | | | | | |
| Avery | 16 | 18 | 17 | 15 | 14 | 2 | 1 | 1 | 4 | 4 |
| Cherokee | 35 | 29 | 29 | 34 | 42 | 1 | 1 | 1 | 1 | 1 |
| Clay | 45 | 48 | 49 | 51 | 53 | 1 | 1 | 1 | 1 | 1 |
| Graham | 71 | 72 | 72 | 74 | 77 | 1 | 1 | 1 | 1 | 1 |
| Haywood | 10 | 10 | 11 | 12 | 11 | 5 | 5 | 5 | 4 | 5 |
| Henderson | 3 | 3 | 3 | 3 | 3 | 11 | 11 | 11 | 11 | 11 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Jackson | 25 | 25 | 25 | 24 | 24 | 1 | 1 | 1 | 1 | 2 |
| Macon | 8 | 8 | 8 | 9 | 9 | 5 | 6 | 5 | 4 | 4 |
| Mitchell | 36 | 37 | 34 | 32 | 28 | 1 | 1 | 1 | 1 | 2 |
| Swain | 21 | 25 | 30 | 28 | 28 | 2 | 2 | 2 | 2 | 2 |
| Transylvania | 15 | 14 | 13 | 14 | 14 | 3 | 3 | 4 | 3 | 3 |
| Watauga | 2 | 1 | 1 | 2 | 2 | 12 | 12 | 11 | 11 | 11 |
| Yancey | 18 | 20 | 19 | 17 | 13 | 2 | 2 | 2 | 4 | 4 |

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**Loans**

The Bank makes both secured and unsecured loans to individuals, firms, and corporations. Secured loans include first and second real estate mortgage loans and commercial loans secured by non-real estate assets. The Bank also makes direct installment loans to consumers on both a secured and unsecured basis. At December 31, 2012, commercial (secured by real estate), commercial (commercial and industrial), commercial construction, residential mortgage, residential construction, and consumer installment loans represented approximately 43%, 11%, 4%, 29%, 9% and 4%, respectively, of United s total loan portfolio.

Specific risk elements associated with the Bank s lending categories include, but are not limited to:

| Loan Type | Risk Elements |
| --- | --- |
| Commercial (secured by real estate) | Loan portfolio concentrations; declines in general economic conditions and occupancy rates; business failure and lack of a suitable alternative use for property; environmental contamination. |
| Commercial (commercial and industrial) | Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and other non-real estate assets); use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payments; declines in general economic conditions. |
| Commercial construction | Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property. |
| Residential mortgage | Loan portfolio concentrations; changes in general economic conditions or in the local economy; loss of borrower s employment; insufficient collateral value due to decline in property value. |
| Residential construction | Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property. |
| Consumer installment | Loss of borrower s employment; changes in local economy; the inability to monitor collateral. |

**Lending Policy**

The Bank makes loans primarily to persons or businesses that reside, work, own property, or operate in its primary market areas. Unsecured loans are generally made only to persons who qualify for such credit based on net worth, income and liquidity. Secured loans are made to persons who are well established and have net worth, collateral, and cash flow to support the loan. Exceptions to the Bank s policies are permitted on a case-by-case basis. Major policy exceptions require the approving officer to document the reason for the exception. Loans exceeding the lending officer s credit limit must be approved through the credit approval process involving Regional Credit Managers.

United s Credit Administration department provides each lending officer with written guidelines for lending activities as approved by the Bank s Board of Directors. Limited lending authority is delegated to lending officers by Credit Administration as authorized by the Bank s Board of Directors. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by Credit Administration as authorized by the Bank s Board of Directors. At December 31, 2012, the Bank s legal lending limit was $162 million; however, the Board of Directors has established an internal lending limit of $20 million. All loans to borrowers for any individual real estate project that exceeds $12 million or whose total aggregate borrowing relationship exceed $15 million require the approval of two Bank directors and must be reported quarterly to the Bank s Board of Directors for ratification.

**Regional Credit Managers**

United utilizes its Regional Credit Managers to provide credit administration support to the Bank as needed. The Regional Credit Managers have joint lending approval authority with the Community Bank Presidents within varying limits set by Credit Administration based on characteristics of each market. The Regional Credit Managers also provide credit underwriting support as needed by the community banks they serve.

**Loan Review and Nonperforming Assets**

The Loan Review Department of United reviews, or engages an independent third party to review, the Bank s loan portfolio on an ongoing basis to identify any weaknesses in the portfolio and to assess the general quality of credit underwriting. The results of such reviews are presented to Executive Management, the Community Bank Presidents, Credit Administration Management and the Audit Committee of the Board of Directors. If an individual loan or credit relationship has a material weakness identified during the review process, the risk rating of the loan, or generally all loans comprising that credit relationship, will be downgraded to the classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, collateral, and source of repayment, different loans in a relationship can be assigned different risk ratings. Under United s 10-tier loan grading system, grades 1 through 6 are considered pass (acceptable) credit risk, grade 7 is a watch rating, and grades 8 through 10 are adversely classified credits that require management s attention. The entire 10-grade rating scale provides for a higher numeric rating for increased risk. For example, a risk rating of 1 is the least risky of all credits and would be typical of a loan that is 100% secured by a deposit at the Bank. Risk ratings of 2 through 6 in the pass category each have incrementally more risk. The four watch list credit ratings and rating definitions are:

| | |
|---|---|
| 7 (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. |
| 8 (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. |
| 9 (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. |
| 10 (Loss) | Loans categorized as Loss have the same characteristics as Doubtful, however, probability of loss is certain. Loans classified as Loss are charged-off. |

In addition, Credit Administration, with supervision and input from Accounting, prepares a quarterly analysis to determine the adequacy of the Allowance for Loan Losses ( ALL ). The ALL analysis starts with total loans and subtracts loans fully secured by deposit accounts at the Bank, which effectively have no risk of loss. Next, all loans that are considered impaired are individually reviewed and assigned a specific reserve if one is warranted. Most collateral dependent impaired loans with specific reserves are charged down to net realizable value. The remaining loan balance for each major loan category is then multiplied by its respective loss factor that is derived from the average historical loss rate for the preceding two year period, weighted toward the most recent quarters, and adjusted to reflect current economic conditions. Loss factors for these loans are determined based on historical loss experience by type of loan. The unallocated portion of the allowance is maintained due to imprecision in estimating loss factors and economic and other conditions that cannot be entirely quantified in the analysis.

**Asset/Liability Committee**

United s asset/liability committee ( ALCO ) is composed of executive officers and the Treasurer of United. ALCO is charged with managing the assets and liabilities of United and the Bank. ALCO s primary role is to balance asset growth and income generation with the prudent management of interest rate risk, market risk and liquidity risk and with the need to maintain appropriate levels of capital. ALCO directs the Bank s overall balance sheet strategy, including the acquisition and investment of funds. At regular meetings, the committee reviews the interest rate sensitivity and liquidity positions, including stress scenarios, the net interest margin, the investment portfolio, the funding mix and other variables, such as regulatory changes, monetary policy adjustments and the overall state of the economy. A more comprehensive discussion of United s Asset/Liability Management and interest rate risk is contained in *Management s Discussion and Analysis* (Part II, Item 7) and *Quantitative and Qualitative Disclosures About Market Risk* (Part II, Item 7A) sections of this report.

**Investment Policy**

United s investment portfolio policy is to balance income generation with liquidity, interest rate sensitivity, pledging and regulatory needs. The Chief Financial Officer and the Treasurer of United administer the policy, and it is reviewed from time to time by United s ALCO and the Board of Directors. Portfolio activity, composition, and performance are reviewed and approved periodically by United s Board of Directors or a committee thereof.

**Employees**

As of December 31, 2012, United and its subsidiaries had 1,553 full-time equivalent employees. Neither United nor any of its subsidiaries are a party to any collective bargaining agreement and management believes that employee relations are good.

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**Available Information**

United s Internet website address is www.ucbi.com. United makes available free of charge through its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission.

**Supervision and Regulation**

The following is an explanation of the supervision and regulation of United and the Bank as financial institutions. This explanation does not purport to describe state, federal or Nasdaq Stock Market supervision and regulation of general business corporations or Nasdaq listed companies.

**General.** United is a registered bank holding company subject to regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the BHC Act ). United is required to file annual and quarterly financial information with the Federal Reserve and is subject to periodic examination by the Federal Reserve.

The BHC Act requires every bank holding company to obtain the Federal Reserve s prior approval before (1) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities listed in the BHC Act or found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are:

- making or servicing loans and certain types of leases;
- performing certain data processing services;
- acting as fiduciary or investment or financial advisor;
- providing brokerage services;
- underwriting bank eligible securities;
- underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and
- making investments in corporations or projects designed primarily to promote community welfare.

Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act (the GLB Act ) relaxed the previous limitations and permitted bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies which may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Among the activities that are deemed financial in nature include:

- lending, exchanging, transferring, investing for others or safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;
- providing financial, investment, or economic advisory services, including advising an investment company;
- issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and
- underwriting, dealing in or making a market in securities.

A bank holding company may become a financial holding company under this statute only if each of its subsidiary banks is well-capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. Any bank holding company that does not elect to become a financial holding company remains subject to the bank holding company restrictions of the BHC Act.

Under this legislation, the Federal Reserve Board serves as the primary umbrella regulator of financial holding companies with supervisory authority over each parent company and limited authority over its subsidiaries. The primary regulator of each subsidiary of a financial holding company will depend on the type of activity conducted by the subsidiary. For example, broker-dealer subsidiaries will be regulated largely by securities regulators and insurance subsidiaries will be regulated largely by insurance authorities.

United has no current plans to register as a financial holding company.

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United must also register with the Georgia Department of Banking and Finance ( DBF ) and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationship of United and the Bank and related matters. The DBF may also require such other information as is necessary to keep itself informed concerning compliance with Georgia law and the regulations and orders issued thereunder by the DBF, and the DBF may examine United and the Bank. Although the Bank operates branches in North Carolina and Tennessee and a loan production office in South Carolina; neither the North Carolina Banking Commission ( NCBC ), the Tennessee Department of Financial Institutions ( TDFI ), nor the South Carolina Commissioner of Banking examines or directly regulates out-of-state holding companies.

United is an affiliate of the Bank under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Bank to United, (2) investments in the stock or securities of United by the Bank, (3) the Bank taking the stock or securities of an affiliate as collateral for loans by the Bank to a borrower, and (4) the purchase of assets from United by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank and each of its subsidiaries are regularly examined by the FDIC. The Bank, as a state banking association organized under Georgia law, is subject to the supervision of, and is regularly examined by, the DBF. The Bank s North Carolina branches are subject to examination by the NCBC. The Bank s Tennessee branches are subject to examination by the TDFI. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving the Bank.

**Payment of Dividends.** United is a legal entity separate and distinct from the Bank. Most of the revenue of United results from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by United to its shareholders.

Under the regulations of the DBF, a state bank with negative retained earnings may declare dividends by first obtaining the written permission of the DBF. If a state bank has positive retained earnings, it may declare a dividend without DBF approval if it meets all the following requirements:

(a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);

(b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and

(c) the ratio of equity capital to adjusted assets is not less than 6%.

In November 2011, United entered into an informal memorandum of understanding with the Federal Reserve Bank of Atlanta and the DBF (the Holding Company MOU ). The Holding Company MOU provides, among other things, 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 Bank of Atlanta and the DBF. Additionally, the Holding Company MOU requires that United ensures the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU.

The Bank is currently subject to an informal memorandum of understanding with the FDIC and the DBF (the Bank MOU ). The Bank MOU requires, among other things, that the Bank maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of at least 10% while the Bank MOU is in place. Additionally, the Bank MOU requires 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.

On December 5, 2008, United entered into a Letter Agreement and Securities Purchase Agreement (the TARP Purchase Agreement ) with Treasury under the TARP Capital Purchase Program discussed below, pursuant to which United sold (i) 180,000 shares of United s Series B Preferred Stock and (ii) a warrant (the Warrant ) to purchase 426,540 shares (219,909 shares, as adjusted for subsequent stock dividends and a 50% reduction following United s stock offering in September 2009) of United s common stock for an aggregate purchase price of $180 million in cash. Pursuant to the terms of the Purchase Agreement, the ability of United to declare or pay dividends or distributions on its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share of ($.45) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions.

The payment of dividends by United and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank s total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank.

Under rules adopted by the Federal Reserve in November 2011, known as the Comprehensive Capital Analysis and Review ( CCAR ) Rules, bank holding companies with $50 billion or more of total assets are required to submit annual capital plans to the Federal Reserve and generally may pay dividends and repurchase stock only under a capital plan as to which the Federal Reserve has not objected. The CCAR rules will not apply to United for so long as our total consolidated assets remain below $50 billion. However, it is anticipated that United capital ratios will be important factors considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practices.

Due to our accumulated deficit (negative retained earnings), the Bank does not have the ability to pay cash dividends to the parent company in 2013 without the approval of the DBF. United did not pay cash dividends on its common stock in 2012, 2011 or 2010.

**Capital Adequacy.** Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of Total Capital to risk-weighted assets of 8%; and (2) a minimum ratio of Tier 1 Capital to risk-weighted assets of 4%. In addition, the Federal Reserve and the FDIC have established a minimum 3% leverage ratio of Tier 1 Capital to quarterly average total assets for the most highly-rated banks and bank holding companies. Total Capital is composed of Tier 1 Capital and Tier 2 Capital. Tier 1 Capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets. Tier 2 Capital includes, among other things, perpetual preferred stock and related surplus not meeting the Tier 1 Capital definition, qualifying mandatorily convertible debt securities, qualifying subordinated debt and allowances for possible loan and lease losses, subject to limitations. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The Federal Reserve will require a bank holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The FDIC, the Office of the Comptroller of the Currency (the OCC ) and the Federal Reserve consider interest rate risk in the overall determination of a bank s capital ratio, requiring banks with greater risk to maintain adequate capital for the risk. For example, regulators frequently require financial institutions with high levels of classified assets to maintain a leverage ratio of at least 8%.

In addition, Section 38 of the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the 1991 Act ). The prompt corrective action provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank s financial condition declines. The FDIC is required to resolve a bank when its ratio of tangible equity to total assets reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a well-capitalized institution has a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an adequately capitalized institution has a Total risk-based capital ratio of at least 8%, a Tier 1 risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an undercapitalized institution has a Total risk-based capital ratio of under 8%, a Tier 1 risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a significantly undercapitalized institution has a Total risk-based capital ratio of under 6%, a Tier 1 risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a critically undercapitalized institution has a ratio of tangible equity to total assets of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also allow it to downgrade an institution to a lower capital category based on supervisory factors other than capital.

Although as of December 31, 2012, the FDIC categorized the Bank as well-capitalized under current regulations, regulators expect banks to maintain capital well above the minimum levels. In addition, the Bank MOU requires that the Bank must maintain its Tier I leverage ratio at not less than 8% and its total risk-based capital ratio at not less than 10%.

The federal regulatory authorities risk-based capital guidelines parallel the 1988 Capital Accord of the Basel Committee on Banking Supervision (the Basel Committee ). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. On December 17, 2009, the Basel Committee issued a set of proposals (the Capital Proposals ) that would significantly revise the definitions of Tier 1 Capital and Tier 2 Capital, with the most significant changes being to Tier 1 Capital. Most notably, the Capital Proposals would disqualify

certain structured capital instruments, such as trust preferred securities, from Tier 1 Capital status. The Capital Proposals would also re-emphasize that common equity is the predominant component of Tier 1 Capital by adding a minimum common equity to risk-weighted assets ratio and requiring that goodwill, general intangibles and certain other items that currently must be deducted from Tier 1 Capital instead be deducted from common equity as a component of Tier 1 Capital. The Capital Proposals also leave open the possibility that the Basel Committee will recommend changes to the minimum Tier 1 Capital and Total Capital ratios of 4.0% and 8.0%, respectively.

Concurrently with the release of the Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the Liquidity Proposals, and together with the Capital Proposals, the Basel III Proposals ). The Liquidity Proposals have three key elements, including the implementation of (i) a liquidity coverage ratio designed to ensure that a bank maintains an adequate level of unencumbered, high quality assets sufficient to meet the bank s liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a net stable funding ratio designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors and that supervisors should use in monitoring the liquidity risk profiles of supervised entities.

On June 7, 2012, the federal regulatory authorities issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with Basel III Proposals and certain provisions of the Dodd-Frank Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ). The proposed rules would apply to all depository institutions and savings and loan holding companies and all bank holding companies with total consolidated assets of $500 million or more ( banking organizations ). When fully phased in, the proposed rules will require more capital with a greater emphasis on common equity. Specifically, among other things, the proposed rules:

- establish a new common equity tier 1 minimum capital requirement of 4.5%, a higher minimum tier 1 capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0% that would be phased in and fully effective in 2015;

- provide, to be considered well-capitalized , a new common equity tier 1 capital requirement of 6.5%, a higher tier 1capital to risk-weighted assets requirement of 8.0% and a higher total capital to risk-weighted assets of 10.0% that would be phased in and fully effective in 2015;

- stratifies risk-weighting of mortgage loans from 35-200% and adds 20% risk-weighting for short term unused loan commitments;

- assigns higher risk-weightings (150%) to credit exposures that are more than 90 days past due or are on nonaccrual status and certain high volatility commercial real estate loans that finance the acquisition, development or construction of real property;

- contemplates that, for banking organizations with less than $15 billion in assets, the ability to treat trust preferred securities as tier 1 capital would be phased out over a ten-year period;

- requires that unrealized gains and losses on certain securities holdings be included for purposes of calculating regulatory capital requirements; and

- limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of an additional 2.5% of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements that would be phased in and fully effective in 2019.

When the new 4.5% common equity tier 1 capital requirement and 2.5% capital conservation buffer are added, the Basel III proposal would effectively result in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7%. The proposed rules indicated that the final rule would become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019; however, the agencies have recently stated that, due to the volume of public comments received, the final rule would not be in effect on January 1, 2013. The timing of the final rule is uncertain at this time.

**Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.** The Dodd-Frank Act was enacted on July 21, 2010. The Dodd-Frank Act resulted in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. Among other things, the Dodd-Frank Act includes the following provisions:

Created a new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws. Depository institutions are subject to the Consumer Financial Protection Bureau s rule-writing authority, and existing depository institution regulatory agencies retain examination and enforcement authority for such institutions.

Established a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk. In December 2011, the Federal Reserve Board issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for (1) risk-based capital requirements and leverage limits, (2) stress testing of capital, (3) liquidity requirements, (4) overall risk management requirements, (5) resolution plan and credit exposure reporting, and (6) concentration/credit exposure limits. Most of these proposed rules will not apply to United for so long as its total consolidated assets remain below $50 billion. However, the proposed rules will apply requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each bank holding company establish a risk committee of its board of directors and that that committee include a risk expert apply to bank holding companies with total consolidated assets of $10 billion or more, a size United could grow to through organic growth or acquisitions.

Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all companies whose securities are registered with the SEC, not just financial institutions.

Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital.

Provided that interchange fees for debit cards will be set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard. This provision is known as the Durbin Amendment. In June 2011, the Federal Reserve adopted regulations for banks with total assets exceeding $10 billion, setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements certain fraud-prevention standards. Because United s total assets fall below $10 billion, this new fee structure had little impact on United.

Applied the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies and required the FDIC and Federal Reserve to seek to make their respective capital requirements for state nonmember banks and bank holding companies countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

Made permanent the $250,000 limit for federal deposit insurance.

Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Required the regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds), with implementation starting as early as July 2012. The statutory provision is commonly called the Volcker Rule . In October 2011, regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal. The proposed rules are highly complex, and many aspects of their application remain uncertain. Their implementation has been delayed into 2013. Based on the proposed rules, United does not currently anticipate that the Volcker Rule will have a material effect on its or the Bank s operations because neither entity engages in the businesses prohibited by the Volcker Rule.

Many aspects of the Dodd-Frank Act remain subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers or the financial industry more generally.

**Troubled Asset Relief Program.** On October 3, 2008, the Emergency Economic Stabilization Act of 2008 ( EESA ) was enacted establishing the Troubled Asset Relief Program ( TARP ). On October 14, 2008, Treasury announced its intention to inject capital into U.S. financial institutions under the TARP Capital Purchase Program ( CPP ) and since has injected capital into many financial institutions, including United. On December 5, 2008, United entered into the Purchase Agreement with Treasury under the CPP pursuant to which United sold 180,000 shares of Series B Preferred Stock and the Warrant for an aggregate purchase price of $180 million in cash. In the Purchase Agreement, United is subject to restrictions on its ability to pay dividends on its common stock and make certain repurchases of equity securities, including its common stock, without Treasury s consent. In addition, United agreed that, until such time as Treasury ceases to own any securities of United acquired pursuant to the Purchase Agreement, United will take all necessary actions to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of EESA as implemented by any guidance or regulation under the EESA and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing. Finally, the Purchase Agreement provides that Treasury may unilaterally amend any provision of the Purchase Agreement to the extent required to comply with any changes in applicable federal law.

The Special Inspector General for the Troubled Asset Relief Program ( SIGTARP ), was established pursuant to Section 121 of EESA, and has the duty, among other things, to conduct, supervise, and coordinate audits and investigations of the purchase, management and sale of assets by the Treasury under TARP and the CPP, including the shares of non-voting preferred shares purchased from United.

**American Recovery and Reinvestment Act of 2009.** On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ( ARRA ) was enacted. The ARRA, commonly known as the economic stimulus or economic recovery package, includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes additional executive compensation and corporate expenditure limits on all current and future TARP recipients, including United, until the institution has repaid Treasury. This repayment is now permitted under ARRA without penalty and without the need to raise new capital, subject to Treasury s consultation with the recipient s appropriate regulatory agency. The executive compensation standards include (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants up to one-third of the executive s total annual compensation, which do not fully vest during the TARP period, (ii) prohibitions on severance payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) required establishment of a company-wide policy regarding excessive or luxury expenditures , and (vi) inclusion in a participant s proxy statements for annual shareholder meetings of a nonbinding say on pay shareholder vote on the compensation of executives.

**Incentive Compensation.** In 2010, the federal banking agencies issued guidance on incentive compensation policies (the Incentive Compensation Guidance ) intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the institution s board of directors.

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

The federal banking agencies have proposed rule-making implementing provisions of the Dodd-Frank Act to prohibit incentive-based compensation plans that expose covered financial institutions to inappropriate risks. Covered financial institutions are institutions that have over $1 billion in assets and offer incentive-based compensation programs. The proposed rules would:

- provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks,
- be compatible with effective internal controls and risk management, and
- be supported by strong corporate governance, including active and effective oversight by the organization s board of directors and appropriate policies, procedures and monitoring.

The scope and content of banking regulators policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect United s ability to hire, retain and motivate its key employees.

**Commercial Real Estate.** The federal banking agencies, including the FDIC, restrict concentrations in commercial real estate lending and have noted that recent increases in banks commercial real estate concentrations have created safety and soundness concerns in the current economic downturn. The regulatory guidance mandates certain minimal risk management practices and categorizes banks with defined levels of such concentrations as banks requiring elevated examiner scrutiny. The Bank has concentrations in commercial real estate loans in excess of those defined levels. Although management believes that United s credit processes and procedures meet the risk management standards dictated by this guidance, regulatory outcomes could effectively limit increases in the real estate concentrations in the Bank s loan portfolio and require additional credit administration and management costs associated with those portfolios.

**Fair Value.** United s impaired loans and foreclosed assets may be measured and carried at fair value , the determination of which requires management to make assumptions, estimates and judgments. When a loan is considered impaired, a specific valuation allowance is allocated or a partial charge-off is taken, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost or fair value , less cost to sell, following foreclosure. Fair value is defined by accounting principles generally accepted in the United States of America ( GAAP ) as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. GAAP further defines an orderly transaction as a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets; it is not a forced transaction (for example, a forced liquidation or distress sale). Recently in the Bank s markets there have been very few transactions in the type of assets which represent the vast majority of the Bank s impaired loans and foreclosed properties which reflect orderly transactions as so defined. Instead, most transactions in comparable assets have been distressed sales not indicative of fair value. Accordingly, the determination of fair value in the current environment is difficult and more subjective than it would be in a stable real estate environment. Although management believes its processes for determining the value of these assets are appropriate and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from

management s determination of fair value. Because of this increased subjectivity in fair value determinations, there is greater than usual grounds for differences in opinions, which may result in increased disagreements between management and the Bank s regulators, disagreements which could impair the relationship between the Bank and its regulators.

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**Source of Strength Doctrine.** Federal Reserve regulations and policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, United is expected to commit resources to support the Bank.

**Loans.** Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital.

**Transactions with Affiliates.** Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Generally, these requirements limit these transactions to a percentage of the bank s capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

**Financial Privacy.** In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

**Anti-Money Laundering Initiatives and the USA Patriot Act.** A major focus of governmental policy on financial institutions in recent years has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. The USA Patriot Act of 2001 (the USA Patriot Act ) has imposed significant new compliance and due diligence obligations, creating new crimes and penalties. The United States Treasury Department has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to United and the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

**Future Legislation.** Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of United and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of United or any of its subsidiaries. With the current economic environment, the nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

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**Executive Officers of United**

Senior executives of United are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors.

The senior executive officers of United, and their ages, positions with United, past five year employment history and terms of office as of February 1, 2013, are as follows:

| Name (age) | Position with United | Officer of United Since |
|---|---|---|
| Jimmy C. Tallent (60) | President, Chief Executive Officer and Director | 1988 |
| H. Lynn Harton (51) | Chief Operating Officer since September 2012; prior to joining United was Executive Vice President and Special Assistant to the Chief Executive Officer of Toronto-Dominion Bank (2010 2012); President and Chief Executive Officer of South Financial Group (2009 2010); Chief Risk and Chief Credit Officer of South Financial Group (2007 2009); Chief Credit Officer of Regions Financial Corporation (2004 2007) | 2012 |
| Rex S. Schuette (63) | Executive Vice President and Chief Financial Officer | 2001 |
| David Shearrow (53) | Executive Vice President and Chief Risk Officer | 2007 |
| Bill M. Gilbert (60) | Director of Banking since January 2013; Regional President of North Georgia and Coastal Georgia (2011 2013); Senior Vice President of Retail Banking (2003 2011) | 2003 |
| Tim Schools (43) | Chief Strategy Officer since January 2013; Regional President of North Carolina and Tennessee (November 2011 through 2012); prior to joining United was President (2008 2010) and Chief Operating Officer (2007 2008) of American Savings Bank, F.S.B. | 2011 |
| Ray Skinner (48) | Senior Vice President, Retail Banking since September 2012; prior to joining United was Executive Vice President and Chief Banking Officer of Community & Southern Bank (2011 2012), Executive Vice President, Consumer Banking of American Savings Bank, F.S.B (2008 2011) | 2012 |

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with directors or officers of United acting solely in their capacities as such.

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**ITEM 1A. RISK FACTORS.**

An investment in United s common stock involves risk. Investors should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K and the documents incorporated by reference before deciding to purchase common stock. It is possible that risks and uncertainties not listed below may arise or become material in the future and affect United s business.

**Enforcement actions could have a material negative effect on our business, operations, financial condition, results of operations or the value of our common stock.**

Pursuant to the Holding Company MOU, United has agreed to not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or subordinated indebtedness or repurchase outstanding stock without prior regulatory approval. Additionally, the Holding Company MOU requires, among other things, that United ensures that the Bank functions in a safe and sound manner. The Bank MOU requires, among other things, that the Bank maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of at least 10% while the Bank MOU is in place and that, prior to declaring or paying any cash dividends to United, the Bank must obtain the written consent of its regulators.

If we are unable to comply with the Holding Company MOU or Bank MOU, then we could become subject to additional, heightened regulatory enforcement actions and orders, possibly including cease and desist or consent orders or written agreements. If we fail to comply with the Holding Company MOU or Bank MOU or any such additional enforcement actions, then we could, among other things, become subject to significant restrictions on our ability to develop any new business, as well as restrictions on our existing business, and we could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. The terms of any such enforcement action could have a material adverse effect on our business, operations, financial condition, results of operations or the value of our common stock. Further, as long as either memorandum of understanding is in place, it is unlikely that United or the Bank could participate in negotiated purchases, mergers or FDIC-assisted transactions.

**As a financial services company, adverse conditions in the general business or economic environment could have a material adverse effect on our financial condition and results of operations.**

Continued weakness or adverse changes in business and economic conditions generally or specifically in the markets in which we operate could adversely impact our business, including causing one or more of the following negative developments:

- a decrease in the demand for loans and other products and services offered by us;
- a decrease in the value of our loans secured by residential or commercial real estate;
- a permanent impairment of our assets, such as our deferred tax assets; or
- an increase in the number of customers or other counterparties who default on their loans or other obligations to us, which could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

For example, if we are unable to continue to generate sufficient taxable income in the future, then we may not be able to fully realize the benefits of our deferred tax assets. Such a development or one or more other negative developments resulting from adverse conditions in the general business or economic environment, some of which are described above, could have a material adverse effect on our financial condition and results of operations.

**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.**

We regularly perform an internal analysis of our capital position. Our analysis is based on the tests that were administered to the nation s nineteen largest banks by Treasury in connection with its Supervisory Capital Assessment Program ( SCAP ). Under the stress test, we apply many of the same methodologies, but less severe loss assumptions than Treasury applies in its program, to estimate our loan losses (loan charge-offs), resources available to absorb those losses and any necessary additions to capital that would be required under the more adverse stress test

scenario. As a result, our estimates for loan losses are lower than those suggested by the SCAP assumptions.

We have also calculated our loss estimates based on the SCAP test, and while we believe we have appropriately applied Treasury s assumptions in performing this internal stress test, results of this test may not be comparable to the results of stress tests performed and publicly released by Treasury, and the results of this test may not be the same as if the test had been performed by Treasury.

The results of these stress tests involve many assumptions about the economy and future loan losses and default rates, and may not accurately reflect the impact on our financial condition if the economy does not improve or continues to deteriorate. Any continued deterioration of the economy could result in credit losses significantly higher, with a corresponding impact on our financial condition and capital, than those predicted by our internal stress test.

**Our industry and business have been adversely affected by conditions in the financial markets and economic conditions generally and recent efforts to address difficult market and economic conditions may not be effective.**

Since mid-2007, the financial markets and economic conditions generally have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all residential construction, particularly in metro Atlanta and north and coastal Georgia, and residential mortgages as property prices declined rapidly and affected nearly all asset classes. The effect of the market and economic downturn also spread to other areas of the credit markets and in the availability of liquidity. The magnitude of these declines led to a crisis of confidence in the financial sector as a result of concerns about the capital base and viability of certain financial institutions. These declines have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with other financial institutions and, in some cases, to fail. In addition, customer delinquencies, foreclosures and unemployment have also increased significantly.

The current economic pressure on consumers and businesses and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations and may continue to result in credit losses and write-downs in the future. The failure of government programs and other efforts to help stabilize the banking system and financial markets and a continuation or worsening of current economic conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

**Our ability to raise additional capital could be limited and could affect our liquidity and could be dilutive to existing shareholders.**

We may be required or choose to raise additional capital, including for strategic, regulatory or other reasons. Current conditions in the capital markets are such that traditional sources of capital may not be available to us on reasonable terms if we needed to raise additional capital. In such case, there is no guarantee that we will be able to successfully raise additional capital at all or on terms that are favorable or otherwise not dilutive to existing shareholders.

**Capital resources and liquidity are essential to our businesses and could be negatively impacted by disruptions in our ability to access other sources of funding.**

Capital resources and liquidity are essential to the Bank. We depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include traditional and brokered deposits, inter-bank borrowings, Federal Funds purchased, repurchase agreements and Federal Home Loan Bank advances. We also raise funds from time to time in the form of either short-or long-term borrowings or equity issuances.

Our capital resources and liquidity could be negatively impacted by disruptions in our ability to access these sources of funding. With increased concerns about bank failures, traditional deposit customers are increasingly concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits from our subsidiary bank in an effort to ensure that the amount that they have on deposit is fully insured. In addition, the cost of brokered and other out-of-market deposits and potential future regulatory limits on the interest rate we pay for brokered deposits could make them unattractive sources of funding. Further, factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to access other sources of funds. Other financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy generally and, given recent downturns in the economy, there may not be a viable market for raising short or long-term debt or equity capital. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could be developed if we are downgraded or put on (or remain on) negative watch by the rating agencies, we suffer a decline in the level of our business activity or regulatory authorities take significant action against us, among other reasons.

Among other things, if we fail to remain well-capitalized for bank regulatory purposes, because we do not qualify under the minimum capital standards or the FDIC otherwise downgrades our capital category, it could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and trust preferred securities, and our ability to make acquisitions, and we would not be able to accept brokered deposits without prior FDIC approval. To be well-capitalized, a bank must generally maintain a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. In addition, our regulators require us to maintain higher capital levels. For example, regulators frequently require financial institutions with high levels of classified assets to maintain a leverage ratio of at least 8% and our Bank MOU currently requires us to maintain an 8% leverage ratio. If the Basel III Proposals are fully adopted, these ratios will go even higher. Our failure to remain well-capitalized or to maintain any higher capital requirements imposed on us could negatively affect our business, results of operations and financial condition.

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If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations and financial condition.

In addition, United is a legal entity separate and distinct from the Bank and depends on subsidiary service fees and dividends from the Bank to fund its payment of dividends to its common and preferred shareholders and of interest and principal on its outstanding debt and trust preferred securities. The Bank is also subject to other laws that authorize regulatory authorities to prohibit or reduce the flow of funds from the Bank to United and the Bank MOU, as well as its negative retained earnings position, requires written consent of the Bank s regulators before it can pay a dividend. Any inability of United to pay its obligations, or need to defer the payment of any such obligations, could have a material adverse effect on our business, operations, financial condition, and the value of our common stock.

**Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which we are perceived in such markets, may adversely affect financial condition or results of operations.**

In general, the amount, type and cost of our funding, including from other financial institutions, the capital markets and deposits, directly impacts our operating costs and our assets growth and therefore, can positively or negatively affect our financial condition or results of operations. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, our operating losses, our ability to remain well capitalized, events that adversely impact our reputation, enforcement actions, disruptions in the capital markets, events that adversely impact the financial services industry, changes affecting our assets, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments. Also, we compete for funding with other financial institutions, many of which are substantially larger, and have more capital and other resources than we do. In addition, as some of these competitors consolidate with other financial institutions, their competitive advantages may increase. Competition from these institutions may also increase the cost of funds.

**Our business is subject to the success of the local economies and real estate markets in which we operate.**

Our success significantly depends on the growth in population, income levels, loans and deposits and on stability in real estate values in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally do not improve significantly, our business may be adversely affected. Since mid-2007, the financial markets and economic conditions generally have experienced a variety of difficulties. If market and economic conditions continue to deteriorate or remain at their current level of deterioration for a sustained period of time, such conditions may lead to additional valuation adjustments as we continue to reassess the market value of our loan portfolio, greater losses on defaulted loans and on the sale of other real estate owned. Additionally, such adverse economic conditions in our market areas, specifically decreases in real estate property values due to the nature of our loan portfolio, more than 85% of which is secured by real estate, could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of more diverse economies.

**Our concentration of residential construction and development loans is subject to unique risks that could adversely affect our results of operations and financial condition.**

Our residential construction and development loan portfolio was $382 million at December 31, 2012, comprising 9% of total loans. Residential construction and development loans are often riskier than home equity loans or residential mortgage loans to individuals. Poor economic conditions have resulted in decreased demand for residential housing, which, in turn, has adversely affected the development and construction efforts of residential real estate developer borrowers. Consequently, economic downturns like the current one impacting our market areas adversely affect the ability of residential real estate developer borrowers to repay these loans and the value of property used as collateral for such loans. A sustained weak economy could also result in higher levels of nonperforming loans in other categories, such as commercial and industrial loans, which may result in additional losses. Because of the general economic slowdown we are currently experiencing, these loans represent higher risk due to slower sales and reduced cash flow that affect the borrowers ability to repay on a timely basis and could result in a sharp increase in our total net-charge offs and could require us to significantly increase our allowance for loan losses, which could have a material adverse effect on our financial condition or results of operations.

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**Our concentration of commercial real estate loans is subject to risks that could adversely affect our results of operations and financial condition.**

Our commercial real estate loan portfolio was $1.81 billion at December 31, 2012, comprising 43% of total loans. Commercial real estate loans typically involve larger loan balances than compared to residential mortgage loans. The repayment of loans secured by commercial real estate is dependent upon both the successful operation of the commercial project and the business operated out of that commercial real estate site, as over half of the commercial real estate loans are for owner-occupied properties. If the cash flows from the project are reduced or if the borrower s business is not successful, a borrower s ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may be subject to adverse conditions in the real estate market or economy. In addition, many economists believe that deterioration in income producing commercial real estate is likely to worsen as vacancy rates continue to rise and absorption rates of existing square footage and/or units continue to decline. Because of the general economic slowdown we are currently experiencing, these loans represent higher risk and could result in an increase in our total net-charge offs and could require us to increase our allowance for loan losses.

**Changes in prevailing interest rates may negatively affect net income and the value of our assets.**

Changes in prevailing interest rates may negatively affect the level of net interest revenue, the primary component of our net income. Federal Reserve Board policies, including interest rate policies, determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which affect our net interest revenue. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. Changes in the interest rates may negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

**United s reported financial results depend on the accounting and reporting policies of United, the application of which requires significant assumptions, estimates and judgments.**

United s accounting and reporting policies are fundamental to the methods by which it records and reports its financial condition and results of operations. United s management must make significant assumptions and estimates and exercise significant judgment in selecting and applying many of these accounting and reporting policies so they comply with GAAP and reflect management s judgment of the most appropriate manner to report United s financial condition and results. In some cases, management must select a policy from two or more alternatives, any of which may be reasonable under the circumstances, which may result in United reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting United s financial condition and results. They require management to make difficult, subjective and complex assumptions, estimates and judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to the allowance for loan losses, fair value measurement, and income taxes. Because of the uncertainty of assumptions and estimates involved in these matters, United may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the reserve provided; significantly decrease the carrying value of loans, foreclosed property or other assets or liabilities to reflect a reduction in their fair value; or, significantly increase or decrease accrued taxes and the value of our deferred tax assets.

**If our allowance for loan losses is not sufficient to cover actual loan losses, earnings would decrease.**

Our loan customers may not repay their loans according to their terms and the collateral securing the payment of these loans may be insufficient to assure repayment. We may experience significant loan losses which would have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. We maintain an allowance for loan losses in an attempt to cover any loan losses inherent in the loan portfolio. In determining the size of the allowance, our management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and real estate values, trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. As a result of these considerations, we have from time to time increased our allowance for loan losses. For the year ended December 31, 2012, we recorded a provision for loan losses of $62.5 million compared to $251 million and $223 million for the years ended December 31, 2011 and 2010, respectively. If those assumptions are incorrect, the allowance may not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in the loan portfolio.

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**We may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers and employees.**

When we make loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant s loan application, property appraisal reports, title information and the borrower s net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our financial condition or results of operations.

**Competition from financial institutions and other financial service providers may adversely affect our profitability.**

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with banks, credit unions, savings and loan associations, mortgage banking firms, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as community, super-regional, national and international financial institutions that operate offices in our market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. Many of our competitors are well-established, larger financial institutions that are able to operate profitably with a narrower net interest margin and have a more diverse revenue base. We may face a competitive disadvantage as a result of our smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although we compete by concentrating marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, customer loyalty can be easily influenced by a competitor s new products and our strategy may or may not continue to be successful.

**The terms governing the issuance of the preferred stock to Treasury may be changed, the effect of which may have an adverse effect on our operations.**

The terms of the Purchase Agreement provide that Treasury may unilaterally amend any provision of the Purchase Agreement to the extent required to comply with any changes in applicable federal law that may occur in the future. We have no control over any change in the terms of the transaction that may occur in the future. Such changes may place restrictions on our business or results of operation, which may adversely affect the market price of our common stock.

**We may face risks with respect to future expansion and acquisitions.**

We may engage in de novo branch expansion and, if the appropriate business opportunity becomes available, we may seek to acquire other financial institutions or parts of those institutions, including in FDIC-assisted transactions. These involve a number of risks, including:

- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to an acquired branch or institution, a new branch office or a new market;
- the time and costs of evaluating new markets, hiring or retaining experienced local management and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on results of operations;
- the loss of key employees and customers of an acquired branch or institution;
- the difficulty or failure to successfully integrate the acquired financial institution or portion of the institution; and
- the temporary disruption of our business or the business of the acquired institution.

**Changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our financial condition and results of operations.**

We and our subsidiary bank are heavily regulated by federal and state authorities. This regulation is designed primarily to protect depositors, federal deposit insurance funds and the banking system as a whole, but not shareholders. Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. While we cannot predict the regulatory changes that may be borne out of the current economic crisis, and we cannot predict whether we will become subject to increased regulatory scrutiny by any of these regulatory agencies, any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

Federal and state regulators have the ability to impose or request that we consent to substantial sanctions, restrictions and requirements on our banking and nonbanking subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. In particular, institutions that are not sufficiently capitalized in accordance with regulatory standards may also face capital directives or prompt corrective action. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Enforcement actions, including the imposition of monetary penalties, may have a material impact on our financial condition or results of operations, and damage to our reputation, and loss of our holding company status. In addition, compliance with any such action could distract management s attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital. Closure of the Bank would result in a total loss of your investment.

**The Dodd-Frank Act and related regulations may adversely affect our business, financial condition, liquidity or results of operations.**

The Dodd-Frank Act was enacted on July 21, 2010. The Dodd-Frank Act created a new Consumer Financial Protection Bureau with the power to promulgate and enforce consumer protection laws. Depository institutions are subject to the Consumer Financial Protection Bureau s rule-writing authority, and existing depository institution regulatory agencies retain examination and enforcement authority for such institutions. The Dodd-Frank Act also established a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk, made permanent the $250,000 limit for federal deposit insurance, provided unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions and repealed the federal prohibitions on the payment of interest on demand deposits. The expiration of the unlimited insurance on demand deposits could result in some deposit balance attrition to other financial institutions, as deposit customers restructure their deposits to manage their deposit insurance coverage. Among other things, the Dodd-Frank Act includes provisions affecting (1) corporate governance and executive compensation of all companies whose securities are registered with the Securities and Exchange Commission, (2) FDIC insurance assessments, (3) interchange fees for debit cards, which are set by the Federal Reserve under a restrictive reasonable and proportional cost per transaction standard, (4) minimum capital levels for bank holding companies, subject to a grandfather clause for financial institutions with less than $15 billion in assets, (5) derivative and proprietary trading by financial institutions, and (6) the resolution of large financial institutions.

Compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations and increase our capital requirements and constraints, any of which may have a material adverse impact on our business, financial condition, liquidity or results of operations.

**The short-term and long-term impact of the changing regulatory capital requirements is uncertain.**

On June 7, 2012, the federal regulatory authorities proposed rules, the Basel III Proposals, that would substantially amend the regulatory risk-based capital rules applicable to United and the Bank. The proposed rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The proposed rules were subject to a public comment period that has expired and there is no date set for the adoption of final rules.

The Basel III Proposals include new minimum risk-based capital and leverage ratios, which would be phased in during through 2015, and would modify capital and asset definitions for purposes of calculating those ratios. Among other things, the proposals establish a new common equity tier 1 minimum capital requirement of 4.5%, a higher minimum tier 1capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0% that would be phased in and fully effective in 2015. In addition, the proposals provide, to be considered well-capitalized , a new common equity tier 1 capital requirement of 6.5%, a higher tier 1capital to risk-weighted assets requirement of 8.0% and a higher total capital to risk-weighted assets of 10.0% that would be phased in and fully effective in 2015. Moreover, the proposals would limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of an additional 2.5% of common equity tier 1 capital in addition to the 4.5% minimum common equity tier 1 requirement and the other amounts necessary to the minimum risk-based capital requirements that would be phased in and fully effective in 2019. The proposals also seek to eliminate trust preferred securities from Tier 1 capital over a ten-year period.

While the Basel III Proposals and other regulatory capital requirements will likely result in generally higher regulatory capital standards with an increased focus on common equity, it is difficult at this time to predict when or how any new standards will ultimately be applied to United and the Bank. The application of more stringent capital requirements for United and the Bank could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in additional regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our

having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in us modifying our business strategy and could limit our ability to make dividends.

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**Our ability to fully utilize deferred tax assets could be impaired.**

We have established a full valuation allowance against our net deferred tax asset of $270 million as of December 31, 2012, which includes approximately $221 million of deferred tax benefits related to federal and state operating loss carry-forwards. Our ability to use such assets, including the reversal or partial release of the valuation allowance, is dependent on our ability to generate future earnings within the operating loss carry-forward periods, which are generally 20 years. If we do not realize taxable earnings within the carry-forward periods, our deferred tax asset would be permanently impaired. Additionally, our ability to use such assets to offset future tax liabilities could be permanently impaired if cumulative common stock transactions over a rolling three-year period resulted in an ownership change under Section 382 of the Internal Revenue Code. There is no guarantee that the Plan will prevent United from experiencing an ownership change under Section 382. Our inability to utilize these deferred tax assets (benefits) would have a material adverse effect on our financial condition and results of operations.

**System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.**

We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure we use, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or users. Such problems could jeopardize the security of our customers personal information and other information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, or inhibit current and potential customers from our Internet banking services, any of all of which could have a material adverse effect on our results of operations and financial condition. Although we have security measures designed to mitigate the possibility of break-ins, breaches and other disruptive problems, including firewalls and penetration testing, there can be no assurance that such security measures will be effective in preventing such problems.

**Our lack of geographic diversification increases our risk profile.**

Our operations are located principally in Georgia, western North Carolina and east Tennessee. As a result of this geographic concentration, our results depend largely upon economic and business conditions in this area. Deterioration in economic and business conditions in our service area could have a material adverse impact on the quality of our loan portfolio and the demand for our products and services, which in turn may have a material adverse effect on our results of operations.

**Our interest-only home equity lines of credit expose us to increased lending risk.**

At December 31, 2012, we had $385 million of home equity line of credit loans, which represented 9% of our loan portfolio as of that date. Historically, United s home equity lines of credit generally had a 35 month or 10 year draw period with interest-only payment requirements for the term of the loan, a balloon payment requirement at the end of the draw period and a maximum 80% combined loan to value ratio. Since June, 2012 new home equity lines of credit generally have a 10 year interest only draw period followed by a 15 year amortized repayment period for any outstanding balance at the 10 year conversion date. United continues to offer a home equity line of credit with a 35 month draw period with interest-only payment requirements for the term of the loan with a balloon payment requirement at the end of the draw period. All home equity line of credit products, historically and currently available, have a maximum 80% combined loan to value ratio. These loans are also secured by a first or second lien on the underlying home.

In the case of interest-only loans, a borrower s monthly payment is subject to change when the loan converts to fully-amortizing status. Since the borrower s monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, the borrower might not be able to afford the increased monthly payment. In addition, interest-only loans have a large, balloon payment at the end of the loan term, which the borrower may be unable to pay. Also, real estate values may decline, dramatically reducing or even eliminating the borrower s equity, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off their mortgage obligations. The risks can be magnified by United s limited ability to monitor the delinquency status of the first lien on the collateral. For these reasons, home equity lines of credit are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of losses.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

There are no unresolved comments from the Securities and Exchange Commission staff regarding United s periodic or current reports under the Exchange Act.

**ITEM 2. PROPERTIES.**

The executive offices of United are located at 125 Highway 515 East, Blairsville, Georgia. United owns this property. The Bank conducts business from facilities primarily owned by the Bank or its subsidiaries, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Bank provides services or performs operational functions at 125 locations, of which 104 are owned and 21 are leased under operating leases. Note 9 to United s consolidated financial statements includes additional information regarding amounts invested in premises and equipment.

**ITEM 3. 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 knowledge and advice of counsel, in the opinion of management, there is no such pending or threatened legal matter in which an adverse decision will result in a material adverse change in the consolidated financial condition or results of operations of United. No material proceedings terminated in the fourth quarter of 2012.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

PART II

**ITEM 5. MARKET FOR UNITED S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**Stock.** United s common stock trades on the Nasdaq Global Select Market under the symbol UCBI . The closing price for the period ended December 31, 2012 was $9.44. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2012 and 2011.

| | 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 | 9.49 | 8.01 | 9.44 | 202,871 | 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.

At January 31, 2013, there were approximately 6,700 record shareholders and 15,000 beneficial shareholders of United s common stock.

**Dividends.** No cash or stock dividends were declared on United s common stock during 2012 or 2011. Federal and state laws and regulations impose restrictions on the ability of United and the Bank to pay dividends, and the Holding Company MOU provides that United may not incur additional indebtedness, pay cash dividends, make payments on our trust preferred securities or repurchase outstanding stock without prior approval of the Federal Reserve and DBF. We were not given permission to pay interest on our trust preferred securities and dividends on our preferred stock during the first quarter of 2011. Effective April 15, 2011, United received approval to make payments for currently payable and previously deferred dividends and interest on its preferred stock and trust preferred securities. Since then, United has continued to receive quarterly approvals of all payments.

In addition, pursuant to the terms of the Purchase Agreement entered into with Treasury under the CPP, the ability of United to declare or pay dividends or distributions on its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share of ($.45) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions. Additional information regarding this item is included in Note 21 to the consolidated financial statements, under the heading of Supervision and Regulation in Part I of this report and in Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Dividends.

**Share Repurchases.** Except as described below under Sales of Unregistered Securities, no shares were repurchased during 2012 or 2011. United s Amended and Restated 2000 Key Employee Stock Option Plan allows option holders to exercise stock options by delivering previously acquired shares having a fair market value equal to the exercise price provided that the shares delivered must have been held by the option holder for at least six months. No shares were delivered to exercise stock options in 2012 or 2011.

**Sales of Unregistered Securities.** On February 22, 2011, United entered into a share exchange agreement (the Share Exchange Agreement ) with Elm Ridge Offshore Master Fund, Ltd. (the Master Fund ) and Elm Ridge Value Partners, L.P. ( Value Partners and, together with the Master Fund, collectively, the Elm Ridge Parties ). Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 1,551,126 shares of United s common stock, in exchange for 16,613 Series D Preferred Shares and warrants to purchase 1,551,126 shares of common stock pursuant to an exemption provided by Section 4(2) of the Securities Act of 1933. The warrants may be exercised at any time or from time to time prior to August 22, 2013.

**Performance Graph.** Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United s common stock against the cumulative total return on the Nasdaq Stock Market (U.S. Companies) Index and the Nasdaq Bank Stocks Index for the five-year period commencing December 31, 2007 and ending on December 31, 2012.

**FIVE YEAR CUMULATIVE TOTAL RETURNS***

COMPARISON OF UNITED COMMUNITY BANKS, INC.,

NASDAQ STOCK MARKET (U.S.) INDEX

AND NASDAQ BANK INDEX

As of December 31

| | Cumulative Total Return * | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| United Community Banks, Inc. | $ 100 | $ 89 | $ 22 | $ 13 | $ 9 | $ 13 |
| Nasdaq Stock Market (U.S.) Index | 100 | 61 | 88 | 104 | 105 | 124 |
| Nasdaq Bank Index | 100 | 73 | 61 | 72 | 65 | 77 |

* Assumes $100 invested on December 31, 2007 in United s common stock and above noted indexes. Total return includes reinvestment of dividends at the closing stock price of the common stock on the dividend payment date and the closing values of stock and indexes as of December 31 of each year.

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**ITEM 6. SELECTED FINANCIAL DATA.**
**For the Years Ended December 31,**

| *(in thousands, except per share data; taxable equivalent)* | **2012** | **2011** | **2010** | **2009** | **2008** |
|---|---|---|---|---|---|
| **INCOME SUMMARY** | | | | | |
| Net interest revenue | $ 229,099 | $ 233,669 | $ 243,052 | $ 245,227 | $ 238,704 |
| Operating provision for loan losses [1] | 62,500 | 251,000 | 234,750 | 310,000 | 184,000 |
| Operating fee revenue [2] | 56,771 | 49,908 | 48,548 | 50,964 | 46,081 |
| **Total operating revenue** [1][2] | 223,370 | 32,577 | 56,850 | (13,809) | 100,785 |
| Operating expenses [3] | 186,774 | 261,599 | 242,952 | 217,050 | 200,335 |
| Loss on sale of nonperforming assets | | | 45,349 | | |
| Operating income (loss) from continuing operations before taxes | 36,596 | (229,022) | (231,451) | (230,859) | (99,550) |
| Operating income taxes | 2,740 | (2,276) | 73,218 | (91,754) | (35,651) |
| **Net operating income (loss) from continuing operations** | 33,856 | (226,746) | (304,669) | (139,105) | (63,899) |
| Gain from acquisition, net of tax | | | | 7,062 | |
| Noncash goodwill impairment charges | | | (210,590) | (95,000) | |
| Severance cost, net of tax benefit | | | | (1,797) | |
| Fraud loss provision and subsequent recovery, net of tax benefit | | | 11,750 | | |
| Net income (loss) from discontinued operations | | | (101) | 513 | 449 |
| Gain from sale of subsidiary, net of income taxes and selling costs | | | 1,266 | | |
| **Net income (loss)** | 33,856 | (226,746) | (502,344) | (228,327) | (63,450) |
| Preferred dividends and discount accretion | 12,148 | 11,838 | 10,316 | 10,242 | 724 |
| **Net income (loss) available to common shareholders** | $ 21,708 | $ (238,584) | $ (512,660) | $ (238,569) | $ (64,174) |
| **PERFORMANCE MEASURES** | | | | | |
| Per common share: | | | | | |
| Diluted operating earnings (loss) from continuing operations [1][2][3] | $ .38 | $ (5.97) | $ (16.64) | $ (12.37) | $ (6.82) |
| Diluted earnings (loss) from continuing operations | .38 | (5.97) | (27.15) | (19.80) | (6.82) |
| Diluted earnings (loss) | .38 | (5.97) | (27.09) | (19.76) | (6.77) |
| Cash dividends declared (rounded) | | | | | .87 |
| Stock dividends declared [6] | | | | 3 for 130 | 2 for 130 |
| Book value | 6.67 | 6.62 | 15.40 | 41.78 | 84.75 |
| Tangible book value [5] | 6.57 | 6.47 | 14.80 | 30.09 | 51.93 |
| Key performance ratios: | | | | | |
| Return on equity [4] | 5.43% | (93.57)% | (85.08)% | (34.40)% | (7.82)% |
| Return on assets | .49 | (3.15) | (6.61) | (2.76) | (.76) |
| Net interest margin | 3.50 | 3.44 | 3.56 | 3.29 | 3.18 |
| Operating efficiency ratio from continuing operations [2][3] | 65.43 | 92.27 | 98.98 | 73.97 | 70.00 |
| Equity to assets | 8.47 | 7.75 | 10.77 | 11.12 | 10.22 |
| Tangible equity to assets [5] | 8.38 | 7.62 | 8.88 | 8.33 | 6.67 |
| Tangible common equity to assets [5] | 5.54 | 3.74 | 6.52 | 6.15 | 6.57 |
| Tangible common equity to risk-weighted assets [5] | 8.26 | 8.25 | 5.64 | 10.39 | 8.34 |
| **ASSET QUALITY *** | | | | | |
| Non-performing loans | $ 109,894 | $ 127,479 | $ 179,094 | $ 264,092 | $ 190,723 |
| Foreclosed properties | 18,264 | 32,859 | 142,208 | 120,770 | 59,768 |
| Total non-performing assets (NPAs) | 128,158 | 160,338 | 321,302 | 384,862 | 250,491 |
| Allowance for loan losses | 107,137 | 114,468 | 174,695 | 155,602 | 122,271 |
| Operating net charge-offs [1] | 69,831 | 311,227 | 215,657 | 276,669 | 151,152 |
| Allowance for loan losses to loans | 2.57% | 2.79% | 3.79% | 3.02% | 2.14% |
| Operating net charge-offs to average loans [1] | 1.69 | 7.33 | 4.42 | 5.03 | 2.57 |
| NPAs to loans and foreclosed properties | 3.06 | 3.87 | 6.77 | 7.30 | 4.35 |
| NPAs to total assets | 1.88 | 2.30 | 4.42 | 4.81 | 2.92 |

| | | | | | |
|---|---|---|---|---|---|
| **AVERAGE BALANCES** *($ in millions)* | | | | | |
| Loans | $ 4,166 | $ 4,307 | $ 4,961 | $ 5,548 | $ 5,891 |
| Investment securities | 2,089 | 1,999 | 1,453 | 1,656 | 1,489 |
| Earning assets | 6,547 | 6,785 | 6,822 | 7,465 | 7,504 |
| Total assets | 6,865 | 7,189 | 7,605 | 8,269 | 8,319 |
| Deposits | 5,885 | 6,275 | 6,373 | 6,713 | 6,524 |
| Shareholders equity | 582 | 557 | 819 | 920 | 850 |
| Common shares Basic *(thousands)* | 57,857 | 39,943 | 18,925 | 12,075 | 9,474 |
| Common shares Diluted *(thousands)* | 57,857 | 39,943 | 18,925 | 12,075 | 9,474 |
| **AT YEAR END** *($ in millions)* | | | | | |
| Loans * | $ 4,175 | $ 4,110 | $ 4,604 | $ 5,151 | $ 5,705 |
| Investment securities | 2,079 | 2,120 | 1,490 | 1,530 | 1,617 |
| Total assets | 6,802 | 6,983 | 7,276 | 8,000 | 8,592 |
| Deposits | 5,952 | 6,098 | 6,469 | 6,628 | 7,004 |
| Shareholders equity | 581 | 575 | 469 | 962 | 989 |
| Common shares outstanding *(thousands)* | 57,741 | 57,561 | 18,937 | 18,809 | 9,602 |

(1) Excludes the recovery of $11.8 million in previously recognized fraud-related loan losses in 2010. (2) Excludes the gain from acquisition of $11.4 million, net of income tax expense of $4.3 million in 2009. (3) Excludes the goodwill impairment charges of $211 million and $95 million in 2010 and 2009, respectively, and severance costs of $2.9 million, net of income tax benefit of $1.1 million in 2009. (4) Net income (loss) available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (5) Excludes effect of acquisition related intangibles and associated amortization. (6) Number of new shares issued for shares currently held.

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

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**Selected Financial Data (Continued)**

| *(in thousands, except per share data; taxable equivalent)* | 2012 Fourth Quarter | 2012 Third Quarter | 2012 Second Quarter | 2012 First Quarter | 2011 Fourth Quarter | 2011 Third Quarter | 2011 Second Quarter | 2011 First Quarter |
|---|---|---|---|---|---|---|---|---|
| **INCOME SUMMARY** | | | | | | | | |
| Interest revenue | $ 64,450 | $ 65,978 | $ 66,780 | $ 70,221 | $ 71,905 | $ 74,543 | $ 76,931 | $ 75,965 |
| Interest expense | 8,422 | 8,607 | 9,944 | 11,357 | 12,855 | 15,262 | 17,985 | 19,573 |
| Net interest revenue | 56,028 | 57,371 | 56,836 | 58,864 | 59,050 | 59,281 | 58,946 | 56,392 |
| Provision for loan losses | 14,000 | 15,500 | 18,000 | 15,000 | 14,000 | 36,000 | 11,000 | 190,000 |
| Fee revenue | 14,761 | 13,764 | 12,867 | 15,379 | 12,667 | 11,498 | 13,905 | 11,838 |
| **Total revenue** | 56,789 | 55,635 | 51,703 | 59,243 | 57,717 | 34,779 | 61,851 | (121,770) |
| Operating expenses | 50,726 | 44,783 | 44,310 | 46,955 | 51,080 | 46,520 | 48,728 | 115,271 |
| Income (loss) before income taxes | 6,063 | 10,852 | 7,393 | 12,288 | 6,637 | (11,741) | 13,123 | (237,041) |
| Income tax expense (benefit) | 802 | 284 | 894 | 760 | (3,264) | (402) | 1,095 | 295 |
| **Net income (loss)** | 5,261 | 10,568 | 6,499 | 11,528 | 9,901 | (11,339) | 12,028 | (237,336) |
| Preferred dividends and discount accretion | 3,045 | 3,041 | 3,032 | 3,030 | 3,025 | 3,019 | 3,016 | 2,778 |
| **Net income (loss) available to common shareholders** | $ 2,216 | $ 7,527 | $ 3,467 | $ 8,498 | $ 6,876 | $ (14,358) | $ 9,012 | $ (240,114) |
| **PERFORMANCE MEASURES** | | | | | | | | |
| Per common share: | | | | | | | | |
| Diluted income (loss) | .04 | .13 | .06 | .15 | .12 | (.25) | .16 | (13.00) |
| Book value | 6.67 | 6.75 | 6.61 | 6.68 | 6.62 | 6.77 | 7.11 | 2.20 |
| Tangible book value [2] | 6.57 | 6.64 | 6.48 | 6.54 | 6.47 | 6.61 | 6.94 | 1.69 |
| Key performance ratios: | | | | | | | | |
| Return on equity [1][3] | 2.15% | 7.43% | 3.51% | 8.78% | 7.40% | (15.06)% | 42.60% | (526.54)% |
| Return on assets [3] | .31 | .63 | .37 | .66 | .56 | (.64) | .66 | (13.04) |
| Net interest margin [3] | 3.44 | 3.60 | 3.43 | 3.53 | 3.51 | 3.55 | 3.41 | 3.30 |
| Efficiency ratio | 71.69 | 62.95 | 63.84 | 63.31 | 71.23 | 65.73 | 66.88 | 169.08 |
| Equity to assets | 8.63 | 8.75 | 8.33 | 8.19 | 8.28 | 8.55 | 8.06 | 6.15 |
| Tangible equity to assets [2] | 8.55 | 8.66 | 8.24 | 8.08 | 8.16 | 8.42 | 7.93 | 6.01 |
| Tangible common equity to assets [2] | 5.67 | 5.73 | 5.45 | 5.33 | 5.38 | 5.65 | 1.37 | 2.70 |
| Tangible common equity to risk-weighted assets [2] | 8.26 | 8.44 | 8.37 | 8.21 | 8.25 | 8.52 | 8.69 | .75 |
| **ASSET QUALITY *** | | | | | | | | |
| Non-performing loans | $ 109,894 | $ 115,001 | $ 115,340 | $ 129,704 | $ 127,479 | $ 144,484 | $ 71,065 | $ 83,769 |
| Foreclosed properties | 18,264 | 26,958 | 30,421 | 31,887 | 32,859 | 44,263 | 47,584 | 54,378 |
| Total non-performing assets (NPAs) | 128,158 | 141,959 | 145,761 | 161,591 | 160,338 | 188,747 | 118,649 | 138,147 |
| Allowance for loan losses | 107,137 | 107,642 | 112,705 | 113,601 | 114,468 | 146,092 | 127,638 | 133,121 |
| Net charge-offs | 14,505 | 20,563 | 18,896 | 15,867 | 45,624 | 17,546 | 16,483 | 231,574 |
| Allowance for loan losses to loans | 2.57% | 2.60% | 2.74% | 2.75% | 2.79% | 3.55% | 3.07% | 3.17% |
| Net charge-offs to average loans [3] | 1.39 | 1.99 | 1.85 | 1.55 | 4.39 | 1.68 | 1.58 | 20.71 |
| NPAs to loans and foreclosed properties | 3.06 | 3.41 | 3.51 | 3.88 | 3.87 | 4.54 | 2.82 | 3.25 |
| NPAs to total assets | 1.88 | 2.12 | 2.16 | 2.25 | 2.30 | 2.74 | 1.66 | 1.79 |
| **AVERAGE BALANCES** *($ in millions)* | | | | | | | | |
| Loans | $ 4,191 | $ 4,147 | $ 4,156 | $ 4,168 | $ 4,175 | $ 4,194 | $ 4,266 | $ 4,599 |
| Investment securities | 2,088 | 1,971 | 2,145 | 2,153 | 2,141 | 2,150 | 2,074 | 1,625 |
| Earning assets | 6,482 | 6,346 | 6,665 | 6,700 | 6,688 | 6,630 | 6,924 | 6,902 |
| Total assets | 6,778 | 6,648 | 6,993 | 7,045 | 7,019 | 7,000 | 7,363 | 7,379 |
| Deposits | 5,873 | 5,789 | 5,853 | 6,028 | 6,115 | 6,061 | 6,372 | 6,560 |
| Shareholders equity | 585 | 582 | 583 | 577 | 581 | 598 | 594 | 454 |
| Common shares basic *(thousands)* | 57,971 | 57,880 | 57,840 | 57,764 | 57,646 | 57,599 | 25,427 | 18,466 |
| Common shares diluted *(thousands)* | 57,971 | 57,880 | 57,840 | 57,764 | 57,646 | 57,599 | 57,543 | 18,466 |

| **AT PERIOD END** *($ in millions)* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Loans * | $ 4,175 | $ 4,138 | $ 4,119 | $ 4,128 | $ 4,110 | $ 4,110 | $ 4,163 | $ 4,194 |
| Investment securities | 2,079 | 2,025 | 1,984 | 2,202 | 2,120 | 2,123 | 2,188 | 1,884 |
| Total assets | 6,802 | 6,699 | 6,737 | 7,174 | 6,983 | 6,894 | 7,152 | 7,709 |
| Deposits | 5,952 | 5,823 | 5,822 | 6,001 | 6,098 | 6,005 | 6,183 | 6,598 |
| Shareholders equity | 581 | 585 | 576 | 580 | 575 | 583 | 603 | 586 |
| Common shares outstanding *(thousands)* | 57,741 | 57,710 | 57,641 | 57,603 | 57,561 | 57,510 | 57,469 | 20,903 |

(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.

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**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**
**Overview**

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

Operating earnings (loss) and operating earnings (loss) per diluted share are non-GAAP performance measures. United s management believes that operating performance measures are useful in analyzing the Company s financial performance trends since they exclude items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on pages 34 and 35.

While United continues to experience challenges in its loan portfolio caused by the weakened housing and commercial real estate markets, the Company s financial condition improved considerably in 2012. United was able to experience loan growth, despite the fragile economic conditions in its markets and intense competition for quality loans. United reported net income of $33.9 million in 2012 compared to a net loss of $227 million in 2011, which primarily reflected the credit losses taken in the first quarter associated with the execution of a plan to sell approximately $293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately $142 million in foreclosed properties (the Problem Asset Disposition Plan ). Diluted earnings per common share was $.38 for the year ended December 31, 2012, compared with a diluted loss per common share of $5.97 for 2011.

United s approach to managing through the challenging economic cycle has been to aggressively deal with credit problems and dispose of troubled assets quickly, taking losses as necessary. United s provision for loan losses was $62.5 million in 2012 compared with $251 million in 2011, reflecting the improvement in the credit quality of United s loan portfolio. Net charge-offs for 2012 were $69.8 million compared with $311 million in 2011. During the second quarter of 2011, in conjunction with a bulk sale transaction (the Bulk Loan Sale ), performing substandard loans with a carrying amount of $166 million and nonperforming loans with a carrying amount of $101 million were sold for $87.9 million.

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 being 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 losses inherent in the loan portfolio, as measured by United s quarterly analysis of the allowance for loan losses, has decreased accordingly.

As of December 31, 2012, United s allowance for loan losses was $107 million, or 2.57% of loans compared to $114 million, or 2.79% of loans at the end of 2011. Nonperforming assets of $128 million, which excludes assets that are covered by loss sharing agreements with the FDIC, were 1.88% of total assets at December 31, 2012, compared to 2.30% as of December 31, 2011.

Taxable equivalent net interest revenue was $229 million for 2012, compared to $234 million in 2011. The $4.57 million, or 2% decrease in net interest revenue, was primarily the result of lower yields on the loan and securities portfolios, which were due to loan pricing competition and the reinvestment of maturing and called securities proceeds at record low interest rates. The decrease in net interest revenue was substantially offset by lower deposit costs.

Net interest margin increased 6 basis points from 3.44% in 2011 to 3.50% in 2012 due primarily to the smaller balance of interest earning assets. During the financial crisis, United maintained levels of liquidity well in excess of the level carried during periods of more stable economic conditions. The higher levels of liquidity inflated the balance sheet at a slightly negative spread. Beginning in 2011 and continuing throughout 2012, United has removed much of the excess liquidity from its balance sheet as credit concerns and economic conditions began to stabilize. Also contributing to the 2012 margin improvement was a higher average balance of non-interest bearing demand deposits.

Fee revenue of $56.8 million was up $6.86 million, or 14%, from 2011. Overdraft fees declined $944,000, or 7%, as a result of regulatory changes requiring customer consent before using overdraft services. This decline was more than offset by a $1.03 million increase in ATM and debit card fee revenue. In addition, beginning January 1, 2012, United began assessing service fees on low balance demand deposit accounts which increased other deposit service charges by $2.48 million over 2011. Mortgage loan and related fees increased $5.06 million compared to the prior year, due to higher origination volumes that were driven by record low mortgage rates. Hedge ineffectiveness gains recognized in 2012 were $659,000 compared with $5.00 million in 2011.

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For 2012, operating expenses of $187 million were down $74.8 million, or 29%, from the same period in the prior year. Lower salary and employee benefits expense accounted for $4.07 million of the decrease, due to the reduction in staff levels. At December 31, 2012, United had 1,590 staff compared with 1,754 at December 31, 2011, a reduction of 164 staff. Foreclosed property costs were $64.9 million lower in 2012, due to the Problem Asset Disposition that drove up foreclosed property costs in 2011. United s focus on reducing costs and improving operational efficiency resulted in the reduction of most expense categories in 2012.

As of December 31, 2012, United established litigation reserves of $4.00 million by recording a charge to other operating expenses. The litigation reserves are described in more detail below in Transaction with Fletcher International Legal Disputes .

Loans at December 31, 2012 were $4.18 billion, up $65 million from the end of 2011. This was the first year over year loan growth since 2008. Much of the loan growth resulted from United s focus on owner-occupied commercial real estate and small business lending. United has also been running a successful home equity line of credit promotion that added $100 million in new loans in the second half of the year. In addition, United purchased $40 million of indirect auto loans during 2012. Totaling $382 million, residential construction loans at December 31, 2012 represented 9% of outstanding loans, down from 11% at the end of 2011, a decrease of $66.7 million. Deposits were down $146 million to $5.95 billion, as United focused on reducing interest expense by allowing attrition in higher rate certificates of deposit by not aggressively competing with rates. United s focus was to increase low cost core transaction deposits which grew $311 million in 2012, excluding public funds deposits. At the end of 2012, total equity capital was $581 million, up $6 million from December 31, 2011, reflecting the company s return to profitability in 2012. At December 31, 2012, all of United s regulatory capital ratios were above well capitalized levels.

**Critical Accounting Policies**

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America 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. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon future events. Carrying assets and liabilities at fair value results in more financial statement volatility. The fair values and the information used to record the valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies for United are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant effect on the financial statements.

Management considers the following accounting policies to be critical accounting policies:

*Allowance for Loan Losses*

The allowance for loan losses represents management s estimate of probable credit losses inherent in the loan portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on non-impaired loans based on historical loss experience, management s evaluation of the current loan portfolio, and consideration of current economic trends and conditions. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management s periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

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The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimate. The allocated component of the allowance for loan losses reflects losses inherent in the loan portfolio and is based on analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on impairment analyses of all nonaccrual loans over $500,000, accruing substandard loans in relationships over $2 million and Troubled Debt Restructured loans ( TDRs ), which are all considered impaired loans. These analyses involve judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loss element is determined using the weighted average of actual losses incurred over the prior eight quarters for each type of loan, updated quarterly. The weighted average is weighted toward the most recent quarters loss experience. The historical loss experience is adjusted for known changes in economic conditions and credit quality trends such as changes in the amount of past due and nonperforming loans. The resulting loss allocation factors are applied to the balance of each type of loan after removing the balance of impaired loans and other specifically allocated loans from each category. The loss allocation factors are updated quarterly. The allocated component of the allowance for loan losses also includes consideration of concentrations of credit and changes in portfolio mix.

The unallocated portion of the allowance reflects management s estimate of probable inherent but undetectable losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower s financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that accounts for the inherent imprecision in loan loss estimation based on historical loss experience as a result of United s growth through acquisitions, which have expanded the geographic footprint in which it operates, and changed its portfolio mix. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical losses used in developing loss allocation factors may not be representative of actual losses inherent in the portfolio.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. Although management believes its processes for determining the allowance adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect earnings or financial position in future periods.

Additional information on United s loan portfolio and allowance for loan losses can be found in the sections of Management s Discussion and Analysis titled Asset Quality and Risk Elements and Nonperforming Assets and in the sections of Part I, Item 1 titled Lending Policy and Loan Review and Nonperforming Assets . Note 1 to the consolidated financial statements includes additional information on United s accounting policies related to the allowance for loan losses.

*Fair Value Measurements*

United s impaired loans and foreclosed assets may be measured and carried at fair value, the determination of which requires management to make assumptions, estimates and judgments. At December 31, 2012, the percentage of total assets measured at fair value was 30%. See Note 23 Fair Value in the consolidated financial statements herein for additional disclosures regarding the fair value of our assets and liabilities.

When a loan is considered impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost, fair value, less cost to sell, or listed selling price less cost to sell, following foreclosure. Fair value is defined by GAAP as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. GAAP further defines an orderly transaction as a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets. It is not a forced transaction (for example, a forced liquidation or distress sale). Recently in the Bank s markets there have been very few transactions in the type of assets which represent the vast majority of the Bank s impaired loans and foreclosed properties which reflect orderly transactions as so defined. Instead, most transactions in comparable assets have been distressed sales not indicative of fair value. Accordingly, the determination of fair value in the current environment is difficult and more subjective than it would be in a stable real estate environment. Although management believes its processes for determining the value of these assets are appropriate and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management s determination of fair value. In addition, because of this increased subjectivity in fair value determinations, there is greater than usual grounds for differences in opinions, which may result in increased disagreements between management and the Bank s regulators, disagreements which could cause the Bank to change its judgments about fair value.

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The fair values for available for sale and held to maturity securities are generally based upon quoted market prices or observable market prices for similar instruments. United utilizes a third-party pricing service to assist with determining the fair value of its securities portfolio. The pricing service uses observable inputs when available including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers. These values take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information. When market observable data is not available, which generally occurs due to the lack of liquidity for certain securities, the valuation of the security is subjective and may involve substantial judgment by management. As of December 31, 2012, United had $350,000 of available for sale securities valued using unobservable inputs. This amount represents less than .01% of total assets. United periodically reviews available for sale securities that are in an unrealized loss position to determine whether other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost-basis. The primary factors United considers in determining whether impairment is other-than-temporary are long term expectations and recent experience regarding principal and interest payments, and United s ability and intent to hold the security until the amortized cost basis is recovered.

United uses derivatives primarily to manage interest rate risk. The fair values of derivative financial instruments are determined based on quoted market prices, dealer quotes and internal pricing models that are primarily sensitive to market observable data. United mitigates the credit risk by subjecting counterparties to credit reviews and approvals similar to those used in making loans and other extensions of credit. In addition, certain counterparties are required to provide collateral to United when their unsecured loss positions exceed certain negotiated limits.

*Income Tax Accounting*

Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of regulatory agencies and federal and state taxing authorities, will not differ from management s current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings.

At December 31, 2012, United reported no net deferred tax asset, due to a full valuation allowance of $270 million. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. United s management considers both positive and negative evidence. In making such judgments, significant weight is given to evidence that can be objectively verified. Because of the significant weight given to recent losses, management determined that a full valuation allowance was necessary.

Regulatory risk-based capital rules limit the amount of deferred tax assets that a bank or bank holding company can include in Tier 1 capital. Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the bank expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the bank s Tier 1 capital.

**Mergers and Acquisitions**

United selectively engages in the evaluation of strategic partnerships. Mergers and acquisitions present opportunities to enter new markets with an established presence and a capable management team already in place. United employs certain criteria to ensure that any merger or acquisition candidate meets strategic growth and earnings objectives that will build future franchise value for shareholders. Additionally, the criteria include ensuring that management of a potential partner shares United s community banking philosophy of premium service quality and operates in attractive markets with excellent opportunities for further organic growth.

United will continue to evaluate potential transactions as they are presented, including acquisitions of failed banks to the extent we are permitted to bid on them.

**Discontinued Operations**

Effective March 31, 2010, United sold its Brintech subsidiary. As a result, the operations of Brintech are being accounted for as a discontinued operation. All revenue, including the gain from the sale, expenses and income taxes relating to Brintech have been deconsolidated from the

consolidated statement of operations and are presented on one line titled (Loss) income from discontinued operations for all periods presented. Because Brintech s assets, liabilities and cash flows were not material to the consolidated balance sheet and statement of cash flows, no such adjustments have been made to those financial statements.

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**GAAP Reconciliation and Explanation**

This Form 10-K contains non-GAAP financial 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, operating provision for loan losses, operating fee revenue, total operating revenue, operating expense, operating income (loss), operating earnings (loss) per share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included on the tables on pages 34 and 35.

In 2010, United recorded a non-cash goodwill impairment charge of $211 million in the third quarter. Also in 2010, United received a partial recovery of $11.8 million, net of recovery costs, in the fourth quarter resulting from fraud losses incurred in 2007 relating to two failed real estate developments near Spruce Pine, North Carolina. In 2009, United recorded non-cash goodwill impairment charges of $25 million and $70 million during the third and first quarters, respectively. In addition, United recorded severance costs of $2.9 million during the first quarter of 2009 and a bargain purchase gain on the acquisition of Southern Community Bank in the amount of $11.4 million during the second quarter of 2009.

Net operating income (loss) excludes the effect of the goodwill impairment charge of $211 million and the $11.8 million fraud loss partial recovery in 2010; the goodwill impairment charges of $95 million, the $11.4 million bargain purchase gain on acquisition, and the $2.9 million in severance costs in 2009, because management believes that the circumstances leading to those items were isolated, non-recurring events and do not reflect overall trends in United s earnings and financial performance. Management believes this non-GAAP net operating loss provides users of United s financial information with a meaningful measure for assessing United s financial results and credit trends, as well as comparison to financial results for prior periods.

The following pages contain a reconciliation of net operating income to GAAP net income.

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**Table 1 Operating Earnings to GAAP Earnings Reconciliation Annual Selected Financial Information**

| *(in thousands, except per share data; taxable equivalent)* | For the Twelve Months Ended | | | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2010** | **2009** | **2008** |
| **Interest revenue reconciliation** | | | | | |
| Interest revenue taxable equivalent | $ 267,429 | $ 299,344 | $ 343,123 | $ 404,961 | $ 466,969 |
| Taxable equivalent adjustment | (1,690) | (1,707) | (2,001) | (2,132) | (2,261) |
| Interest revenue (GAAP) | $ 265,739 | $ 297,637 | $ 341,122 | $ 402,829 | $ 464,708 |
| **Net interest revenue reconciliation** | | | | | |
| Net interest revenue taxable equivalent | $ 229,099 | $ 233,669 | $ 243,052 | $ 245,227 | $ 238,704 |
| Taxable equivalent adjustment | (1,690) | (1,707) | (2,001) | (2,132) | (2,261) |
| Net interest revenue (GAAP) | $ 227,409 | $ 231,962 | $ 241,051 | $ 243,095 | $ 236,443 |
| **Provision for loan losses reconciliation** | | | | | |
| Operating provision for loan losses | $ 62,500 | $ 251,000 | $ 234,750 | $ 310,000 | $ 184,000 |
| Partial recovery of special fraud-related loan loss | | | (11,750) | | |
| Provision for loan losses (GAAP) | $ 62,500 | $ 251,000 | $ 223,000 | $ 310,000 | $ 184,000 |
| **Fee revenue reconciliation** | | | | | |
| Operating fee revenue | $ 56,771 | $ 49,908 | $ 48,548 | $ 50,964 | $ 46,081 |
| Gain from acquisition | | | | 11,390 | |
| Fee revenue (GAAP) | $ 56,771 | $ 49,908 | $ 48,548 | $ 62,354 | $ 46,081 |
| **Total revenue reconciliation** | | | | | |
| Total operating revenue | $ 223,370 | $ 32,577 | $ 56,850 | $ (13,809) | $ 100,785 |
| Taxable equivalent adjustment | (1,690) | (1,707) | (2,001) | (2,132) | (2,261) |
| Gain from acquisition | | | | 11,390 | |
| Partial recovery of special fraud-related loan loss | | | 11,750 | | |
| Total revenue (GAAP) | $ 221,680 | $ 30,870 | $ 66,599 | $ (4,551) | $ 98,524 |
| **Expense reconciliation** | | | | | |
| Operating expense | $ 186,774 | $ 261,599 | $ 288,301 | $ 217,050 | $ 200,335 |
| Noncash goodwill impairment charge | | | 210,590 | 95,000 | |
| Severance costs | | | | 2,898 | |
| Operating expense (GAAP) | $ 186,774 | $ 261,599 | $ 498,891 | $ 314,948 | $ 200,335 |
| **Income (loss) before taxes reconciliation** | | | | | |
| Income (loss) before taxes | $ 36,596 | $ (229,022) | $ (231,451) | $ (230,859) | $ (99,550) |
| Taxable equivalent adjustment | (1,690) | (1,707) | (2,001) | (2,132) | (2,261) |
| Gain from acquisition | | | | 11,390 | |
| Noncash goodwill impairment charge | | | (210,590) | (95,000) | |
| Severance costs | | | | (2,898) | |
| Partial recovery of special fraud-related loan loss | | | 11,750 | | |
| Income (loss) before taxes (GAAP) | $ 34,906 | $ (230,729) | $ (432,292) | $ (319,499) | $ (101,811) |

| | | | | | |
|---|---|---|---|---|---|
| **Income tax expense (benefit) reconciliation** | | | | | |
| Income tax expense (benefit) | $ 2,740 | $ (2,276) | $ 73,218 | $ (91,754) | $ (35,651) |
| Taxable equivalent adjustment | (1,690) | (1,707) | (2,001) | (2,132) | (2,261) |
| Gain from acquisition, tax expense | | | | 4,328 | |
| Severance costs, tax benefit | | | | (1,101) | |
| Income tax expense (benefit) (GAAP) | $ 1,050 | $ (3,983) | $ 71,217 | $ (90,659) | $ (37,912) |
| **Diluted earnings (loss) from continuing operations per common share reconciliation** | | | | | |
| Diluted operating earnings (loss) from continuing operations per common share | $ .38 | $ (5.97) | $ (16.64) | $ (12.37) | $ (6.82) |
| Gain from acquisition | | | | .58 | |
| Noncash goodwill impairment charge | | | (11.13) | (7.86) | |
| Severance costs | | | | (.15) | |
| Partial recovery of special fraud-related loan loss | | | .62 | | |
| Diluted earnings (loss) from continuing operations per common share (GAAP) | $ .38 | $ (5.97) | $ (27.15) | $ (19.80) | $ (6.82) |
| **Book value per common share reconciliation** | | | | | |
| Tangible book value per common share | $ 6.57 | $ 6.47 | $ 14.80 | $ 30.09 | $ 51.93 |
| Effect of goodwill and other intangibles | .10 | .15 | .60 | 11.69 | 32.82 |
| Book value per common share (GAAP) | $ 6.67 | $ 6.62 | $ 15.40 | $ 41.78 | $ 84.75 |
| **Efficiency ratio from continuing operations reconciliation** | | | | | |
| Operating efficiency ratio from continuing operations | 65.43% | 92.27% | 98.98% | 73.97% | 70.00% |
| Gain from acquisition | | | | (2.77) | |
| Noncash goodwill impairment charge | | | 72.29 | 31.17 | |
| Severance costs | | | | .95 | |
| Efficiency ratio from continuing operations (GAAP) | 65.43% | 92.27% | 171.27% | 103.32% | 70.00% |
| **Average equity to assets reconciliation** | | | | | |
| Tangible common equity to assets | 5.54% | 3.74% | 6.52% | 6.15% | 6.57% |
| Effect of preferred equity | 2.84 | 3.88 | 2.36 | 2.18 | .10 |
| Tangible equity to assets | 8.38 | 7.62 | 8.88 | 8.33 | 6.67 |
| Effect of goodwill and other intangibles | .09 | .13 | 1.89 | 2.79 | 3.55 |
| Equity to assets (GAAP) | 8.47% | 7.75% | 10.77% | 11.12% | 10.22% |
| **Tangible common equity to risk-weighted assets reconciliation** | | | | | |
| Tangible common equity to risk-weighted assets | 8.26% | 8.25% | 5.64% | 10.39% | 8.34% |
| Effect of other comprehensive income | .51 | (.03) | (.42) | (.87) | (.91) |
| Effect of deferred tax limitation | | | | (1.27) | |
| Effect of trust preferred | 1.15 | 1.18 | 1.06 | .97 | .88 |
| Effect of preferred equity | 4.24 | 4.29 | 3.53 | 3.19 | 2.90 |
| Tier I capital ratio (Regulatory) | 14.16% | 13.69% | 9.81% | 12.41% | 11.21% |
| **Net charge-offs reconciliation** | | | | | |
| Operating net charge-offs | $ 69,831 | $ 311,227 | $ 215,657 | $ 276,669 | $ 151,152 |
| Subsequent partial recovery of fraud-related charge-off | | | (11,750) | | |
| Net charge-offs (GAAP) | $ 69,831 | $ 311,227 | $ 203,907 | $ 276,669 | $ 151,152 |

| **Net charge-offs to average loans reconciliation** | | | | | |
| --- | --- | --- | --- | --- | --- |
| Operating net charge-offs to average loans | 1.69% | 7.33% | 4.42% | 5.03% | 2.57% |
| Subsequent partial recovery of fraud-related charge-off | | | (.25) | | |
| Net charge-offs to average loans (GAAP) | 1.69% | 7.33% | 4.17% | 5.03% | 2.57% |

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**Table 1 (Continued) Operating Earnings to GAAP Earnings Reconciliation Quarterly Selected Financial Information**

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands, except per share data; taxable equivalent)* | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| **Interest revenue reconciliation** | | | | | | | | |
| Interest revenue taxable equivalent | $ 64,450 | $ 65,978 | $ 66,780 | $ 70,221 | $ 71,905 | $ 74,543 | $ 76,931 | $ 75,965 |
| Taxable equivalent adjustment | (381) | (419) | (444) | (446) | (423) | (420) | (429) | (435) |
| Interest revenue (GAAP) | $ 64,069 | $ 65,559 | $ 66,336 | $ 69,775 | $ 71,482 | $ 74,123 | $ 76,502 | $ 75,530 |
| **Net interest revenue reconciliation** | | | | | | | | |
| Net interest revenue taxable equivalent | $ 56,028 | $ 57,371 | $ 56,836 | $ 58,864 | $ 59,050 | $ 59,281 | $ 58,946 | $ 56,392 |
| Taxable equivalent adjustment | (381) | (419) | (444) | (446) | (423) | (420) | (429) | (435) |
| Net interest revenue (GAAP) | $ 55,647 | $ 56,952 | $ 56,392 | $ 58,418 | $ 58,627 | $ 58,861 | $ 58,517 | $ 55,957 |
| **Total revenue reconciliation** | | | | | | | | |
| Total operating revenue | $ 56,789 | $ 55,635 | $ 51,703 | $ 59,243 | $ 57,717 | $ 34,779 | $ 61,851 | $ (121,770) |
| Taxable equivalent adjustment | (381) | (419) | (444) | (446) | (423) | (420) | (429) | (435) |
| Total revenue (GAAP) | $ 56,408 | $ 55,216 | $ 51,259 | $ 58,797 | $ 57,294 | $ 34,359 | $ 61,422 | $ (122,205) |
| **Income (loss) before taxes reconciliation** | | | | | | | | |
| Income (loss) before taxes | $ 6,063 | $ 10,852 | $ 7,393 | $ 12,288 | $ 6,637 | $ (11,741) | $ 13,123 | $ (237,041) |
| Taxable equivalent adjustment | (381) | (419) | (444) | (446) | (423) | (420) | (429) | (435) |
| Income (loss) from continuing operations before taxes (GAAP) | $ 5,682 | $ 10,433 | $ 6,949 | $ 11,842 | $ 6,214 | $ (12,161) | $ 12,694 | $ (237,476) |
| **Income tax expense (benefit) reconciliation** | | | | | | | | |
| Operating income tax expense (benefit) | $ 802 | $ 284 | $ 894 | $ 760 | $ (3,264) | $ (402) | $ 1,095 | $ 295 |
| Taxable equivalent adjustment | (381) | (419) | (444) | (446) | (423) | (420) | (429) | (435) |
| Income tax expense (benefit) (GAAP) | $ 421 | $ (135) | $ 450 | $ 314 | $ (3,687) | $ (822) | $ 666 | $ (140) |
| **Book value per common share reconciliation** | | | | | | | | |
| Tangible book value per common share | $ 6.57 | $ 6.64 | $ 6.48 | $ 6.54 | $ 6.47 | $ 6.61 | $ 6.94 | $ 1.69 |
| Effect of goodwill and other intangibles | .10 | .11 | .13 | .14 | .15 | .16 | .17 | .51 |
| Book value per common share (GAAP) | $ 6.67 | $ 6.75 | $ 6.61 | $ 6.68 | $ 6.62 | $ 6.77 | $ 7.11 | $ 2.20 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Average equity to assets reconciliation** | | | | | | | | |
| Tangible common equity to assets | 5.67% | 5.73% | 5.45% | 5.33% | 5.38% | 5.65% | 1.37% | 2.70% |
| Effect of preferred equity | 2.88 | 2.93 | 2.79 | 2.75 | 2.78 | 2.77 | 6.56 | 3.31 |
| Tangible equity to assets | 8.55 | 8.66 | 8.24 | 8.08 | 8.16 | 8.42 | 7.93 | 6.01 |
| Effect of goodwill and other intangibles | .08 | .09 | .09 | .11 | .12 | .13 | .13 | .14 |
| Equity to assets (GAAP) | 8.63% | 8.75% | 8.33% | 8.19% | 8.28% | 8.55% | 8.06% | 6.15% |
| **Tangible common equity to risk-weighted assets reconciliation** | | | | | | | | |
| Tangible common equity to risk-weighted assets | 8.26% | 8.44% | 8.37% | 8.21% | 8.25% | 8.52% | 8.69% | .75% |
| Effect of other comprehensive income | .51 | .36 | .28 | .10 | (.03) | (.29) | (.42) | (.32) |
| Effect of trust preferred | 1.15 | 1.17 | 1.19 | 1.15 | 1.18 | 1.19 | 1.15 | 1.13 |
| Effect of preferred equity | 4.24 | 4.29 | 4.35 | 4.23 | 4.29 | 4.33 | 4.20 | 5.87 |
| Tier I capital ratio (Regulatory) | 14.16% | 14.26% | 14.19% | 13.69% | 13.69% | 13.75% | 13.62% | 7.43% |

**Transaction with Fletcher International**

***Description of Transaction***

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

The loans made to the LLCs in connection with their respective purchases have the same terms for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher without United s consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to be sufficient to service the loans for another five to six quarters. While recent news articles and other sources have questioned the financial health of Fletcher and its affiliates, the loans to the LLCs have performed according to their contractual terms since inception. However, during the third quarter of 2011, United determined that the ultimate repayment of the $76.6 million loan relationship through the sale of the underlying collateral is unlikely due to the lack of sales activity and further decline in real estate values. As a result, United recorded a loan loss provision of $25.0 million during the third quarter of 2011 and recorded a partial charge-off in the same amount during the fourth quarter.

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

Also on April 1, 2010, United and Fletcher International Ltd. ( Fletcher Ltd. , together with Fletcher Inc. and their affiliates, Fletcher ), entered into a securities purchase agreement (the Securities Purchase Agreement ) pursuant to which Fletcher Ltd. agreed to purchase from United 65,000 shares of United s Series C convertible preferred stock, par value $1.00 per share (the Convertible Preferred Stock ), at a purchase price of $1,000 per share, for an aggregate purchase price of $65 million, subject to certain conditions precedent.

Concurrently with the payment of the $10 million deposit under the Asset Purchase Agreement by Fletcher, United also granted a $30 million warrant to Fletcher to purchase non-voting Common Stock Equivalent Junior Preferred Stock ( Junior Preferred Stock ). The warrant may only be exercised by net share settlement (cashless exercise) and is exercisable for nine years from May 26, 2010, subject to limited extensions upon certain events and certain conditions precedent. The Junior Preferred Stock could be convertible into 1,411,765 common shares exercisable at a price equivalent to $21.25 per share.

***Accounting Treatment***

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

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

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

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

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

*Legal Disputes*

As disclosed on February 22, 2013, United and FILB Co-Investments LLC ( FILB-Co ) agreed to settle all outstanding claims and counterclaims in connection with the previously disclosed lawsuit between United and FILB-Co. FILB-Co filed a lawsuit against United with respect to purported contractual rights under the Securities Purchase Agreement that FILB-Co claimed were assigned to it by Fletcher. Fletcher made the purported assignment to FILB-Co in response to redemption requests to Fletcher by several investors in one of Fletcher s funds ( Leveraged ). Fletcher then transferred its interests in FILB-Co to those investors, who challenged Fletcher s attempted redemption as commercially worthless in liquidation proceedings commenced in the Grand Court of the Cayman Islands. As the result of those proceedings, the Cayman court ordered the liquidation of Leveraged, and a court-appointed liquidator was appointed to manage FILB-Co. Subsequently, Fletcher filed for bankruptcy protection in the U.S. Bankruptcy Court for the Southern District of New York.

Fletcher has stated that it did not assign the Warrant or its right to an alleged registration failure penalty under the Securities Purchase Agreement (apart from a claim for a portion thereof) to FILB-Co, and United has received purported partial warrant exercise notices from Fletcher that include incorrect calculations of the number of settlement shares Fletcher would receive upon exercise and demands for the payment of such a penalty. United believes that any current exercise of the Warrant would not result in the issuance of any settlement shares because, among other things, the Warrant may only be exercised for net shares via a cashless exercise formula, and, following United s 2011 reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination, the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. United also believes that no registration failure penalty is

due. As a result, United has responded to Fletcher with United s calculations related to the Warrant and denied any liability for any such penalty.

In connection with the FILB-Co settlement, United recorded $4 million in litigation charges which includes the establishment of litigation reserves associated with claims that may be made against United by Fletcher.

The settlement with FILB-Co is expected to be completed promptly following completion of a definitive agreement and the receipt of necessary court approvals.

**Results of Operations**

The remainder of this financial discussion focuses on operating earnings, which excludes the goodwill impairment charge and partial fraud loss recovery in 2010, the goodwill impairment charges, and the gain on acquisition and severance costs in 2009, except for the discussion of income taxes. Operating and GAAP earnings were the same in 2012, 2011 and 2008. For additional information on operating earnings measures, refer to the preceding section on Non-GAAP Financial Measures.

There are a few large items included in operating earnings that are generally nonrecurring in nature that affect comparability between periods. Although credit losses in all periods were elevated, reflecting the weak economic cycle of the past four years, in 2011, United s credit losses reflected the execution of the Problem Asset Disposition Plan. That plan included the Bulk Loan Sale which removed United s most challenging problem assets and resulted in a significant decrease in the level of problem assets. As a result, the Problem Asset Disposition Plan accelerated United s return to profitability following the first quarter of 2011 capital transaction. In addition, operating earnings in 2010 included a $45.3 million charge to operating expense resulting from the Fletcher transaction, which increased the net loss per share by $2.40, and the $157 million income tax expense related to establishment of a full deferred tax valuation allowance.

United reported net earnings of $33.9 million for the year ended December 31, 2012. This compared to a net loss of $227 million for the same period in 2011. Diluted earnings per common share for 2012 was $.38. This compared to diluted loss per share for 2011 of $5.97.

***Net Interest Revenue (Taxable Equivalent)***

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and other liabilities) is the single largest component of United s 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 totaled $229 million in 2012, a decrease of $4.57 million, or 2%, from 2011. Taxable equivalent net interest revenue for 2011 decreased $9.38 million, or 4%, from 2010. The decrease in net interest revenue in 2012 compared to 2011 was primarily due to lower yields on the securities and loan portfolios and smaller balances of interest-earning assets. The decrease in net interest revenue in 2011 compared to 2010 was due primarily to lower levels of average loan balances which were substantially offset by lower rates on deposits and a more favorable deposit mix. United continued its focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

The average yield on loans for 2012 decreased 33 basis points from 2011, reflecting the continuing effect of the low interest rate environment and competition for a limited number of quality lending opportunities. Average loans decreased $142 million in 2012, or 3%, from 2011. 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 loan pricing. Loan charge-offs, foreclosure activity and management s efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have contributed to declining loan balances. While loan balances have declined, United continues to make new loans and in 2012, United experienced the first positive year-over-year growth in loan balances since 2008. The increase in residential real estate loans is primarily the result of the promotion of a new home equity line product in mid-2012.

Average interest-earning assets for the year decreased $238 million, or 4%, from 2011 due primarily to the decrease in average loans mentioned above and management s efforts to more effectively manage liquidity. During the financial crisis, management maintained liquidity above normal levels. Beginning in 2011 and through 2012, management reduced excess liquidity as the economic environment began to stabilize and credit quality and earnings performance began to improve. Average investment securities for 2012 increased $89.6 million from a year ago, however the average yield decreased 69 basis points as management was unable to reinvest the cash proceeds of maturing securities at yields comparable to those of the securities they replaced. The combined effect of lower loan and investment securities yields drove the average yield on interest-earning assets for 2012 to 4.08%, down 33 basis points from 4.41% in 2011. Abnormally high prepayment activity on mortgage-backed securities also suppressed the securities portfolio yield in 2012 by accelerating the amortization of bond purchase premiums, and the yields at which the proceeds were reinvested fell short of the yields on the bonds they replaced. Partially offsetting the lower loan and securities yields was a higher average yield on other interest-earning assets, due primarily to the use of reverse repurchase agreements including collateral swap transactions where United enters into a repurchase agreement and reverse repurchase agreement 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 in 2012 decreased $573 million, or 10%, from the prior year due to the rolling off of higher-cost brokered deposits and certificates of deposit, as noninterest bearing demand deposits increased $227 million and overall funding needs decreased. The average cost of interest bearing liabilities for 2012 was ..76% compared to 1.16% for 2011, reflecting United s concerted efforts to reduce deposit pricing. Also contributing to the overall lower rate on interest bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits.

The banking industry uses two key ratios to measure relative profitability of net interest revenue the net interest spread and the net interest margin. 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 other non-interest bearing funding sources 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 overall balance sheet management activities and is defined as net interest revenue as a percentage of total average interest earning assets, which includes the positive effect of funding a portion of interest earning assets with customers non-interest bearing deposits and with shareholders equity.

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For 2012, 2011 and 2010, United s net interest spread was 3.32%, 3.25%, and 3.35%, respectively, while the net interest margin was 3.50%, 3.44%, and 3.56%, respectively. The improvement in both ratios in 2012 compared to 2011 was primarily due to United shrinking the balance sheet by reducing some of the excess liquidity that had built up during the financial crisis and by lower rates paid on certificates of deposit and brokered deposits. In 2011, interest reversals on performing loans classified as held for sale as part of the Bulk Loan Sale reduced net interest margin by three basis points.

The following table shows the relationship between interest revenue and interest expense and the average balances of interest-earning assets and interest-bearing liabilities.

**Table 2 Average Consolidated Balance Sheet and Net Interest Margin Analysis**

For the Years Ended December 31,

*(In thousands, taxable equivalent)*

| | 2012 | | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Average Balance** | **Interest** | **Avg. Rate** | **Average Balance** | **Interest** | **Avg. Rate** | **Average Balance** | **Interest** | **Avg. Rate** |
| **Assets:** | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans [(1)(2)] | $ 4,165,520 | $ 217,467 | 5.22% | $ 4,307,111 | $ 239,195 | 5.55% | $ 4,960,805 | $ 278,149 | 5.61% |
| Taxable securities [(3)] | 2,065,162 | 43,657 | 2.11 | 1,973,678 | 55,251 | 2.80 | 1,425,322 | 58,821 | 4.13 |
| Tax-exempt securities [(1)(3)] | 23,759 | 1,565 | 6.59 | 25,693 | 1,651 | 6.43 | 27,827 | 1,860 | 6.68 |
| Federal funds sold and other interest-earning assets | 292,857 | 4,740 | 1.62 | 478,403 | 3,247 | .68 | 408,359 | 4,293 | 1.05 |
| **Total interest-earning assets** | 6,547,298 | 267,429 | 4.08 | 6,784,885 | 299,344 | 4.41 | 6,822,313 | 343,123 | 5.03 |
| Non-interest-earning assets: | | | | | | | | | |
| Allowance for loan losses | (114,647) | | | (145,656) | | | (190,227) | | |
| Cash and due from banks | 53,247 | | | 90,212 | | | 106,582 | | |
| Premises and equipment | 172,544 | | | 178,061 | | | 180,379 | | |
| Other assets [(3)] | 206,609 | | | 281,233 | | | 685,547 | | |
| **Total assets** | $ 6,865,051 | | | $ 7,188,735 | | | $ 7,604,594 | | |
| **Liabilities and Shareholders Equity:** | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| NOW | $ 1,293,510 | $ 2,049 | .16 | $ 1,348,493 | $ 3,998 | .30 | $ 1,360,729 | $ 6,966 | .51 |
| Money market | 1,140,354 | 2,518 | .22 | 993,871 | 5,456 | .55 | 780,982 | 7,552 | .97 |
| Savings deposits | 216,880 | 150 | .07 | 195,468 | 234 | .12 | 184,479 | 331 | .18 |
| Time deposits less than $100,000 | 1,170,202 | 9,788 | .84 | 1,471,596 | 18,648 | 1.27 | 1,581,750 | 30,260 | 1.91 |
| Time deposits greater than $100,000 | 766,411 | 8,027 | 1.05 | 948,659 | 14,347 | 1.51 | 1,084,967 | 23,114 | 2.13 |
| Brokered deposits | 155,902 | 1,703 | 1.09 | 401,393 | 6,156 | 1.53 | 610,483 | 13,509 | 2.21 |
| Total interest-bearing deposits | 4,743,259 | 24,235 | .51 | 5,359,480 | 48,839 | .91 | 5,603,390 | 81,732 | 1.46 |
| Federal funds purchased, repurchase agreeements, & other short-term borrowings | 80,593 | 2,987 | 3.71 | 102,727 | 4,250 | 4.14 | 103,479 | 4,235 | 4.09 |
| Federal Home Loan Bank advances | 124,771 | 907 | .73 | 47,220 | 2,042 | 4.32 | 90,137 | 3,355 | 3.72 |
| Long-term debt | 127,623 | 10,201 | 7.99 | 139,666 | 10,544 | 7.55 | 150,107 | 10,749 | 7.16 |
| Total borrowed funds | 332,987 | 14,095 | 4.23 | 289,613 | 16,836 | 5.81 | 343,723 | 18,339 | 5.34 |
| **Total interest-bearing liabilities** | 5,076,246 | 38,330 | .76 | 5,649,093 | 65,675 | 1.16 | 5,947,113 | 100,071 | 1.68 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Non-interest-bearing liabilities: | | | | | | | | |
| Non-interest-bearing deposits | 1,142,236 | | | 915,649 | | | 769,395 | | |
| Other liabilities | 64,986 | | | 66,809 | | | 69,367 | | |
| Total liabilities | 6,283,468 | | | 6,631,551 | | | 6,785,875 | | |
| Shareholders equity | 581,583 | | | 557,184 | | | 818,719 | | |
| **Total liabilities and shareholders equity** | $ 6,865,051 | | | $ 7,188,735 | | | $ 7,604,594 | | |
| Net interest revenue | | $ 229,099 | | | $ 233,669 | | | $ 243,052 | |
| Net interest-rate spread | | | 3.32% | | | 3.25% | | | 3.35% |
| Net interest margin [4] | | | 3.50% | | | 3.44% | | | 3.56% |

(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 rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $23.6 million, $32.2 million and $43.2 million in 2012, 2011 and 2010, respectively 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 of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities.

**Table 3 Change in Interest Revenue and Interest Expense**

*(in thousands, taxable equivalent)*

| | 2012 Compared to 2011 | | | 2011 Compared to 2010 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to changes in | | | Increase (decrease) due to changes in | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| **Interest-earning assets:** | | | | | | |
| Loans | $ (7,696) | $ (14,032) | $ (21,728) | $ (36,326) | $ (2,628) | $ (38,954) |
| Taxable securities | 2,461 | (14,055) | (11,594) | 18,665 | (22,235) | (3,570) |
| Tax-exempt securities | (127) | 41 | (86) | (139) | (70) | (209) |
| Federal funds sold and other interest-earning assets | (1,641) | 3,134 | 1,493 | 651 | (1,697) | (1,046) |
| **Total interest-earning assets** | (7,003) | (24,912) | (31,915) | (17,149) | (26,630) | (43,779) |
| **Interest-bearing liabilities:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | (157) | (1,792) | (1,949) | (62) | (2,906) | (2,968) |
| Money Market | 709 | (3,647) | (2,938) | 1,714 | (3,810) | (2,096) |
| Savings deposits | 23 | (107) | (84) | 19 | (116) | (97) |
| Time deposits less than $100,000 | (3,331) | (5,529) | (8,860) | (1,986) | (9,626) | (11,612) |
| Time deposits greater than $100,000 | (2,430) | (3,890) | (6,320) | (2,649) | (6,118) | (8,767) |
| Brokered deposits | (3,028) | (1,425) | (4,453) | (3,878) | (3,475) | (7,353) |
| Total interest-bearing deposits | (8,214) | (16,390) | (24,604) | (6,842) | (26,051) | (32,893) |
| Federal funds purchased, repurchase agreements & other short-term borrowings | (851) | (412) | (1,263) | (31) | 46 | 15 |
| Federal Home Loan Bank advances | 1,502 | (2,637) | (1,135) | (1,790) | 477 | (1,313) |
| Long-term debt | (941) | 598 | (343) | (770) | 565 | (205) |
| Total borrowed funds | (290) | (2,451) | (2,741) | (2,591) | 1,088 | (1,503) |
| **Total interest-bearing liabilities** | (8,504) | (18,841) | (27,345) | (9,433) | (24,963) | (34,396) |
| **Decrease in net interest revenue** | $ 1,501 | $ (6,071) | $ (4,570) | $ (7,716) | $ (1,667) | $ (9,383) |

Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

***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 the end of each reporting period. The operating provision for loan losses was $62.5 million in 2012, compared with $251 million in 2011, and $235 million in 2010. As a percentage of average outstanding loans, the operating provision was 1.52%, 5.91% and 4.81%, respectively, in 2012, 2011 and 2010. The amount of provision recorded in each year was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover inherent losses in the loan portfolio. The 2012 provision for loan losses was $189 million lower than the 2011 provision, primarily due to the improvement in credit trends during 2012 as well as the elevated level of charge-offs in 2011 resulting from the execution of the Problem Asset Disposition Plan. In

addition, during the third quarter of 2011, United recorded an additional loan loss provision of $25.0 million specifically related to the classification of its largest lending relationship. In 2011, the increase in the provision for loan losses compared to 2010 was primarily due to the increased level of charge-offs in the first quarter of 2011 recorded in conjunction with the Problem Asset Disposition Plan and transfer of loans to the held for sale category in anticipation of the Bulk Loan Sale. The ratio of net loan charge-offs to average outstanding loans for 2012 was 1.69% compared with 7.33% for 2011 and 4.42% for 2010, excluding the $11.8 million partial recovery.

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 that began in the residential construction and housing market was the primary factor that resulted in higher credit losses and an increase in nonperforming assets over the last four years. Although a majority of the loan charge-offs have been within the residential construction and development portion of the portfolio, credit quality deterioration migrated to other loan categories as pressure resulting from economic conditions has persisted and unemployment levels have remained high throughout United s markets. Additional discussion on credit quality and the allowance for loan losses is included in the Asset Quality and Risk Elements and Critical Accounting Polices sections of this report, as well as Note 1 to the consolidated financial statements.

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***Fee Revenue***

Operating fee revenue from continuing operations was $56.8 million in 2012, compared with $49.9 million in 2011 and $48.5 million in 2010. Fee revenue from continuing operations excludes consulting fees earned by United s Brintech subsidiary which was sold on March 31, 2010. All periods are presented on a continuing operations basis.

The following table presents the components of fee revenue.

**Table 4 Fee Revenue From Continuing Operations**

For the Years Ended December 31,

*(in thousands)*

| | 2012 | 2011 | 2010 | Change 2012-2011 |
|---|---|---|---|---|
| Overdraft fees | $ 13,302 | $ 14,246 | $ 17,227 | (7)% |
| ATM and debit card fees | 13,108 | 12,079 | 10,001 | 9 |
| Other service charges and fees | 5,260 | 2,785 | 2,899 | 89 |
| Service charges and fees | 31,670 | 29,110 | 30,127 | 9 |
| Mortgage loan and related fees | 10,483 | 5,419 | 7,019 | 93 |
| Brokerage fees | 3,082 | 2,986 | 2,662 | 3 |
| Securities gains, net | 7,078 | 842 | 2,552 | |
| Losses on prepayment of borrowings | (6,681) | (791) | (2,233) | |
| Hedge ineffectiveness | 659 | 5,001 | 1,585 | |
| Other | 10,480 | 7,341 | 6,836 | 43 |
| Total fee revenue | $ 56,771 | $ 49,908 | $ 48,548 | 14 |

Service charges and fees of $31.7 million were up $2.56 million, or 9%, from 2011. The increase was primarily due to new charges on low balance demand deposit accounts that more than offset a decline in overdraft fees resulting from the decline in the utilization of our courtesy overdraft services. ATM and debit card interchange fees were higher due to an increase in debit card transaction volumes.

Mortgage loan and related fees of $10.5 million were up $5.06 million, or 93%, from 2011. In 2012, United closed 2,339 mortgage loans totaling $370 million compared with 1,752 loans totaling $261 million in 2011. Origination volumes were driven by the changing interest rate environment which had a significant impact on refinancing activities. Substantially all of these originated residential mortgages were sold into the secondary market, including the right to service the loans.

Brokerage fees of $3.08 million increased $96,000, or 3%, from 2011. The increase in brokerage fees was due to improving market conditions from those in 2011. Additionally, a portion of United s brokerage fee revenue is derived from the value of assets under management which increased with the overall improvement in the market, further contributing to the increased revenue.

United recognized net securities gains of $7.08 million and $842,000 during 2012 and 2011, respectively. United also recognized losses from the prepayment of FHLB advances and structured repurchase agreements totaling $6.68 million and $791,000 in 2012 and 2011, respectively. 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 $469 million in securities and the prepayment of $75.0 million in fixed rate borrowings, the effect of which was to reduce sensitivity to rising interest rates and to improve the net interest margin. The 2010 net gain was net of $950,000 in impairment charges in the first quarter of 2010, on trust preferred securities of a bank whose financial condition had deteriorated. The impairment charge was more than offset by realized gains from securities sales.

In 2012, United recognized $659,000 in revenue from hedge ineffectiveness compared with $5.00 million in 2011. Hedge ineffectiveness for 2012 is reported net of $449,000 in accelerated amortization of prepaid broker fees on brokered certificates of deposit that were called during the

year. The brokered CDs were called at the same time the callable swaps that were hedging the brokered CDs were called. The accelerated amortization is presented as a component of hedge ineffectiveness as the broker fees were embedded in the swap contracts that were hedging the fair value of the brokered CDs and therefore resulted in an offsetting gain at the time the swaps were called. Much of the hedge ineffectiveness in 2011 and 2012 related to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the original term of the derivative instrument. The ineffectiveness, which is caused by a decrease in qualifying prime-based loans, resulted in the accelerated recognition of the deferred gains. In 2012, the hedge ineffectiveness gains and losses resulted primarily from ineffectiveness on fair value hedges of brokered deposits.

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Other fee revenue of $10.5 million for 2012 was up $3.14 million, or 43%, from the prior year. Fees from customer swap transactions earned under United s back-to-back customer swap program accounted for $524,000 of the increase. Also contributing to the increase were gains and losses on United s deferred compensation plan assets. United reported gains of $478,000 for 2012 compared with losses of $72,000 for 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. Other fee revenue for 2012 also included $1.10 million in interest on a prior year tax refund that resulted from a net operating loss carry back claim.

***Operating Expense***

The following table presents the components of operating expenses. This table is presented to reflect Brintech as a discontinued operation, and accordingly, operating expenses associated with Brintech have been excluded from the table for all periods presented.

**Table 5 Operating Expenses From Continuing Operations**

For the Years Ended December 31,

*(in thousands)*

| | 2012 | 2011 | 2010 | Change 2012-2011 |
|---|---|---|---|---|
| Salaries and employee benefits | $ 96,026 | $ 100,095 | $ 96,618 | (4)% |
| Communications and equipment | 12,940 | 13,135 | 13,781 | (1) |
| Occupancy | 14,304 | 15,645 | 15,394 | (9) |
| Advertising and public relations | 3,855 | 4,291 | 4,625 | (10) |
| Postage, printing and supplies | 3,899 | 4,256 | 4,072 | (8) |
| Professional fees | 8,792 | 9,727 | 9,254 | (10) |
| Foreclosed property foreclosure and carrying costs | 5,118 | 10,499 | 16,381 | (51) |
| Foreclosed property writedowns and losses from sales | 8,875 | 68,406 | 49,326 | (87) |
| FDIC assessments and other regulatory charges | 10,097 | 14,259 | 13,747 | (29) |
| Amortization of intangibles | 2,917 | 3,016 | 3,160 | (3) |
| Other | 19,951 | 18,270 | 16,594 | 9 |
| | 186,774 | 261,599 | 242,952 | (29) |
| Loss on sale of nonperforming assets | | | 45,349 | |
| Operating expenses, before nonrecurring items | 186,774 | 261,599 | 288,301 | |
| Goodwill impairment charges | | | 210,590 | |
| Total operating expenses | $ 186,774 | $ 261,599 | $ 498,891 | |

Operating expenses were $187 million in 2012 as compared to $262 million in 2011 and $243 million in 2010, excluding goodwill impairment charges and the loss on the sale of nonperforming assets to Fletcher. Higher foreclosed property losses incurred in connection with United s Problem Asset Disposition Plan were reflected in the year ended December 31, 2011. In 2012, United recorded a $4.00 million charge in other expense to establish litigation reserves. Nonrecurring items in 2010 include a $211 million charge for goodwill impairment. The $45.3 million loss on the sale of nonperforming assets to Fletcher was incurred during the second quarter of 2010. Although the loss from the bulk sale of nonperforming assets in 2010 resulted from an isolated event, because disposition of nonperforming assets is considered an operating activity, it is not excluded from operating expenses as a nonrecurring item, but has been separated to make trend comparisons more meaningful. Including the loss on sale of nonperforming assets and those nonrecurring charges, operating expenses for 2010 were $499 million.

Salaries and employee benefits expense for 2012 was $96.0 million, a decrease of $4.07 million, or 4%, from 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 1,590 at December 31, 2012 compared to 1,754 at December 31, 2011, a decrease of 164 positions. Both 2012 and 2011 included severance charges that affect comparability between periods. In 2012, United incurred $2.32 million in severance charges compared with $1.18 million in 2011. Additionally, in the fourth quarter of 2011, United reclassified

$2.24 million of unamortized actuarial losses and prior service costs out of compensation expense to other comprehensive income which reduced compensation expense by that amount in 2011.

Occupancy expense of $14.3 million for 2012 was down $1.34 million, or 9%, compared to the same period in 2011. The decrease was across all subcategories of occupancy expense including building maintenance, insurance and depreciation reflecting management s efforts to reduce costs and improve operating efficiency.

Advertising and public relations expense for 2012 was $3.86 million, a decrease of $436,000, or 10%, from 2011. The decrease was due to continued efforts to reduce discretionary spending, such as billboard advertising.

Postage, printing and supplies expense for 2012 was $3.90 million, a decrease of $357,000, or 8%, from 2011. The decrease was primarily due to lower outside courier expenses reflecting further use of electronic statements and technology.

Professional fees were $8.79 million for 2012, a decrease of $935,000, or 10%, from 2011. The decrease was primarily due to approximately $1 million in professional services costs associated with the Bulk Loan Sale in 2011.

Foreclosed property expenses include foreclosure and carrying costs and realized losses and write-downs of foreclosed properties. Foreclosure and carrying costs for 2012 were $5.12 million, a decrease of $5.38 million from 2011. While these costs have remained elevated throughout the weak economic cycle, the decrease from 2011 is due to the lower level of foreclosed properties. The foreclosure and carrying costs category includes legal fees, property taxes, marketing costs, utility services, and maintenance and repair charges. Realized losses and write-downs on foreclosed property totaled $8.88 million for the year ended December 31, 2012, compared to $68.4 million for 2011. The decrease reflects higher writedowns in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan.

FDIC assessments and other regulatory charges expense for 2012 was $10.1 million, a decrease of $4.16 million, or 29%, from 2011. The FDIC s change to an asset based formula effective April 1, 2011 was favorable to United which lowered the assessment going forward. United s assessment rate was reduced further late in the second quarter of 2011.

Other expenses totaled $20.0 million for 2012, a increase of $1.68 million, or 9%, from 2011. The increase is primarily due to a $4.00 million charge in 2012 to establish litigation reserves that was partially offset by an elevated level of property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale in the prior year. As part of the transaction, the purchaser required United to pay all unpaid property taxes on collateral supporting the sold loans.

*Income Taxes*

Income tax expense was $1.05 million in 2012, compared to income tax benefit of $3.98 million in 2011 and income tax expense of $71.2 million in 2010, respectively. The effective tax rates (as a percentage of pre-tax net income) were 3.01%, 1.73% and (16.5)%, for 2012, 2011, and 2010, respectively. The 2011 tax benefit included the reversal of previously established reserves for uncertain tax positions of $4.59 million as a result of the tax returns upon which the tax positions were claimed no longer being subject to audit as a result of statute expiration and due to the settlement of a state tax dispute. With the full valuation allowance on United s net deferred tax asset, United s tax expense on its pre-tax earnings mostly represents adjustments to its reserve for uncertain tax positions and amounts payable under the Federal Alternative Minimum Tax.

At December 31, 2012 and 2011, United reported no net deferred tax assets due to a full valuation allowance of $270 million and $273 million, respectively. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. The deferred tax assets are analyzed quarterly for changes affecting realizability.

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

As of February 22, 2011, United adopted a tax benefits preservation plan designed to protect its ability to utilize its substantial tax assets. Those tax assets include net operating losses that it could utilize in certain circumstances to offset taxable income and reduce its federal income tax liability and the future tax benefits from potential net unrealized built in losses. United s ability to use its tax benefits would be substantially limited if it were to experience an ownership change as defined under Section 382 of the Internal Revenue Code. 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.

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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 16 to the consolidated financial statements.

***Fourth Quarter Discussion***

Taxable equivalent net interest revenue for the fourth quarter of 2012 decreased $3.02 million, or 5%, to $56.0 million from the same period a year ago, primarily due to lower yields on our investment securities and loan portfolios, as well as the overlap of debt financing that resulted from the issuance of senior debt at the beginning of the fourth quarter 2012 to replace subordinated debt that matured late in the fourth quarter of 2012. The net interest margin decreased seven basis points from the fourth quarter of 2011 to 3.44% for the fourth quarter of 2012. The lower yield on the loan portfolio for the fourth quarter of 2012 reflected the ongoing pricing pressure on new and renewed loans, as well as a new home equity loan product offering with a low introductory rate that will reprice in 2013. Also impacting the margin was the reduction in investment interest revenue which resulted from the reinvestment of cash flows at record low rates.

The fourth quarter of 2012 provision for loan losses was $14.0 million, the same as the fourth quarter of 2011. Nonperforming assets totaled $128 million, down $32.2 million from a year ago. Nonperforming assets as a percentage of total assets were 1.88% at December 31, 2012, compared with 2.30% at December 31, 2011.

The following table presents the components of fee revenue from continuing operations for the fourth quarters of 2012 and 2011.

**Table 6 Quarterly Fee Revenue**

*(in thousands)*

| | Three Months Ended December 31, | | |
|---|---|---|---|
| | **2012** | **2011** | **Change** |
| Overdraft fees | $ 3,464 | $ 3,537 | (2)% |
| ATM and debit card fees | 3,701 | 2,969 | 25 |
| Other service charges and fees | 1,210 | 742 | 63 |
| Service charges and fees | 8,375 | 7,248 | 16 |
| Mortgage loan and related fees | 3,262 | 1,825 | 79 |
| Brokerage fees | 751 | 782 | (4) |
| Securities gains, net | 31 | 4 | |
| Other | 2,342 | 2,808 | (17) |
| Total operating fee revenue | $ 14,761 | $ 12,667 | 17 |

Fee revenue for the fourth quarter of 2012 of $14.8 million increased $2.09 million, or 17%, from $12.7 million for the fourth quarter of 2011. Service charges and fees on deposit accounts increased $1.13 million, or 16%, to $8.38 million. The increase was due to new service fees on low balance demand deposit accounts that began in 2012. Also, higher debit card transaction volume resulted in an increase in ATM and debit card interchange fees. Mortgage fees increased $1.44 million, or 79%, to $3.26 million due to an increase in refinancing activities due to record low interest rates. United closed $100 million in mortgage loans in the fourth quarter of 2012, compared to $78.8 million in the fourth quarter of 2011. Other fee revenue decreased $466,000, or 17%, from the fourth quarter of 2011. A decrease in hedge ineffectiveness gains accounted for $198,000 of the decrease. In addition, United recorded a gain of $728,000 from the sale of low income housing tax credits during the fourth quarter of 2011. In the fourth quarter of 2012, United recognized a gain of $200,000 from the sale of a closed branch facility and a $144,000

gain on an equity investment in a community bank that sold during the quarter.

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The following table presents operating expenses for the fourth quarters of 2012 and 2011.

**Table 7 Quarterly Operating Expenses**

*(in thousands)*

| | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | Change |
| Salaries and employee benefits | $ 23,586 | $ 23,473 | % |
| Communications and equipment | 3,320 | 3,129 | 6 |
| Occupancy | 3,455 | 3,972 | (13) |
| Advertising and public relations | 987 | 944 | 5 |
| Postage, printing and supplies | 1,050 | 1,017 | 3 |
| Professional fees | 2,685 | 1,996 | 35 |
| Foreclosed property foreclosure and carrying costs | 1,423 | 2,369 | (40) |
| Foreclosed property writedowns and losses from sales | 3,188 | 6,933 | (54) |
| FDIC assessments and other regulatory charges | 2,505 | 2,599 | (4) |
| Amortization of intangibles | 727 | 746 | (3) |
| Other | 7,800 | 3,902 | 100 |
| Total operating expenses | $ 50,726 | $ 51,080 | (1) |

Operating expenses decreased $354,000 to $50.7 million, a 1% decrease from the fourth quarter of 2011, primarily due to lower foreclosed property costs. Salaries and employee benefit costs of $23.6 million were down $2.1 million from the fourth quarter of 2011, due primarily to a lower headcount after excluding a one-time credit adjustment in 2011. In the fourth quarter of 2011, United recorded a one-time credit adjustment of $2.24 million resulting from the reclassification of unamortized actuarial losses and prior service costs to other comprehensive income for United s Modified Retirement Plan. Communications and equipment expenses were up $191,000, or 6%, to $3.32 million for the fourth quarter of 2012 compared to 2011 due to higher software depreciation and expense. Occupancy expense was down $517,000 for the fourth quarter of 2012 compared to 2011, due to lower real estate taxes, insurance and depreciation. Professional fees increased $689,000 to $2.69 million, due to higher legal fees. Foreclosed property foreclosure and carrying costs of $1.42 million decreased $946,000 from $2.37 million for the fourth quarter of 2011, due to a lower number of foreclosed properties held following the execution of the Problem Asset Disposition Plan in early 2011. Write-downs and losses from sales of foreclosed property totaled $3.19 million for the fourth quarter of 2012, a decrease of $3.75 million, or 54%, also related to a lower volume of foreclosed property. FDIC assessments and other regulatory charges decreased from $2.60 million during the fourth quarter of 2011 to $2.51 million for the same period in 2012 due to a lower asset balance upon which the assessment was based. In the fourth quarter of 2012, United established a reserve of $4.00 million to settle pending litigation. The reserve was established by a charge to earnings and is the cause for the increase in other operating expense from the fourth quarter of 2011.

**Balance Sheet Review**

Total assets at December 31, 2012 were $6.80 billion, a decrease of $181 million, or 3%, from December 31, 2011. On a daily average basis, total assets decreased $324 million, or 5%, from 2011 to 2012. Average interest earning assets for 2012 and 2011 were $6.55 billion and $6.78 billion, respectively.

***Loans***

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. Total loans averaged $4.17 billion in 2012, compared with $4.31 billion in 2011, a decrease of 3%. At December 31, 2012, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were $4.18 billion, an increase of $65 million, or 2%, from December 31, 2011. The rate of loan growth began to decline in the first quarter of 2007, and the balances continued to decline through the subsequent years. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. The deterioration resulted in part from an oversupply of lot inventory, houses and land within United s markets, which further slowed construction activities and acquisition and development projects. Despite the continued weak economy and intense competition for quality

credits, United continued to pursue lending opportunities. 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 2012. While period-end loans were up at December 31, 2012 from a year ago, the daily average balance of loans was down as noted above due to the loans included in the 2011 Bulk Loan Sale that increased 2011 average balances in the first quarter. The increase in residential mortgage loans 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 $40 million in indirect auto loans during 2012.

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The following table presents the composition of United s loan portfolio for the last five years.

**Table 8 Loans Outstanding**

As of December 31,

*(in thousands)*

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Loans by Category** | | | | | |
| Commercial (secured by real estate) | $ 1,813,365 | $ 1,821,414 | $ 1,761,424 | $ 1,779,398 | $ 1,626,966 |
| Commercial & industrial | 458,246 | 428,249 | 441,518 | 390,520 | 410,529 |
| Commercial construction | 154,769 | 164,155 | 296,582 | 362,566 | 499,663 |
| Total commercial | 2,426,380 | 2,413,818 | 2,499,524 | 2,532,484 | 2,537,158 |
| Residential mortgage | 1,214,203 | 1,134,902 | 1,278,780 | 1,427,198 | 1,526,388 |
| Residential construction | 381,677 | 448,391 | 695,166 | 1,050,065 | 1,478,679 |
| Consumer installment | 152,748 | 112,503 | 130,656 | 141,729 | 162,636 |
| Total loans | $ 4,175,008 | $ 4,109,614 | $ 4,604,126 | $ 5,151,476 | $ 5,704,861 |

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Loans by Market** | | | | | |
| North Georgia | $ 1,363,723 | $ 1,425,811 | $ 1,688,586 | $ 1,883,880 | $ 2,040,082 |
| Atlanta MSA | 1,287,909 | 1,219,652 | 1,310,222 | 1,435,223 | 1,705,561 |
| North Carolina | 579,085 | 597,446 | 701,798 | 771,709 | 809,863 |
| Coastal Georgia | 400,022 | 346,189 | 335,020 | 405,689 | 463,642 |
| Gainesville MSA | 261,406 | 264,567 | 312,049 | 389,766 | 420,169 |
| East Tennessee | 282,863 | 255,949 | 256,451 | 265,209 | 265,544 |
| Total loans | $ 4,175,008 | $ 4,109,614 | $ 4,604,126 | $ 5,151,476 | $ 5,704,861 |

As of December 31, 2012, United s 25 largest credit relationships consisted of loans and loan commitments ranging from $9.90 million to $70.5 million, with an aggregate total credit exposure of $381 million, including $9.37 million in unfunded commitments, and $371 million in balances outstanding, excluding participations sold. United had only 4 lending relationships whose total credit exposure exceeded $20 million and only two relationships in excess of $25 million.

The following table sets forth the maturity distribution of commercial and construction loans, including the interest rate sensitivity for loans maturing after one year.

**Table 9 Loan Portfolio Maturity**

As of December 31, 2012

*(in thousands)*

| | Maturity | | | | Rate Structure for Loans Maturing Over One Year | |
|---|---|---|---|---|---|---|
| | One Year or Less | One through Five Years | Over Five Years | Total | Fixed Rate | Floating Rate |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial (commercial and industrial) | $ 151,722 | $ 233,661 | $ 72,863 | $ 458,246 | $ 66,703 | $ 239,821 |
| Construction (commercial and residential) | 254,722 | 214,676 | 67,048 | 536,446 | 89,199 | 192,525 |
| Total | $ 406,444 | $ 448,337 | $ 139,911 | $ 994,692 | $ 155,902 | $ 432,346 |

***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 United s credit administration function is included in Item 1 under the heading Loan Review and Nonperforming Assets.

United classifies performing loans as substandard when there is a well-defined weakness or weaknesses that jeopardizes the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected.

United s home equity lines, which are a component of the residential mortgage portfolio, generally require the payment of interest only for a set period after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both principal and interest. At December 31, 2012 and 2011, home equity loans totaled $385 million and $300 million, respectively. Approximately 3% of the home equity loans at December 31, 2012 were amortizing and only a very small percentage will begin amortizing in the next twelve months. Of the $385 million in balances outstanding at December 31, 2012, $236 million, or 62%, were first liens. The balance at December 31, 2012 represents 58% of the total committed lines.

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

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

**Table 10 Performing Substandard Loans**

*(dollars in thousands)*

| | December 31, 2012 | December 31, 2011 | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|---|---|---|---|---|---|
| **By Category** | | | | | |
| Commercial (secured by real estate) | $ 117,543 | $ 143,058 | $ 156,765 | $ 123,740 | $ 43,228 |
| Commercial & industrial | 18,477 | 15,753 | 16,767 | 33,974 | 20,808 |
| Commercial construction | 19,285 | 18,510 | 90,745 | 51,696 | 15,551 |
| Total commercial | 155,305 | 177,321 | 264,277 | 209,410 | 79,587 |
| Residential mortgage | 65,179 | 76,442 | 86,143 | 79,741 | 51,732 |
| Residential construction | 37,804 | 71,955 | 158,770 | 196,908 | 160,113 |
| Consumer installment | 3,653 | 2,751 | 2,957 | 3,553 | 3,085 |
| Total | $ 261,941 | $ 328,469 | $ 512,147 | $ 489,612 | $ 294,517 |
| **By Market** | | | | | |
| North Georgia | $ 105,851 | $ 134,945 | $ 212,992 | $ 256,178 | $ 137,026 |
| Atlanta MSA | 77,630 | 99,453 | 185,327 | 141,205 | 108,852 |
| North Carolina | 28,657 | 40,302 | 42,335 | 17,524 | 18,183 |
| Coastal Georgia | 17,421 | 24,985 | 29,223 | 40,930 | 20,260 |
| Gainesville MSA | 19,251 | 17,338 | 33,962 | 26,969 | 2,363 |
| East Tennessee | 13,131 | 11,446 | 8,308 | 6,806 | 7,833 |
| Total loans | $ 261,941 | $ 328,469 | $ 512,147 | $ 489,612 | $ 294,517 |

At December 31, 2012, performing substandard loans totaled $262 million and decreased $66.5 million from December 31, 2011. Most of the decrease from a year ago occurred in United s Atlanta, north Georgia and western North Carolina markets. Commercial (secured by real estate) and residential construction showed the most significant decreases.

Reviews of substandard performing and non-performing loans, troubled debt restructures, past due loans and larger credits, are conducted on a regular basis and reported to management each quarter and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are presented by the responsible lending officers and specific action plans are discussed along with the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, the effect of prevailing economic conditions on the borrower and other factors specific to the borrower and its industry. In addition to United s internal loan review, United also uses external loan review to ensure the independence of the loan review process.

The provision for loan losses charged to earnings was based upon management s judgment of the amount necessary to maintain the allowance at a level appropriate to absorb losses inherent in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management s assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the provision and the stabilization of the level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard loans, leading to an expectation that charge-off levels will continue to decline.

The allocation of the allowance for loan losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. Due to the imprecise nature of the loan loss estimation process and the effects of changing conditions, these risk attributes may not be adequately captured in the data related to the formula-based loan loss components used to determine allocations in United s analysis of the adequacy of the allowance for loan losses. Consequently, management believes that the unallocated allowance appropriately reflects probable inherent but undetected losses in the loan portfolio.

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The following table summarizes the allocation of the allowance for loan losses for each of the past five years.

**Table 11 Allocation of Allowance for Loan Losses**

As of December 31,

*(in thousands)*

| | 2012 | | 2011 | | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | %* | Amount | %* | Amount | %* | Amount | %* | Amount | %* |
| Commercial (secured by real estate) | $ 27,847 | 43 | $ 31,644 | 44 | $ 31,191 | 38 | $ 19,208 | 34 | $ 8,948 | 28 |
| Commercial & industrial | 5,537 | 11 | 5,681 | 10 | 7,580 | 10 | 6,892 | 8 | 8,512 | 7 |
| Total commercial | 33,384 | 54 | 37,325 | 54 | 38,771 | 48 | 26,100 | 42 | 17,460 | 35 |
| Construction | 35,051 | 13 | 36,476 | 15 | 99,351 | 21 | 99,446 | 27 | 71,573 | 35 |
| Residential mortgage | 26,642 | 29 | 29,076 | 28 | 22,305 | 28 | 17,266 | 28 | 18,364 | 27 |
| Consumer installment | 2,747 | 4 | 2,124 | 3 | 3,030 | 3 | 2,545 | 3 | 3,756 | 3 |
| Unallocated | 9,313 | | 9,467 | | 11,238 | | 10,245 | | 11,118 | |
| Total allowance for loan losses | $ 107,137 | 100 | $ 114,468 | 100 | $ 174,695 | 100 | $ 155,602 | 100 | $ 122,271 | 100 |

* Loan balance in each category, expressed as a percentage of total loans.

The following table presents a summary of changes in the allowance for loan losses for each of the past five years.

**Table 12 Allowance for Loan Losses**

Years Ended December 31,

*(in thousands)*

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Balance beginning of period | $ 114,468 | $ 174,695 | $ 155,602 | $ 122,271 | $ 89,423 |
| Provision for loan losses | 62,500 | 251,000 | 223,000 | 310,000 | 184,000 |
| Charge-offs: | | | | | |
| Commercial (secured by real estate) | 23,062 | 59,468 | 33,593 | 21,796 | 5,843 |
| Commercial & industrial | 2,424 | 24,890 | 10,837 | 11,322 | 5,197 |
| Commercial construction | 5,411 | 55,730 | 9,993 | 9,908 | 1,796 |
| Residential mortgage | 17,262 | 53,707 | 28,806 | 18,997 | 12,995 |
| Residential construction | 24,260 | 118,916 | 136,666 | 219,168 | 123,771 |
| Consumer installment | 2,214 | 3,594 | 4,828 | 5,115 | 3,275 |
| Total loans charged-off | 74,633 | 316,305 | 224,723 | 286,306 | 152,877 |
| Recoveries: | | | | | |
| Commercial (secured by real estate) | 692 | 448 | 1,167 | 520 | 72 |
| Commercial & industrial | 1,104 | 967 | 1,762 | 5,397 | 61 |
| Commercial construction | 111 | 203 | 431 | 12 | 4 |
| Residential mortgage | 799 | 738 | 867 | 411 | 224 |

| | | | | | |
|---|---|---|---|---|---|
| Residential construction | 1,272 | 1,678 | 15,370 | 2,253 | 653 |
| Consumer installment | 824 | 1,044 | 1,219 | 1,044 | 711 |
| Total recoveries | 4,802 | 5,078 | 20,816 | 9,637 | 1,725 |
| Net charge-offs | 69,831 | 311,227 | 203,907 | 276,669 | 151,152 |
| Balance end of period | $ 107,137 | $ 114,468 | $ 174,695 | $ 155,602 | $ 122,271 |
| Total loans [(1)]: | | | | | |
| At year-end | $ 4,175,008 | $ 4,109,614 | $ 4,604,126 | $ 5,151,476 | $ 5,704,861 |
| Average | 4,123,530 | 4,244,305 | 4,884,330 | 5,501,165 | 5,890,889 |
| Allowance as a percentage of year-end loans | 2.57% | 2.79% | 3.79% | 3.02% | 2.14% |
| As a percentage of average loans: | | | | | |
| Net charge-offs | 1.69 | 7.33 | 4.17 | 5.03 | 2.57 |
| Provision for loan losses | 1.52 | 5.91 | 4.57 | 5.64 | 3.12 |
| Allowance as a percentage of nonperforming loans | 97 | 90 | 98 | 59 | 64 |

[(1)] Excludes loans acquired through the FDIC assisted acquisition of Southern Community Bank that are covered by loss sharing agreements.

At December 31, 2012, the allowance for loan losses was $107 million, or 2.57% of total loans, compared with $114 million, or 2.79% of loans at December 31, 2011. The decrease in the allowance for loan losses is consistent with the overall improving trends in credit quality of the loan portfolio. During the third quarter of 2011, United recorded a provision for loan losses of $25.0 million related to classifying its largest lending relationship to nonaccrual status and recorded a $25.0 million partial charge-off during the following quarter.

Management believes that the allowance for loan losses at December 31, 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 changes 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***

Nonperforming loans totaled $110 million at December 31 2012, compared with $127 million at December 31, 2011. There were no accruing loans more than 90 days past due at December 31, 2012 and 2011. At December 31, 2012 and 2011, the ratio of nonperforming loans to total loans was 2.63% and 3.10%, respectively. 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 $128 million at December 31, 2012, compared with $160 million at December 31, 2011. United sold $40.8 million and $108 million respectively, of foreclosed properties during 2012 and 2011, which helped to lower the balance of foreclosed properties by 44% compared to December 31, 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 placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied to reduce outstanding principal.

There were no commitments to lend additional funds to customers whose loans were on nonaccrual status at December 31, 2012, although in certain isolated cases, United executed forbearance agreements whereby United will continue to fund construction loans to completion as long as the borrower meets the conditions of the forbearance agreement. United may also fund other amounts necessary to protect the Bank s collateral such as amounts to pay past due property taxes. The table below summarizes nonperforming assets at year-end for the last five years. It excludes assets acquired through the acquisition of SCB in 2009 that are covered by loss-sharing agreements with the FDIC. These assets have been excluded from the review of nonperforming assets, as the loss-sharing agreements with the FDIC and purchase price adjustments to reflect credit losses, effectively eliminate the likelihood of recognizing losses on the covered assets.

**Table 13 Nonperforming Assets**

As of December 31,

*(in thousands)*

| | **2012** | **2011** | **2010** | **2009** | **2008** |
|---|---|---|---|---|---|
| Nonaccrual loans (NPLs) | $ 109,894 | $ 127,479 | $ 179,094 | $ 264,092 | $ 190,723 |
| Foreclosed properties | 18,264 | 32,859 | 142,208 | 120,770 | 59,768 |
| Total nonperforming assets (NPAs) | $ 128,158 | $ 160,338 | $ 321,302 | $ 384,862 | $ 250,491 |
| NPLs as a percentage of total loans | 2.63% | 3.10% | 3.89% | 5.13% | 3.34% |
| NPAs as a percentage of loans and foreclosed properties | 3.06 | 3.87 | 6.77 | 7.30 | 4.35 |
| NPAs as a percentage of total assets | 1.88 | 2.30 | 4.42 | 4.81 | 2.92 |

At December 31, 2012 and 2011 United had $161 million and $124 million, respectively, in loans with terms that have been modified in a TDR. Included therein were $38.0 million and $17.9 million, respectively, of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $123 million and $106 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At December 31, 2012 and 2011, there were $253 million and $257 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification. Included in impaired loans at December 31, 2012 and 2011 were $157 million and $189 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at December 31, 2012 of $95.8 million had specific reserves that totaled $11.6 million and the balance of impaired loans at December 31,

2011 of $68.8 million had specific reserves that totaled $14.8 million. During the third quarter of 2011, United classified its largest lending relationship of $76.6 million as impaired and recorded a specific reserve of $25.0 million, which was charged off in the fourth quarter of 2011. The average recorded investment in impaired loans for 2012, 2011 and 2010 was $276 million, $127 million and $170 million, respectively. During 2012 and 2011, United recognized $9.53 million and $2.66 million in interest revenue on impaired loans. During 2010, there was no interest revenue recognized on loans while they were impaired. United s policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, *Receivables,* when a loan meets the criteria for nonaccrual status. Impaired loans decreased 2% from 2011 to 2012, as the level of United s nonaccrual and substandard accruing loans over $2 million began to subside. This decline was offset by an increased level of TDRs, which are considered impaired. Impaired loans increased from 2010 to 2011 due to the classification of United s largest lending relationship and the increase in TDRs. In addition, United began including substandard accruing loans over $2 million in its impairment analysis in 2011.

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The following table summarizes nonperforming assets by category and market by quarter. Assets covered by the loss-sharing agreement with the FDIC related to the acquisition of SCB are not included in this table.

**Table 14 Nonperforming Assets by Quarter**

*(in thousands)*

| | December 31, 2012 [1] | | | September 30, 2012 [1] | | | June 30, 2012 [1] | | | March 31, 2012 [1] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| **BY CATEGORY** | | | | | | | | | | | | |
| Commercial (sec. by RE) | $ 22,148 | $ 5,479 | $ 27,627 | $ 25,896 | $ 8,767 | $ 34,663 | $ 19,115 | $ 10,586 | $ 29,701 | $ 26,081 | $ 10,808 | $ 36,889 |
| Commercial & industrial | 31,817 | | 31,817 | 32,678 | | 32,678 | 34,982 | | 34,982 | 36,314 | | 36,314 |
| Commercial construction | 23,843 | 2,204 | 26,047 | 18,590 | 3,121 | 21,711 | 18,175 | 2,732 | 20,907 | 23,319 | 3,266 | 26,585 |
| Total commercial | 77,808 | 7,683 | 85,491 | 77,164 | 11,888 | 89,052 | 72,272 | 13,318 | 85,590 | 85,714 | 14,074 | 99,788 |
| Residential mortgage | 12,589 | 4,753 | 17,342 | 13,996 | 6,031 | 20,027 | 16,631 | 5,591 | 22,222 | 18,741 | 5,882 | 24,623 |
| Residential construction | 18,702 | 5,828 | 24,530 | 22,935 | 9,039 | 31,974 | 25,530 | 11,512 | 37,042 | 24,341 | 11,931 | 36,272 |
| Consumer installment | 795 | | 795 | 906 | | 906 | 907 | | 907 | 908 | | 908 |
| **Total NPAs** | $ 109,894 | $ 18,264 | $ 128,158 | $ 115,001 | $ 26,958 | $ 141,959 | $ 115,340 | $ 30,421 | $ 145,761 | $ 129,704 | $ 31,887 | $ 161,591 |
| **Balance as a percentage of unpaid principal** | 69.5% | 39.7% | 62.8% | 68.8% | 36.4% | 58.8% | 68.8% | 39.3% | 59.4% | 70.6% | 36.1% | 59.4% |
| **BY MARKET** | | | | | | | | | | | | |
| North Georgia | $ 69,950 | $ 8,219 | $ 78,169 | $ 72,211 | $ 14,582 | $ 86,793 | $ 77,332 | $ 13,546 | $ 90,878 | $ 81,117 | $ 14,559 | $ 95,676 |
| Atlanta MSA | 18,556 | 3,442 | 21,998 | 21,349 | 5,926 | 27,275 | 17,593 | 8,651 | 26,244 | 22,321 | 7,647 | 29,968 |
| North Carolina | 11,014 | 2,579 | 13,593 | 9,622 | 2,771 | 12,393 | 10,657 | 3,287 | 13,944 | 15,765 | 4,650 | 20,415 |
| Coastal Georgia | 3,810 | 1,609 | 5,419 | 6,822 | 864 | 7,686 | 5,822 | 785 | 6,607 | 5,622 | 1,268 | 6,890 |
| Gainesville MSA | 903 | 556 | 1,459 | 840 | 1,328 | 2,168 | 991 | 2,998 | 3,989 | 2,210 | 3,387 | 5,597 |
| East Tennessee | 5,661 | 1,859 | 7,520 | 4,157 | 1,487 | 5,644 | 2,945 | 1,154 | 4,099 | 2,669 | 376 | 3,045 |
| **Total NPAs** | $ 109,894 | $ 18,264 | $ 128,158 | $ 115,001 | $ 26,958 | $ 141,959 | $ 115,340 | $ 30,421 | $ 145,761 | $ 129,704 | $ 31,887 | $ 161,591 |

| | December 31, 2011 [1] | | | September 30, 2011 [1] | | | June 30, 2011 [1] | | | March 31, 2011 [1] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| **BY CATEGORY** | | | | | | | | | | | | |
| Commercial (sec. by RE) | $ 27,322 | $ 9,745 | $ 37,067 | $ 21,998 | $ 8,880 | $ 30,878 | $ 17,764 | $ 6,796 | $ 24,560 | $ 20,648 | $ 7,886 | $ 28,534 |
| Commercial & industrial | 34,613 | | 34,613 | 53,009 | | 53,009 | 1,998 | | 1,998 | 2,198 | | 2,198 |
| Commercial construction | 16,655 | 3,336 | 19,991 | 11,370 | 5,862 | 17,232 | 2,782 | 6,764 | 9,546 | 3,701 | 11,568 | 15,269 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total commercial | 78,590 | 13,081 | 91,671 | 86,377 | 14,742 | 101,119 | 22,544 | 13,560 | 36,104 | 26,547 | 19,454 | 46,001 |
| Residential mortgage | 22,358 | 6,927 | 29,285 | 22,671 | 7,960 | 30,631 | 24,809 | 9,056 | 33,865 | 23,711 | 9,117 | 32,828 |
| Residential construction | 25,523 | 12,851 | 38,374 | 34,472 | 21,561 | 56,033 | 22,643 | 24,968 | 47,611 | 32,038 | 25,807 | 57,845 |
| Consumer installment | 1,008 | | 1,008 | 964 | | 964 | 1,069 | | 1,069 | 1,473 | | 1,473 |
| **Total NPAs** | $ 127,479 | $ 32,859 | $ 160,338 | $ 144,484 | $ 44,263 | $ 188,747 | $ 71,065 | $ 47,584 | $ 118,649 | $ 83,769 | $ 54,378 | $ 138,147 |
| **Balance as a percentage of unpaid principal** | 71.3% | 35.9% | 59.3% | 77.8% | 33.4% | 59.3% | 64.5% | 32.6% | 46.3% | 57.3% | 30.3% | 42.4% |
| **BY MARKET** | | | | | | | | | | | | |
| North Georgia | $ 88,600 | $ 15,136 | $ 103,736 | $ 105,078 | $ 17,467 | $ 122,545 | $ 28,117 | $ 21,278 | $ 49,395 | $ 30,214 | $ 23,094 | $ 53,308 |
| Atlanta MSA | 14,480 | 6,169 | 20,649 | 13,350 | 12,971 | 26,321 | 14,700 | 11,239 | 25,939 | 21,501 | 16,913 | 38,414 |
| North Carolina | 15,100 | 5,365 | 20,465 | 13,243 | 7,941 | 21,184 | 15,153 | 8,953 | 24,106 | 18,849 | 7,802 | 26,651 |
| Coastal Georgia | 5,248 | 1,620 | 6,868 | 5,600 | 2,354 | 7,954 | 5,357 | 2,564 | 7,921 | 5,847 | 3,781 | 9,628 |
| Gainesville MSA | 2,069 | 3,760 | 5,829 | 5,311 | 2,495 | 7,806 | 4,505 | 3,174 | 7,679 | 4,332 | 2,157 | 6,489 |
| East Tennessee | 1,982 | 809 | 2,791 | 1,902 | 1,035 | 2,937 | 3,233 | 376 | 3,609 | 3,026 | 631 | 3,657 |
| **Total NPAs** | $ 127,479 | $ 32,859 | $ 160,338 | $ 144,484 | $ 44,263 | $ 188,747 | $ 71,065 | $ 47,584 | $ 118,649 | $ 83,769 | $ 54,378 | $ 138,147 |

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

In April 2011, United sold nonperforming loans in the Bulk Loan Sale with a carrying amount of $101 million and performing substandard loans with a carrying amount of $166 million. At March 31, 2011, the loans were written down to the expected proceeds from the sale and transferred to the held for sale category and therefore were not included in the table above at the end of the first quarter. Nonperforming assets in the residential construction category were $24.5 million at December 31, 2012, compared to $38.4 million at December 31, 2011, a decrease of $13.8 million, or 36%. Commercial nonperforming assets decreased from $91.7 million at December 31, 2011 to $85.5 million at December 31, 2012. Residential mortgage nonperforming assets of $17.3 million decreased $11.9 million from $29.3 million at December 31, 2011.

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The following table summarizes activity in nonperforming assets by year.

**Table 15 Activity in Nonperforming Assets by Year**

*(in thousands)*

| | 2012 [1] | | | 2011 [1][3] | | | 2010 [1] | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | 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 | $ 264,092 | $ 120,770 | $ 384,862 |
| Loans placed on non-accrual [2] | 112,547 | | 112,547 | 239,681 | | 239,681 | 494,843 | | 494,843 |
| Payments received | (31,076) | | (31,076) | (17,131) | | (17,131) | (36,641) | | (36,641) |
| Loan charge-offs | (65,064) | | (65,064) | (122,949) | | (122,949) | (222,150) | | (222,150) |
| Foreclosures | (33,992) | 33,992 | | (65,732) | 65,732 | | (237,503) | 237,503 | |
| Capitalized costs | | 1,047 | 1,047 | | 1,249 | 1,249 | | 1,396 | 1,396 |
| Note / property sales | | (40,759) | (40,759) | (11,400) | (107,924) | (119,324) | (83,547) | (168,135) | (251,682) |
| Loans transferred to held for sale | | | | (74,084) | | (74,084) | | | |
| Write downs | | (6,951) | (6,951) | | (57,368) | (57,368) | | (25,755) | (25,755) |
| Net losses on sales | | (1,924) | (1,924) | | (11,038) | (11,038) | | (23,571) | (23,571) |
| **Ending Balance** | $ 109,894 | $ 18,264 | $ 128,158 | $ 127,479 | $ 32,859 | $ 160,338 | $ 179,094 | $ 142,208 | $ 321,302 |

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

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

(3) The NPA activity shown for 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 write 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 cost 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.*

In 2012, 2011 and 2010, United transferred $34.0 million, $65.7 million and $238 million, respectively, of loans into foreclosed property. During 2012 and 2011, proceeds from sales of foreclosed properties were $40.8 million and $108 million, respectively, which includes $9.40 million and $21.1 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 properties in order to expedite sales in the following quarters as part of its Problem Asset Disposition Plan.

***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 and borrowings, including repurchase agreements. Total investment securities at December 31, 2012 decreased $41.5 million from a year ago.

At December 31, 2012 and December 31, 2011, United had securities held to maturity with a carrying value of $244 million and $330 million, respectively, and securities available for sale totaling $1.83 billion and $1.79 billion, respectively. At December 31, 2012 and 2011, the

securities portfolio represented approximately 31% and 30% of total assets, respectively. At December 31, 2012, the effective duration of the investment portfolio based on expected maturities was 2.46 years compared with 1.95 years at December 31, 2011.

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The following table shows the carrying value of United s securities.

**Table 16 Carrying Value of Investment Securities**

As of December 31,

*(in thousands)*

| | December 31, 2012 | | |
|---|---|---|---|
| | **Available for Sale** | **Held to Maturity** | **Total Securities** |
| State and political subdivisions | $ 29,052 | $ 51,780 | $ 80,832 |
| Mortgage-backed securities | 1,428,502 | 192,404 | 1,620,906 |
| Corporate bonds | 163,662 | | 163,662 |
| Asset-backed securities | 210,556 | | 210,556 |
| Other | 2,821 | | 2,821 |
| Total securities | $ 1,834,593 | $ 244,184 | $ 2,078,777 |

| | December 31, 2011 | | |
|---|---|---|---|
| | **Available for Sale** | **Held to Maturity** | **Total Securities** |
| U.S. Government agencies | $ 43,750 | $ 5,000 | $ 48,750 |
| State and political subdivisions | 26,339 | 51,903 | 78,242 |
| Mortgage-backed securities | 1,609,909 | 273,300 | 1,883,209 |
| Corporate bonds | 107,678 | | 107,678 |
| Other | 2,371 | | 2,371 |
| Total securities | $ 1,790,047 | $ 330,203 | $ 2,120,250 |

The investment securities portfolio primarily consists of U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, corporate securities, municipal securities and asset-backed securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because the loans underlying the security 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.

At December 31, 2012, United had 78% of its total investment securities portfolio in mortgage backed securities, compared with 89% at December 31, 2011. Due to a lack of loan demand, United continued to purchase mortgage-backed securities in order to obtain a favorable yield with low risk. United did not have securities of any issuer in excess of 10% of equity at year-end 2012 or 2011, excluding U.S. Government issues. Approximately 2% of the securities portfolio is rated below A or unrated and 79% is rated Aaa . See Note 6 to the consolidated financial statements for further discussion of investment portfolio and related fair value and maturity information.

***Goodwill and Other Intangible Assets***

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. United did not report any goodwill at December 31, 2012 or 2011.

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 lead management to believe that any impairment exists in United s other intangible assets.

***Deposits***

Total average deposits for 2012 were $5.89 billion, a decrease of $390 million, or 6%, from 2011. Average non-interest bearing demand deposit accounts increased $227 million, or 25%, due to the success of core deposit programs. United pursues customer transaction deposits by emphasizing its high customer satisfaction scores. Also impacted by the programs were NOW, money market and savings accounts of $2.65 billion on average for 2012, which increased $113 million, or 4%, from 2011.

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At December 31, 2012, total deposits were $5.95 billion compared with $6.10 billion at the end of 2011, a decrease of $146 million, or 2%. Average time deposits for 2012, including brokered time deposits, were $2.09 billion, down from $2.82 billion in 2011. United continued to offer low rates on certificates of deposit, allowing the balances to decline as United s funding needs declined due to weak loan demand and a shift to lower cost transaction account deposits.

The following table sets forth the scheduled maturities of time deposits of $100,000 and greater and brokered time deposits.

**Table 17 Maturities of Time Deposits of $100,000 and Greater and Brokered Time Deposits**

As of December 31, 2012 and 2011

*(in thousands)*

| | 2012 | 2011 |
|---|---|---|
| $100,000 and greater: | | |
| Three months or less | $ 141,911 | $ 180,847 |
| Three to six months | 121,059 | 142,720 |
| Six to twelve months | 251,620 | 276,741 |
| Over one year | 190,968 | 246,844 |
| Total | $ 705,558 | $ 847,152 |
| Brokered time deposits: | | |
| Three months or less | $ 248 | $ 59,594 |
| Three to six months | | 40,232 |
| Six to twelve months | | 64,071 |
| Over one year | 154,641 | 14,750 |
| Total | $ 154,889 | $ 178,647 |

***Wholesale Funding***

The Bank is a shareholder in the Federal Home Loan Bank ( FHLB ) of Atlanta. Through this affiliation, FHLB secured advances totaling $40.1 million and $40.6 million at December 31, 2012 and 2011, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at December 31, 2012 had fixed interest rates of .19% or less. During 2012 and 2011, United prepaid $25 million and $14.5 million, respectively, of fixed-rate advances and incurred prepayment charges of $2.20 million and $791,000, respectively. United will prepay advances from time to time as funding needs change. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 12 to the consolidated financial statements.

At December 31, 2012 and 2011, United had $52.6 million and $103 million 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.

**Liquidity Management**

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet 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 of a bank to convert assets into cash or cash equivalents without significant loss and the ability to raise additional funds by increasing liabilities. Liquidity management involves maintaining United s ability to meet the daily cash flow requirements of the Bank s customers, both depositors and borrowers. In addition, because United is a separate entity and apart from the Bank, it must provide for its own liquidity. United is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on

any outstanding debt or trust preferred securities.

Substantially all of United s liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law and the Bank MOU. United currently has internal capital resources to meet these obligations and based on the Bank s 2012 earnings, the Bank is qualified to pay a dividend of up to $24 million to United subject to regulatory approval.

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 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. At December 31, 2012, we had $161 million in such funds. Also, mortgage loans held for sale totaled $28.8 million at December 31, 2012, and typically turn over every 45 days as closed loans are sold to investors in the secondary market.

The liability section of the balance sheet provides liquidity primarily 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 are used as necessary to fund asset growth and meet other short-term liquidity needs.

The table below presents a summary of United s short-term borrowings over the last three years.

**Table 18 Short-Term Borrowings**

As of December 31,

*(in thousands)*

| | Period-end balance | Period end weighted-average interest rate | Maximum outstanding at any month-end | Average amounts outstanding during the year | Weighted-average rate for the year |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Federal funds purchased | $ | % | $ | $ 5,000 | .33% |
| Repurchase agreements | 52,574 | 4.00 | 103,551 | 75,593 | 3.93 |
| | $ 52,574 | | | $ 80,593 | |
| December 31, 2011 | | | | | |
| Federal funds purchased | $ | % | $ | $ 137 | .39% |
| Repurchase agreements | 102,577 | 4.12 | 103,666 | 102,590 | 4.14 |
| | $ 102,577 | | | $ 102,727 | |
| December 31, 2010 | | | | | |
| Federal funds purchased | $ | % | $ | $ 489 | .36% |
| Repurchase agreements | 101,067 | 4.12 | 104,127 | 102,990 | 4.11 |
| | $ 101,067 | | | $ 103,479 | |

At December 31, 2012, United had sufficient qualifying collateral to increase FHLB advances by $1.12 billion and Federal Reserve discount window capacity of $563 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.

The following table shows United s contractual obligations and other commitments.

**Table 19 Contractual Obligations and Other Commitments**

As of December 31, 2012

*(in thousands)*

| | | Maturity By Years | | | |
|---|---|---|---|---|---|
| | Total | 1 or Less | 1 to 3 | 3 to 5 | Over 5 |
| **Contractual Cash Obligations** | | | | | |
| FHLB advances | $ 40,125 | $ 40,000 | $ | $ 125 | $ |
| Long-term debt | 124,805 | | 35,000 | 35,000 | 54,805 |
| Operating leases | 6,716 | 2,591 | 1,394 | 757 | 1,974 |
| Total contractual cash obligations | $ 171,646 | $ 42,591 | $ 36,394 | $ 35,882 | $ 56,779 |
| **Other Commitments** | | | | | |
| Lines of credit | $ 313,798 | $ | $ 58,304 | $ 43,519 | $ 211,975 |
| Commercial letters of credit | 13,683 | 12,663 | 972 | 48 | |
| Uncertain tax positions | 5,128 | 965 | 1,267 | 489 | 2,407 |
| Total other commitments | $ 332,609 | $ 13,628 | $ 60,543 | $ 44,056 | $ 214,382 |

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As disclosed in United s consolidated statement of cash flows, net cash provided by operating activities was $183 million for the year ended December 31, 2012. Net income of $33.9 million for the year included non-cash expenses for provision for loan losses of $62.5 million, and losses and write downs on foreclosed property of $8.88 million. Other assets decreased $44.7 million primarily due to the receipt of a prior year tax refund resulting from a loss carryback claim and the reduction of the prepaid FDIC insurance assessment. Net cash used in investing activities of $102 million consisted primarily of $1.17 billion of purchases of securities, an increase in loans of $160 million, and purchases of premises and equipment of $4.12 million, that were offset by proceeds from sales of securities of $469 million, maturities and calls of investment securities of $713 million, and net proceeds from sales of other real estate of $31.4 million. Funds collected from the FDIC under loss sharing agreements were $14.3 million, providing another source of cash flows from investing activities. The $208 million of net cash used in financing activities consisted primarily of a net decrease in deposits of $146 million and a decrease in federal funds purchased and repurchase agreements of $54.5 million. United also repaid $30.5 million in long-term debt which was offset by the issuance of $35.0 million in senior notes. In the opinion of management, United s liquidity position at December 31, 2012 was sufficient to meet its expected cash flow requirements.

The following table presents the contractual maturity of investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis). The composition and maturity/repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

**Table 20 Expected Maturity of Available for Sale and Held to Maturity Investment Securities**

As of December 31, 2012

*(in thousands)*

| | | | Maturity By Years | | |
|---|---|---|---|---|---|
| | 1 or Less | 1 to 5 | 5 to 10 | Over 10 | Total |
| **Available for Sale** | | | | | |
| State and political subdivisions | $ 5,334 | $ 15,962 | $ 6,823 | $ 933 | $ 29,052 |
| Corporate bonds | | 38,103 | 115,504 | 10,055 | 163,662 |
| Asset-backed securities | | 50,071 | 140,724 | 19,761 | 210,556 |
| Other securities [1] | 24,434 | 997,073 | 82,630 | 327,186 | 1,431,323 |
| Total securities available for sale | $ 29,768 | $ 1,101,209 | $ 345,681 | $ 357,935 | $ 1,834,593 |
| Weighted average yield [2] | 3.19% | 1.90% | 2.08% | 4.31% | 2.42% |
| **Held to Maturity** | | | | | |
| State and political subdivisions | $ | $ 9,084 | $ 26,054 | $ 16,642 | $ 51,780 |
| Other securities [1] | | 171,952 | 14,747 | 5,705 | 192,404 |
| Total securities available for sale | $ | $ 181,036 | $ 40,801 | $ 22,347 | $ 244,184 |
| Weighted average yield [2] | | 3.46% | 4.41% | 5.27% | 3.79% |
| **Combined Portfolio** | | | | | |
| State and political subdivisions | $ 5,334 | $ 25,046 | $ 32,877 | $ 17,575 | $ 80,832 |
| Corporate bonds | | 38,103 | 115,504 | 10,055 | 163,662 |
| Asset-backed securities | | 50,071 | 140,724 | 19,761 | 210,556 |
| Other securities [1] | 24,434 | 1,169,025 | 97,377 | 332,891 | 1,623,727 |
| Total securities available for sale | $ 29,768 | $ 1,282,245 | $ 386,482 | $ 380,282 | $ 2,078,777 |
| Weighted average yield [2] | 3.19% | 2.13% | 2.33% | 4.37% | 2.59% |

[1] Includes mortgage-backed securities

(2) Based on amortized cost, taxable equivalent basis

**Off-Balance Sheet Arrangements**

United is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers. These financial instruments include commitments to extend credit, letters of credit and financial guarantees.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Letters of credit and financial guarantees are conditional commitments issued to guarantee a customer s performance to a third party and have essentially the same credit risk as extending loan facilities to customers. Those commitments are primarily issued to local businesses.

The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, letters of credit and financial guarantees is represented by the contractual amount of these instruments. United uses the same credit underwriting procedures for making commitments, letters of credit and financial guarantees, as it uses for underwriting on-balance sheet instruments. United evaluates each customer s creditworthiness on a case-by-case basis and the amount of the collateral, if deemed necessary, is based on the credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used. United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 20 to the consolidated financial statements for additional information on off-balance sheet arrangements.

At December 31, 2012 and 2011, United had $265 million and $60 million, respectively, in offsetting repurchase agreements / reverse repurchase agreements that were netted in the consolidated balance sheet. In addition, at December 31, 2012, United had $50 million in offsetting securities lending agreements that were netted in the consolidated balance sheet. United enters into these collateral swap arrangements from time to time as a source of additional revenue.

**Capital Resources and Dividends**

Shareholders equity at December 31, 2012 was $581 million, an increase of $5.92 million from December 31, 2011. Accumulated other comprehensive income, 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 $26.3 million, or 5%, from December 31, 2011.

United accrued $12.1 million in dividends, including accretion of discounts, on Series A, Series B and Series D preferred stock in 2012. United accrued $11.8 million in dividends, including discount accretion, on Series A and Series B preferred stock, for the year ended December 31, 2011.

United granted a warrant to Fletcher to purchase common stock equivalent junior preferred stock that could 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 included incorrect calculations of the number of settlement shares Fletcher would receive upon exercise. On June 17, 2011, United completed a reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination. United believes that any current exercise of Fletcher s warrant would not result in the issuance of any settlement shares because the warrant may only be exercised for net shares via a cashless exercise formula, and the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. United has responded to Fletcher with United s calculations related to the warrant.

In November 2011, United entered into an informal memorandum of understanding with the Federal Reserve Bank of Atlanta and the Georgia Department of Banking and Finance that superseded the board resolution previously requested by the Federal Reserve. The Holding Company MOU provides, similar to the superseded resolution, 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 and DBF. Additionally, the Holding Company MOU requires, among other things, that United ensures that the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU.

The Bank is currently subject to an informal memorandum of understanding with the Federal Deposit Insurance Corporation and the Georgia Department of Banking and Finance. The Bank MOU 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.

The Board of Governors of the Federal Reserve has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off balance sheet. Under the guidelines, capital strength is measured in two tiers which 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 1 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 1 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.

Tier 1 Capital consists of shareholders equity, excluding accumulated other comprehensive income, intangible assets (goodwill and deposit-based intangibles), and disallowed deferred tax assets, plus qualifying capital securities. United s Tier 1 capital totaled $653 million at December 31, 2012. Tier 2 capital components include supplemental capital such as the qualifying portion of the allowance for loan losses and qualifying subordinated debt. Tier 1 capital plus Tier 2 capital is referred to as Total risk-based capital and was $725 million at December 31, 2012. The ratios, as calculated under the guidelines, were 14.16% and 15.73% for Tier 1 and Total risk-based capital, respectively, at December 31, 2012.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier 1 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 of 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.

On December 5, 2008, United participated in Treasury s CPP by selling 180,000 shares of Series B Preferred Stock and a Warrant to purchase 426,540 shares (219,909 shares, as adjusted for subsequent stock dividends and a 50% reduction following United s 2009 stock offering) of United s common stock to Treasury. The proceeds of $180 million were allocated between the Series B Preferred Stock and the Warrant based on their relative fair values at the time of the sale. Of the $180 million in proceeds, $173.1 million was allocated to the Series B Preferred Stock and $6.9 million was allocated to the Warrant. The discount recorded on the Series B Preferred Stock that resulted from allocating a portion of the proceeds to the Warrant is being accreted directly to retained earnings over a five-year period applying a level yield. The exercise price of the Warrant is $63.30 per share ($61.40 per share, as adjusted for subsequent stock dividends) and is exercisable at any time on or before December 5, 2018.

The Series B Preferred Stock qualifies as Tier 1 capital under risk-based capital guidelines and will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Series B Preferred Stock may be redeemed after December 5, 2011 at the stated amount of $1,000 per share plus any accrued and unpaid dividends. The Series B Preferred Stock is non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B Preferred Stock.

United has outstanding junior subordinated debentures related to trust preferred securities totaling $54.8 million at December 31, 2012. The related trust preferred securities of $53.2 million (excluding common securities) qualify as Tier 1 capital under risk-based capital guidelines provided that total trust preferred securities do not exceed certain quantitative limits. At December 31, 2012, all of United s trust preferred securities qualified as Tier 1 capital. Further information on United s trust preferred securities is provided in Note 14 to the consolidated financial statements.

United has subordinated debentures outstanding that qualify as Tier 2 capital under the risk-based capital guidelines. The securities begin to lose their Tier 2 capital treatment as they approach maturity, losing 20% per year in each of the five years leading up to maturity. Of the $35.0 million in subordinated debt that United had outstanding at December 31, 2012, $14.0 million qualified as Tier 2 capital under risk based capital guidelines.

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

**Table 21 Capital Ratios**

*(dollars in thousands)*

| | Regulatory Guidelines | | United Community Banks, Inc. (Consolidated) As of December 31, | | United Community Bank As of December 31, | |
|---|---|---|---|---|---|---|
| | Minimum | Well Capitalized | 2012 | 2011 | 2012 | 2011 |
| Risk-based ratios: | | | | | | |
| Tier 1 capital | 4.0% | 6.0% | 14.16% | 13.69% | 14.48% | 13.60% |
| Total capital | 8.0 | 10.0 | 15.73 | 15.41 | 15.74 | 14.87 |
| Leverage ratio | 3.0 | 5.0 | 9.64 | 8.83 | 9.86 | 8.78 |
| Tier 1 capital | | | $ 652,692 | $ 618,695 | $ 666,585 | $ 614,532 |
| Total capital | | | 724,915 | 696,881 | 724,738 | 671,718 |

The Bank MOU requires the Bank to maintain a leverage ratio of at least 8% and a total risk-based capital ratio of at least 10% while the Bank MOU remains in effect.

**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 nominal 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 monitor and manage United s interest rate sensitivity position. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**
**Interest Rate Sensitivity Management**

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

United s net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by the 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 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 to 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 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 policy scenarios focus on a twelve month time frame, longer time horizons are also modeled. All policy scenarios assume a static balance sheet.

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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 December 31, 2012 and 2011 made use of the down scenarios problematic. The following table presents United s interest sensitivity position at December 31, 2012 and 2011.

**Table 22 Interest Sensitivity**

| | Increase (Decrease) in Net Interest Revenue from Base Scenario at December 31, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| **Change in Rates** | **Shock** | **Ramp** | **Shock** | **Ramp** |
| 200 basis point increase | 6.7% | 3.6% | 2.2% | 0.7% |
| 25 basis point decrease | 1.2 | 1.2 | | |

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

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

In order to manage its interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate, (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.

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The following table presents United s outstanding derivative positions at December 31, 2012.

**Table 23 Derivative Financial Instruments**

*(in thousands)*

| Type of Instrument | Hedge Designation | Hedged Item | Current Notional | Trade Date | Effective Date | Maturity Date | Pay Rate | Receive Rate | Fair Value (N) Asset | Fair Value (N) Liability |
|---|---|---|---|---|---|---|---|---|---|---|
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | $ 15,000 | 10/12/11 | 11/10/11 | 11/10/31 | 3 mo. LIBOR 60 bps | (A) | $ | $ 369 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 17,000 | 02/14/12 | 02/27/12 | 08/27/27 | 3 mo. LIBOR 45 bps | (B) | 22 | |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 15,500 | 03/05/12 | 03/23/12 | 09/23/27 | 3 mo. LIBOR 45 bps | (C) | 1 | |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,500 | 05/16/12 | 06/08/12 | 06/08/32 | 3 mo. LIBOR 43 bps | (D) | | 125 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 13,000 | 06/12/12 | 06/28/12 | 06/28/32 | 3 mo. LIBOR 38.5 bps | (E) | | 203 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,500 | 07/03/12 | 07/27/12 | 07/27/32 | 3 mo. LIBOR 38.5 bps | (F) | | 211 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,000 | 08/01/12 | 08/23/12 | 08/23/32 | 3 mo. LIBOR 38.25 bps | (G) | | 354 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 10,000 | 08/29/12 | 09/24/12 | 09/24/12 | 3 mo. LIBOR 38 bps | (H) | | 199 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,000 | 10/05/12 | 10/19/12 | 11/19/32 | 3 mo. LIBOR 38 bps | (I) | | 259 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,000 | 10/15/12 | 11/08/12 | 11/08/32 | 3 mo. LIBOR 40 bps | (J) | | 341 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,500 | 11/14/12 | 11/30/12 | 11/30/32 | 3 mo. LIBOR 38 bps | (K) | | 457 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 12,000 | 11/28/12 | 12/27/12 | 12/27/32 | 3 mo. LIBOR 38 bps | (L) | | 428 |
| Receive Fixed Cancellable Swap | Fair Value | Brokered CD | 10,000 | 12/27/12 | 01/25/13 | 12/25/28 | 3 mo. LIBOR 20.5 bps | (M) | | 215 |
| Pay 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 | | 1,307 |
| Pay 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 | | 1,323 |
| Pay 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 | | 1,944 |
| Pay Fixed Swap | Cash Flow | Money Market Deposts | 100,000 | 05/02/12 | 05/01/14 | 05/01/19 | 1.88750% | 1 mo. LIBOR | | 3,007 |
| Pay Fixed Swap | Cash Flow | Money Market Deposts | 100,000 | 05/31/12 | 07/01/14 | 07/01/18 | 1.39250% | 1 mo. LIBOR | | 1,158 |
| Total Hedging Positions | | | $ 566,000 | | | | | | $ 23 | $ 11,900 |

(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 15 calendar days notice prior to the redemption date.

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

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

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

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

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

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

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

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

(N) Fair value does not include accrued interest.

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.

From time to time, United will terminate swap or floor positions when conditions change and the position is no longer necessary to manage United s overall sensitivity to changes in interest rates. In those situations where the terminated swap or floor was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the contract, the resulting gain or loss is amortized over the remaining life of the original contract. At December 31, 2012, United had $904,000 in gains from terminated derivative positions included in other comprehensive income that will be amortized into earnings over the next twelve months.

United s policy requires all non-customer 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.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The consolidated financial statements of the registrant and report of independent registered public accounting firm are included herein as follows:

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**MANAGEMENT S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The management of United Community Banks, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of the company s principal executive and principal financial officers and affected by the company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, we believe that as of December 31, 2012, United Community Banks, Inc. s internal control over financial reporting is effective based on those criteria.

Our independent registered public accountants have issued an audit report on the company s internal control over financial reporting. This report appears on page 64.

| | |
|---|---|
| Jimmy C. Tallent | Rex S. Schuette |
| President and Chief Executive Officer | Executive Vice President and |
| | Chief Financial Officer |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and shareholders

United Community Banks, Inc.

Blairsville, Georgia

We have audited the accompanying consolidated balance sheet of United Community Banks, Inc. and subsidiaries (the Company ) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We have also audited the Company s internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements, for maintaining effective control over financial reporting and for its assessment of the effectiveness internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

235 Peachtree Street NE | Suite 1800 | Atlanta, Georgia 30303 | Phone 404.588.4200 | Fax 404.588.4222

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Community Banks, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, United Community Banks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Atlanta, Georgia

March 1, 2013

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Consolidated Statement of Operations**

**For the Years Ended December 31, 2012, 2011 and 2010**

*(in thousands, except per share data)*

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Interest revenue: | | | |
| Loans, including fees | $ 217,140 | $ 239,056 | $ 277,904 |
| Investment securities: | | | |
| Taxable | 43,657 | 55,251 | 58,821 |
| Tax exempt | 956 | 1,009 | 1,137 |
| Deposits in banks and short-term investments | 3,986 | 2,321 | 3,260 |
| Total interest revenue | 265,739 | 297,637 | 341,122 |
| Interest expense: | | | |
| Deposits: | | | |
| NOW | 2,049 | 3,998 | 6,966 |
| Money market | 2,518 | 5,456 | 7,552 |
| Savings | 150 | 234 | 331 |
| Time | 19,518 | 39,151 | 66,883 |
| Total deposit interest expense | 24,235 | 48,839 | 81,732 |
| Short-term borrowings | 2,987 | 4,250 | 4,235 |
| Federal Home Loan Bank advances | 907 | 2,042 | 3,355 |
| Long-term debt | 10,201 | 10,544 | 10,749 |
| Total interest expense | 38,330 | 65,675 | 100,071 |
| Net interest revenue | 227,409 | 231,962 | 241,051 |
| Provision for loan losses | 62,500 | 251,000 | 223,000 |
| Net interest revenue after provision for loan losses | 164,909 | (19,038) | 18,051 |
| Fee revenue: | | | |
| Service charges and fees | 31,670 | 29,110 | 30,127 |
| Mortgage loan and other related fees | 10,483 | 5,419 | 7,019 |
| Brokerage fees | 3,082 | 2,986 | 2,662 |
| Securities gains, net | 7,078 | 842 | 2,552 |
| Losses on prepayment of borrowings | (6,681) | (791) | (2,233) |
| Other | 11,139 | 12,342 | 8,421 |
| Total fee revenue | 56,771 | 49,908 | 48,548 |
| Total revenue | 221,680 | 30,870 | 66,599 |
| Operating expenses: | | | |
| Salaries and employee benefits | 96,026 | 100,095 | 96,618 |
| Occupancy | 14,304 | 15,645 | 15,394 |
| Communications and equipment | 12,940 | 13,135 | 13,781 |

| | | | |
|---|---|---|---|
| FDIC assessments and other regulatory charges | 10,097 | 14,259 | 13,747 |
| Professional fees | 8,792 | 9,727 | 9,254 |
| Postage, printing and supplies | 3,899 | 4,256 | 4,072 |
| Advertising and public relations | 3,855 | 4,291 | 4,625 |
| Amortization of intangibles | 2,917 | 3,016 | 3,160 |
| Foreclosed property | 13,993 | 78,905 | 65,707 |
| Goodwill impairment | | | 210,590 |
| Loss on sale of nonperforming assets | | | 45,349 |
| Other | 19,951 | 18,270 | 16,594 |
| Total operating expenses | 186,774 | 261,599 | 498,891 |
| Income (loss) from continuing operations before income taxes | 34,906 | (230,729) | (432,292) |
| Income tax expense (benefit) | 1,050 | (3,983) | 71,217 |
| **Net income (loss) from continuing operations** | 33,856 | (226,746) | (503,509) |
| Loss from discontinued operations, net of income taxes | | | (101) |
| Gain from sale of subsidiary, net of income taxes and selling costs | | | 1,266 |
| **Net income (loss)** | 33,856 | (226,746) | (502,344) |
| Preferred stock dividends | 12,148 | 11,838 | 10,316 |
| **Net income (loss) available to common shareholders** | $ 21,708 | $ (238,584) | $ (512,660) |
| Income (loss) from continuing operations per common share basic / diluted | $ .38 | $ (5.97) | $ (27.15) |
| Income (loss) per common share basic / diluted | .38 | (5.97) | (27.09) |
| Weighted average common shares outstanding basic / diluted | 57,857 | 39,943 | 18,925 |

See accompanying notes to consolidated financial statements.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Consolidated Statement of Comprehensive Income (Loss)**

**For the Years Ended December 31, 2012, 2011 and 2010**

*(in thousands, except per share data)*

| | 2012 | | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Before-tax Amount | Tax (Expense) Benefit | Net of Tax Amount | Before-tax Amount | Tax (Expense) Benefit | Net of Tax Amount | Before-tax Amount | Tax (Expense) Benefit | Net of Tax Amount |
| Net income (loss) from contnuing operations | $ 34,906 | $ (1,050) | $ 33,856 | $ (230,729) | $ 3,983 | $ (226,746) | $ (432,292) | $ (71,217) | $ (503,509) |
| Loss from discontinued operations | | | | | | | (163) | 62 | (101) |
| Gain from sale of subsidiary | | | | | | | 2,042 | (776) | 1,266 |
| Other comprehensive loss: | | | | | | | | | |
| Unrealized (losses) gains on available for sale securities: | | | | | | | | | |
| Unrealized holding gains (losses) arising during period | 748 | (273) | 475 | (1,275) | 361 | (914) | (6,624) | 2,268 | (4,356) |
| Reclassification adjustment for gains included in net income (loss) | (7,078) | 2,753 | (4,325) | (842) | 328 | (514) | (2,552) | 993 | (1,559) |
| Valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available for sale securities | | (2,480) | (2,480) | | (689) | (689) | | (3,261) | (3,261) |
| Net unrealized losses | (6,330) | | (6,330) | (2,117) | | (2,117) | (9,176) | | (9,176) |
| Amortization of gains included in net income (loss) on available for sale securities transferred to held to maturity | (1,988) | 773 | (1,215) | (2,177) | 846 | (1,331) | (1,527) | 594 | (933) |
| Valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available for sale securities transferred to held to maturity | | (773) | (773) | | (846) | (846) | | (594) | (594) |
| Net unrealized losses | (1,988) | | (1,988) | (2,177) | | (2,177) | (1,527) | | (1,527) |
| Amortization of gains included in net income (loss) on derivative financial instruments accounted for as cash flow hedges | (3,712) | 1,444 | (2,268) | (15,116) | 5,880 | (9,236) | (16,081) | 6,374 | (9,707) |
| Unrealized losses on derivative financial instruments accounted for as cash flow hedges | (8,739) | 3,400 | (5,339) | | | | | | |
| Valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income (loss) on cash flow hedges | | (4,844) | (4,844) | | (5,880) | (5,880) | | (6,374) | (6,374) |
| Net unrealized losses | (12,451) | | (12,451) | (15,116) | | (15,116) | (16,081) | | (16,081) |
| Reclassification of unamortized prior service cost and actuarial losses | | | | (4,750) | 1,848 | (2,902) | | | |
| Net actuarial loss on defined benefit pension plan | (177) | 69 | (108) | | | | | | |
| Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension | 615 | (240) | 375 | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| plan | | | | | | | | | |
| Valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses | | 171 | 171 | | (1,848) | (1,848) | | | |
| Net defined benefit pension plan activity | 438 | | 438 | (4,750) | | (4,750) | | | |
| Total other comprehensive loss | (20,331) | | (20,331) | (24,160) | | (24,160) | (26,784) | | (26,784) |
| Comprehensive income (loss) | $ 14,575 | $ (1,050) | $ 13,525 | $ (254,889) | $ 3,983 | $ (250,906) | $ (457,197) | $ (71,931) | $ (529,128) |

See accompanying notes to consolidated financial statements.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheet**

**As of December 31, 2012 and 2011**

*(in thousands, except share data)*

| | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 66,536 | $ 53,807 |
| Interest-bearing deposits in banks | 124,613 | 139,609 |
| Short-term investments | 60,000 | 185,000 |
| Cash and cash equivalents | 251,149 | 378,416 |
| Securities available for sale | 1,834,593 | 1,790,047 |
| Securities held to maturity (fair value $261,131 and $343,531) | 244,184 | 330,203 |
| Mortgage loans held for sale | 28,821 | 23,881 |
| Loans, net of unearned income | 4,175,008 | 4,109,614 |
| Less allowance for loan losses | (107,137) | (114,468) |
| Loans, net | 4,067,871 | 3,995,146 |
| Assets covered by loss sharing agreements with the FDIC | 47,467 | 78,145 |
| Premises and equipment, net | 168,920 | 175,088 |
| Bank owned life insurance | 81,867 | 80,599 |
| Accrued interest receivable | 18,659 | 20,693 |
| Goodwill and other intangible assets | 5,510 | 8,428 |
| Foreclosed property | 18,264 | 32,859 |
| Other assets | 34,954 | 69,915 |
| **Total assets** | $ 6,802,259 | $ 6,983,420 |
| **Liabilities and Shareholders Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Demand | $ 1,252,605 | $ 992,109 |
| NOW | 1,316,453 | 1,509,896 |
| Money market | 1,149,912 | 1,038,778 |
| Savings | 227,308 | 199,007 |
| Time: | | |
| Less than $100,000 | 1,055,271 | 1,332,394 |
| Greater than $100,000 | 705,558 | 847,152 |
| Brokered | 245,033 | 178,647 |
| Total deposits | 5,952,140 | 6,097,983 |
| Short-term borrowings | 52,574 | 102,577 |
| Federal Home Loan Bank advances | 40,125 | 40,625 |
| Long-term debt | 124,805 | 120,225 |
| Unsettled securities purchases | | 10,325 |
| Accrued expenses and other liabilities | 51,210 | 36,199 |
| **Total liabilities** | 6,220,854 | 6,407,934 |

| | | |
|---|---|---|
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Preferred stock, $1 par value; 10,000,000 shares authorized; | | |
| Series A, $10 stated value; 21,700 shares issued and outstanding | 217 | 217 |
| Series B, $1,000 stated value; 180,000 shares issued and outstanding | 178,557 | 177,092 |
| Series D, $1,000 stated value; 16,613 shares issued and outstanding | 16,613 | 16,613 |
| Common stock, $1 par value; 100,000,000 shares authorized; 42,423,870 and 41,647,100 shares issued and outstanding | 42,424 | 41,647 |
| Common stock, non-voting $1 par value; 30,000,000 shares authorized; 15,316,794 and 15,914,209 shares issued and outstanding | 15,317 | 15,914 |
| Common stock issuable; 133,238 and 93,681 shares | 3,119 | 3,233 |
| Capital surplus | 1,057,951 | 1,054,940 |
| Accumulated deficit | (709,153) | (730,861) |
| Accumulated other comprehensive loss | (23,640) | (3,309) |
| **Total shareholders equity** | 581,405 | 575,486 |
| **Total liabilities and shareholders equity** | $ 6,802,259 | $ 6,983,420 |

See accompanying notes to consolidated financial statements.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Consolidated Statement of Changes in Shareholders Equity**

**For the Years Ended December 31, 2012, 2011 and 2010**

*(in thousands except share data)*

| | Preferred Stock | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Series A** | **Series B** | **Series D** | **Series F** | **Series G** | **Common Stock** | **Non-Voting Common Stock** | **Common Stock Issuable** | **Capital Surplus** | **Retained Earnings (Accumulated Deficit)** | **Accumulated Other Comprehensive (Loss) Income** | **Total** |
| **Balance, December 31, 2009** | $ 217 | $ 174,408 | $ | $ | $ | $ 18,809 | $ | $ 3,597 | $ 697,271 | $ 20,384 | $ 47,635 | $ 962,321 |
| Net loss | | | | | | | | | | (502,344) | | (502,344) |
| Other comprehensive loss | | | | | | | | | | | (26,784) | (26,784) |
| Issuance of equity instruments in private equity transaction | | | | | | | | | 39,813 | | | 39,813 |
| Common stock issued to Dividend Reinvestment Plan and employee benefit plans (121,777 shares) | | | | | | 122 | | | 1,713 | | | 1,835 |
| Amortization of stock options and restricted stock | | | | | | | | | 2,459 | | | 2,459 |
| Vesting of restricted stock awards (2,113 common shares issued, 8,304 common shares deferred) | | | | | | 2 | | 607 | (609) | | | |
| Deferred compensation plan, net, including dividend equivalents | | | | | | | | 295 | | | | 295 |
| Shares issued from deferred compensation plan (3,990 common shares) | | | | | | 4 | | (605) | 597 | | | (4) |
| Preferred stock dividends: | | | | | | | | | | | | |
| Series A | | | | | | | | | | (13) | | (13) |
| Series B, including | | 1,303 | | | | | | | | (10,303) | | (9,000) |

accretion

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2010** | 217 | 175,711 | | | | 18,937 | | 3,894 | 741,244 | (492,276) | 20,851 | 468,578 |
| Net loss | | | | | | | | | | (226,746) | | (226,746) |
| Other comprehensive loss | | | | | | | | | | | (24,160) | (24,160) |
| Penalty received on incomplete private equity transaction | | | | | | | | | 3,250 | | | 3,250 |
| Preferred for common equity exchange related to tax benefits preservation plan (1,551,126 common shares) | | | 16,613 | | | (1,551) | | | (15,062) | | | |
| Common and preferred stock issued (3,467,699 common shares) | | | | 195,872 | 151,185 | 3,468 | | | 11,035 | | | 361,560 |
| 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 (156,816 common shares) | | | | | | 156 | | | 1,297 | | | 1,453 |
| Amortization of stock options and restricted stock | | | | | | | | | 2,144 | | | 2,144 |
| Vesting of restricted stock awards (12,239 common shares issued, 6,382 common shares deferred) | | | | | | 13 | | 54 | (67) | | | |
| Deferred compensation plan, net, including dividend equivalents | | | | | | | | 241 | | | | 241 |
| Shares issued from deferred compensation plan (6,266 | | | | | | 6 | | (956) | 950 | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| common shares) | | | | | | | | | | |
| Tax on option exercise and restricted stock vesting | | | | | | | (376) | | | (376) |
| Preferred stock dividends: | | | | | | | | | | |
| Series A | | | | | | | | (13) | | (13) |
| Series B, including accretion | | 1,381 | | | | | | (10,401) | | (9,020) |
| Series D | | | | | | | | (1,425) | | (1,425) |
| | | | | | | | | | | |
| **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 | | | | | | | | 33,856 | | 33,856 |
| Other comprehensive loss | | | | | | | | | (20,331) | (20,331) |
| Common stock issued to Dividend Reinvestment Plan and employee benefit plans (109,905 common shares) | | | | 110 | | | 790 | | | 900 |
| Conversion of non-voting common stock to voting common stock (597,415 shares) | | | | 597 | (597) | | | | | |
| Amortization of stock options and restricted stock | | | | | | | 1,976 | | | 1,976 |
| Vesting of restricted stock awards (64,839 common shares issued, 36,673 common shares deferred) | | | | 65 | | 155 | (220) | | | |
| Deferred compensation plan, net, including dividend equivalents | | | | | | 201 | | | | 201 |
| Shares issued from deferred compensation plan (4,611 common shares) | | | | 5 | | (470) | 465 | | | |
| Preferred stock dividends: | | | | | | | | | | |
| Series A | | | | | | | | (12) | | (12) |
| Series B, including accretion | | 1,465 | | | | | | (10,465) | | (9,000) |
| Series D | | | | | | | | (1,671) | | (1,671) |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2012** | $ 217 | $ 178,557 | $ 16,613 | $ | $ | $ 42,424 | $ 15,317 | $ 3,119 | $ 1,057,951 | $ (709,153) | $ (23,640) | $ 581,405 |

See accompanying notes to consolidated financial statements.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows**

**For the Years Ended December 31, 2012, 2011 and 2010**

*(in thousands)*

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating activities: | | | |
| Net income (loss) | $ 33,856 | $ (226,746) | $ (502,344) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | 32,562 | 21,084 | 16,388 |
| Provision for loan losses | 62,500 | 251,000 | 223,000 |
| Goodwill impairment charges | | | 210,590 |
| Stock based compensation | 1,976 | 2,144 | 2,459 |
| Deferred income tax expense | | | 69,254 |
| Securities gains, net | (7,078) | (842) | (2,552) |
| Losses on prepayment of borrowings | 6,681 | 791 | 2,233 |
| Losses and write downs on sales of other real estate owned | 8,875 | 68,406 | 49,326 |
| Gain from sale of subsidiary | | | (2,110) |
| Loss on sale of nonperforming assets | | | 45,349 |
| Change in assets and liabilities: | | | |
| Other assets and accrued interest receivable | 43,738 | 27,188 | 25,881 |
| Accrued expenses and other liabilities | 4,908 | (3,171) | (8,406) |
| Mortgage loans held for sale | (4,940) | 12,027 | (5,682) |
| **Net cash provided by operating activities** | 183,078 | 151,881 | 123,386 |
| Investing activities: | | | |
| Investment securities held to maturity: | | | |
| Proceeds from maturities and calls | 82,801 | 76,764 | 102,567 |
| Purchases | | (144,506) | (55,513) |
| Investment securities available for sale: | | | |
| Proceeds from sales | 469,167 | 128,217 | 75,528 |
| Proceeds from maturities and calls | 629,896 | 493,276 | 779,963 |
| Purchases | (1,166,653) | (1,184,013) | (872,513) |
| Net (increase) decrease in loans | (159,814) | 53,104 | 160,217 |
| Proceeds from loan sales | | 99,298 | 27,823 |
| Proceeds collected from FDIC under loss sharing agreements | 14,292 | 33,572 | 27,562 |
| Purchases of premises and equipment | (4,117) | (7,210) | (7,128) |
| Proceeds from sales of premises and equipment | 1,059 | 737 | 103 |
| Net cash received from sale of subsidiary | | | 2,842 |
| Net cash received from sale of nonperforming assets | | | 20,618 |
| Proceeds from sale of other real estate | 31,356 | 86,789 | 111,222 |
| **Net cash (used in) provided by investing activities** | (102,013) | (363,972) | 373,291 |
| Financing activities, net of effects of business combinations: | | | |
| Net change in deposits | (145,843) | (371,189) | (154,902) |
| Net change in short-term borrowings | (54,483) | 1,510 | (322) |
| Proceeds from Federal Home Loan Bank advances | 1,789,000 | | |
| Settlement of Federal Home Loan Bank advances | (1,791,701) | (15,291) | (61,181) |
| Repayments of long-term debt | (30,500) | (30,000) | |

| | | | |
|---|---|---|---|
| Proceeds from issuance of long-term debt | 35,000 | | |
| Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans | 894 | 1,453 | 1,831 |
| 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 Series A preferred stock | (12) | (13) | (13) |
| Cash dividends on Series B preferred stock | (9,000) | (9,020) | (9,000) |
| Cash dividends on Series D preferred stock | (1,687) | (1,210) | |
| **Net cash used in financing activities** | (208,332) | (58,950) | (223,587) |
| **Net change in cash and cash equivalents** | (127,267) | (271,041) | 273,090 |
| Cash and cash equivalents at beginning of year | 378,416 | 649,457 | 376,367 |
| **Cash and cash equivalents at end of year** | $ 251,149 | $ 378,416 | $ 649,457 |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid during the period for: | | | |
| Interest | $ 42,107 | $ 68,068 | $ 112,171 |
| Income taxes paid (refunds received) | (26,164) | 138 | (37,184) |

See accompanying notes to consolidated financial statements.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies**

The accounting principles followed by United Community Banks, Inc. ( United ) and its subsidiaries and the methods of applying these principles conform with accounting principles generally accepted in the United States of America ( GAAP ) and with general practices within the banking industry. The following is a description of the more significant of those policies.

**Organization and Basis of Presentation**

At December 31, 2012, United was a bank holding company subject to the regulation of the Federal Reserve whose principal business was conducted by its wholly-owned commercial bank subsidiary, United Community Bank (the Bank ). United is subject to regulation under the Bank Holding Company Act of 1956. The consolidated financial statements include the accounts of United Community Banks, Inc., the Bank and other wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Bank is a Georgia state chartered commercial bank that serves markets throughout north Georgia, coastal Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, western North Carolina, the Greenville, South Carolina MSA and east Tennessee and provides a full range of banking services. The Bank is insured and subject to the regulation of the Federal Deposit Insurance Corporation ( FDIC ) and is also subject to the regulation of the Georgia Department of Banking and Finance.

**Use of Estimates**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheet and revenue and expenses for the years then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change are the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of goodwill and separately identifiable intangible assets associated with mergers and acquisitions and the valuation of deferred tax assets.

**Operating Segments**

Operating segments are components of a business about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. Public companies are required to report certain financial information about operating segments in interim and annual financial statements. Although United s operations are divided among a number of community banks, those banks have similar economic characteristics and are therefore aggregated into one operating segment for purposes of segment reporting. Because United has only one operating segment, segment information is not provided separately from the consolidated financial statements.

**Discontinued Operations**

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

**Short-term Investments**

Short-term investments include overnight and term federal funds sold, commercial paper, reverse repurchase agreements and other temporary investments with maturities of less than 90 days. United uses a variety of short-term investment vehicles to temporarily invest funds.

**Cash and Cash Equivalents**

Cash equivalents include amounts due from banks, interest-bearing deposits in banks, federal funds sold, commercial paper, reverse repurchase agreements and short-term investments and are carried at cost. Federal funds are generally sold for one-day periods, interest-bearing deposits in banks are available on demand and commercial paper investments and reverse repurchase agreements mature within a period of less than 90 days.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(1) Summary of Significant Accounting Policies, continued**

**Investment Securities**

United classifies its securities in one of three categories: held to maturity, available for sale, or trading. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which United has the ability and intent to hold until maturity. All other securities are classified as available for sale.

Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from net income and are reported in other comprehensive income as a separate component of shareholders equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from available for sale to held to maturity are included in the balance of accumulated other comprehensive income in the consolidated balance sheet. These unrealized holding gains or losses are amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

Management evaluates investment securities for other than temporary impairment on a quarterly basis. A decline in the fair value of available for sale and held to maturity securities below cost that is deemed other than temporary is charged to earnings for a decline in value deemed to be credit related. The decline in value attributed to non credit related factors is recognized in other comprehensive income and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in net income and derived using the specific identification method for determining the cost of the securities sold.

Federal Home Loan Bank ( FHLB ) stock is included in other assets at its original cost basis, as cost approximates fair value as there is no ready market for such investments.

**Mortgage Loans Held for Sale**

Mortgage loans held for sale are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net income for the period in which the change occurs. No market valuation allowances were required at December 31, 2012 or 2011 since those loans have market values that approximated the recorded basis.

**Loans**

With the exception of purchased loans that are recorded at fair value on the date of acquisition, loans are stated at principal amount outstanding, net of any unearned revenue and net of any deferred loan fees and costs. Interest on loans is primarily calculated by using the simple interest method on daily balances of the principal amount outstanding.

The accrual of interest is discontinued when a loan becomes 90 days past due and is not both well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged against interest revenue on loans. Interest payments are applied to reduce the principal balance on nonaccrual loans. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan s effective interest rate, at the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest revenue on impaired loans is discontinued when the loans meet the criteria for nonaccrual status described above. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(1) Summary of Significant Accounting Policies, continued**
**Loans, continued**

**Concentration of Credit Risk:** Most of United s business activity is with customers located within the markets where it has banking operations. Therefore, United s exposure to credit risk is significantly affected by changes in the economy within its markets. More than 85% of United s loan portfolio is secured by real estate and is therefore susceptible to changes in real estate valuations.

**Certain Purchased Loans:** United from time to time purchases loans, primarily through business combination transactions. Some of those purchased loans show evidence of credit deterioration since origination. Purchased loans are recorded at their estimated fair value such that there is no carryover of the seller s allowance for loan losses. After acquisition, further losses are recognized by an increase in the allowance for loan losses.

Such purchased loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as the type of loan. United estimates the amount and timing of expected cash flows for each purchased loan or pool and the expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan s or pool s contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest revenue.

**Allowance for Loan Losses**

The allowance for loan losses is established through a provision for loan losses charged to income. Loans are charged against the allowance for loan losses when available information confirms that the collectability of the principal is unlikely. The allowance represents an amount, which, in management s judgment, is adequate to absorb probable losses on existing loans as of the date of the balance sheet.

The allowance is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to the individual loan categories that are based on actual historical loss experience. United uses an eight-quarter weighted average historical loss rate for each major loan category, weighted toward the most recent quarters losses. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are considered in this evaluation. The need for specific reserves is evaluated on nonaccrual loan relationships greater than $500,000, accruing relationships rated substandard that are greater than $2 million and all Troubled Debt Restructurings ( TDRs ). The specific reserves are determined on a loan-by-loan basis based on management s evaluation of United s exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. Loans for which specific reserves are provided are excluded from the calculation of general reserves.

The allocation of the allowance for loan losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. Due to the imprecise nature of the loan loss estimation process and the effects of changing conditions, these risk attributes may not be adequately captured in the data related to the formula-based loan loss components used to determine allocations in United s analysis of the adequacy of the allowance for loan losses. Consequently, management believes that the unallocated allowance appropriately reflects probable inherent but undetected losses in the loan portfolio.

For purposes of determining general reserves, United segments the loan portfolio into broad categories with similar risk elements. Those categories and their specific risks are described below.

**Commercial (secured by real estate)** Loans in this category are susceptible to declines in general economic conditions, occupancy rates and declines in real estate values. Business failure, lack of a suitable alternative use for the property and environmental contamination are also risks common to this segment of the loan portfolio.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies, continued**
**Allowance for Loan Losses, continued**

**Commercial & industrial** Risks to this loan category include industry concentrations and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable and other non real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

**Commercial construction** Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values.

**Residential mortgage** Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates. Declining real estate values can reduce or eliminate the borrower s home equity which can be particularly troubling for home equity lines.

**Residential construction** Residential construction loans are susceptible to the same risks as commercial construction loans. Changes in market demand for property leads to longer marketing times resulting in higher carrying costs and declining values.

**Consumer installment** Risks common to consumer installment loans include regulatory risks, unemployment and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

Management outsources loan review on a rotating basis to ensure objectivity in the loan review process and to challenge and corroborate the loan grading system. The loan review function provides additional analysis used in determining the adequacy of the allowance for loan losses. To supplement the outsourced loan review, management also has an internal loan review department that is independent of the lending function.

Management believes the allowance for loan losses is appropriate at December 31, 2012. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review United s allowance for loan losses. Such agencies may require United to recognize additions or deductions to the allowance based on their judgment and information available to them at the time of their examination.

**Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the related assets. Costs incurred for maintenance and repairs are expensed as incurred. The range of estimated useful lives for buildings and improvements is 15 to 40 years, for land improvements, 10 to 35 years, and for furniture and equipment, 3 to 10 years.

**Goodwill and Other Intangible Assets**

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to an annual review for impairment. Impairment tests may be performed more often if events or circumstances indicate impairment may exist.

Also in connection with business combinations involving banks and branch locations, United generally records core deposit intangibles representing the value of the acquired core deposit base. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on a straight-line or accelerated basis not exceeding 10 years. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant a revision to the remaining period of amortization.

**Foreclosed Properties**

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

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies, continued**

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from United, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets and United does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

**FHLB Stock**

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. United s FHLB stock is included in the balance of other assets in the consolidated balance sheet.

**Bank Owned Life Insurance**

United has purchased life insurance policies on certain key executives and members of management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other changes or other amounts due that are probable at settlement.

**Loan Commitments and Related Financial Instruments**

Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

**Short-term Borrowings**

United uses a number of short-term funding sources to meet its funding needs. Short-term borrowings generally consist of federal funds purchased, repurchase agreements and other short-term borrowings.

**Income Taxes**

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income taxes during the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of United s assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable earnings and prudent and feasible tax planning strategies. Management weighs both the positive and negative evidence, giving more weight to evidence that can be objectively verified.

The income tax benefit or expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

United recognizes interest and / or penalties related to income tax matters in income tax expense.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies, continued**

**Mortgage Banking Derivatives**

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. United enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into in order to hedge the change in interest rates resulting from its commitments to fund the loans. United s forward commitments for the future delivery of mortgage loans are based on United s best efforts and therefore United is not penalized if a loan is not delivered to the investor if the loan did not get originated. Changes in the fair values of these derivatives generally offset each other and are included in mortgage loan and other related fees in the consolidated statement of operations.

**Derivative Instruments and Hedging Activities**

United s interest rate risk management strategy incorporates the use of derivative instruments to minimize fluctuations in net income that are caused by interest rate volatility. United s goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. United views this strategy as a prudent management of interest rate risk, such that net income is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk management strategy, United uses interest rate derivative contracts. The two primary types of derivative contracts used by United to manage interest rate risk are interest rate swaps and interest rate floors.

Interest rate swaps generally involve the exchange of fixed- and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date.

Interest rate floors are options that entitle the purchaser to receive payments from the counterparty equal to the difference between the rate in an underlying index (i.e. LIBOR, Prime) and a strike rate when the index falls below the strike rate. Similar to swaps, interest rate floors are based on a common notional principal amount and maturity date. The premium paid to the counterparty to purchase the floor is amortized into earnings over the life of the contract. United s hedging strategies involving interest rate derivatives are classified as either Fair Value Hedges or Cash Flow Hedges, depending on the rate characteristics of the hedged item.

**Fair Value Hedge:** As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in fair value. When effectively hedged, this appreciation or depreciation will generally be offset by fluctuations in the fair value of the derivative instruments that are linked to the hedged assets and liabilities. This strategy is referred to as a fair value hedge.

**Cash Flow Hedge:** Cash flows related to floating-rate assets and liabilities will fluctuate with changes in an underlying rate index. When effectively hedged, the increases or decreases in cash flows related to the floating rate asset or liability will generally be offset by changes in cash flows of the derivative instrument designated as a hedge. This strategy is referred to as a cash flow hedge.

By using derivative instruments, United is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the fair value gain in a derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay United, and, therefore, creates a repayment risk for United. When the fair value of a derivative contract is negative, United is obligated to pay the counterparty and, therefore, has no repayment risk. United minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by United. From time to time, United may require the counterparties to pledge securities as collateral to cover the net exposure.

United s derivative activities are monitored by its asset/liability management committee as part of that committee s oversight of United s asset/liability and treasury functions. United s asset/liability committee is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest-rate risk management process.

United recognizes the fair value of derivatives as assets or liabilities in the financial statements. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of instruments used as fair value hedges is accounted for in the net income of the period simultaneous with accounting for the fair value change of the item being hedged. The change in fair value of the effective portion of cash flow hedges is accounted for in other comprehensive income rather than net income. Changes in fair value of derivative instruments that are not intended as a hedge are accounted for in the net income of the period of the change.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Summary of Significant Accounting Policies, continued**

**Earnings Per Common Share**

Basic earnings per common share is net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Additionally, shares issuable to participants in United s deferred compensation plan are considered to be participating securities for purposes of calculating basic earnings per share. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, warrants and securities convertible into common stock.

**Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

**Restrictions on Cash**

A portion of the cash on hand and on deposit with the Federal Reserve Bank was required to meet regulatory reserve requirements.

**Dividend Restrictions**

Banking regulations require maintaining certain capital levels and may limit dividends paid by the Bank to United or by United to shareholders. United is currently required to obtain approval of the Federal Reserve Bank and the Georgia Department of Banking and Finance before declaring any dividends from the holding company. Additionally, the Bank may not pay a dividend to United without first receiving approval from the FDIC and the Georgia Department of Banking and Finance.

**Fair Value of Financial Instruments**

Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in Note 23. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

**Stock-Based Compensation**

United uses the fair value method of recognizing expense for stock-based compensation based on the fair value of option and restricted stock awards at the date of grant as prescribed by Accounting Standards Codification Topic 781-10 *Compensation-Stock Compensation*.

**Comprehensive Income**

GAAP normally requires that recognized revenues, expenses, gains and losses be included in net income. In addition to net income, other components of comprehensive income include the after-tax effect of changes in unrealized gains and losses on available for sale securities and derivative financial instruments accounted for as cash flow hedges. These items are reported as a separate component of shareholders equity. United presents comprehensive income in a separate statement of comprehensive income.

**Reclassifications and Reverse Stock Split**

Certain 2011 and 2010 amounts have been reclassified to conform to the 2012 presentation. On June 17, 2011, United completed a 1-for-5 reverse stock split, whereby each 5 shares of United s common stock was reclassified into one share of common stock, and each 5 shares of United s non-voting common stock was reclassified into one share of non-voting common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(2) Accounting Standards Updates**

In October 2012, the FASB issued Accounting Standards Update No. 2012-06, *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution.* The guidance clarified that any amortization of changes in value of an indemnification asset should be recorded over the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets. ASU No. 2012-06 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2012. This guidance is not expected to have a material impact on United s financial position, results of operations, or disclosures.

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

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

**(3) Mergers and Acquisitions**

On June 19, 2009, the Bank purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank ( SCB ) from the FDIC, as Receiver of SCB. UCB and the FDIC entered into 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 agreements, 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 share agreements with the FDIC are reported as assets covered by loss sharing agreements with the FDIC in the consolidated balance sheet.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(3) Mergers and Acquisitions, continued**

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

| | Purchased Impaired Loans | Other Purchased Loans | Other | Total |
|---|---|---|---|---|
| **December 31, 2012** | | | | |
| Commercial (secured by real estate) | $ | $ 22,823 | $ | $ 22,823 |
| Commercial & industrial | | 959 | | 959 |
| Construction and land development | 405 | 3,712 | | 4,117 |
| Residential mortgage | 116 | 5,302 | | 5,418 |
| Consumer installment | | 99 | | 99 |
| Total covered loans | 521 | 32,895 | | 33,416 |
| Covered foreclosed property | | | 7,278 | 7,278 |
| Estimated loss reimbursement from the FDIC | | | 6,773 | 6,773 |
| Total covered assets | $ 521 | $ 32,895 | $ 14,051 | $ 47,467 |
| **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 |

**(4) Cash Flows**

During 2012, 2011 and 2010, non-accrual loans having a value of $34.0 million, $65.7 million and $238 million, respectively, were transferred to foreclosed property. Also, during 2012, 2011 and 2010, United financed the sale of foreclosed properties with loans totaling $9.40 million, $21.1 million and $56.9 million, respectively.

United accounts for securities transactions on the trade date. At December 31, 2012, United had sold $5.76 million in securities that had not settled. At December 31, 2011, United had $10.3 million in securities purchases that had not settled.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(5) 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 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.

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

| | Assets | Liabilities | Net Balance -Asset- |
|---|---|---|---|
| **December 31, 2012** | | | |
| Repurchase agreements / reverse repurchase agreements subject to master netting agreements | $ 265,000 | $ 265,000 | $ |
| Offsetting securities lending transactions subject to master netting arrangements | 50,000 | 50,000 | |
| Other reverse repurchase agreements | 60,000 | | 60,000 |
| Total | $ 375,000 | $ 315,000 | $ 60,000 |
| Weighted average interest rate | 1.18% | .43% | |
| **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% | |

**(6) Investment Securities**

In 2010, securities available for sale with a fair value of $315 million were transferred to held to maturity. The securities were transferred at their fair value on the date of transfer. The unrealized gain of $7.1 million on the transferred securities is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities.

At both December 31, 2012 and 2011, securities with a carrying value of $1.40 billion and $1.72 billion, respectively, were pledged to secure public deposits, derivatives and other secured borrowings. Substantial borrowing capacity remains available under borrowing arrangements with the FHLB with currently pledged securities.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(6) Investment Securities, continued**

+The cost basis, unrealized gains and losses, and fair value of securities held to maturity at December 31, 2012 and 2011 are listed below *(in thousands)*:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| As of December 31, 2012 | | | | |
| State and political subdivisions | $ 51,780 | $ 5,486 | $ | $ 57,266 |
| Mortgage-backed securities [1] | 192,404 | 11,461 | | 203,865 |
| Total | $ 244,184 | $ 16,947 | $ | $ 261,131 |
| As of December 31, 2011 | | | | |
| 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 |

[1] All are residential type mortgage-backed securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| As of December 31, 2012 | | | | |
| State and political subdivisions | $ 27,717 | $ 1,354 | $ 19 | $ 29,052 |
| Mortgage-backed securities [1] | 1,408,042 | 22,552 | 2,092 | 1,428,502 |
| Corporate bonds | 169,783 | 1,052 | 7,173 | 163,662 |
| Asset-backed securities | 209,411 | 1,894 | 749 | 210,556 |
| Other | 2,821 | | | 2,821 |
| Total | $ 1,817,774 | $ 26,852 | $ 10,033 | $ 1,834,593 |
| As of 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 |

(1) All are residential type mortgage-backed securities

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 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 of 2012 by approximately $2 million and earnings per share by $.03.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(6) Investment Securities, continued**

There were no held to maturity securities in an unrealized loss position as of December 31, 2012. The following summarizes securities held to maturity in an unrealized loss position as of December 31, 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 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 |

The following summarizes securities available for sale in an unrealized loss position as of December 31, 2012 and 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 December 31, 2012 | | | | | | |
| State and political subdivisions | $ 3,674 | $ 17 | $ 10 | $ 2 | $ 3,684 | $ 19 |
| Mortgage-backed securities | 326,485 | 2,092 | | | 326,485 | 2,092 |
| Corporate bonds | 21,248 | 136 | 93,903 | 7,037 | 115,151 | 7,173 |
| Asset-backed securities | 82,188 | 749 | | | 82,188 | 749 |
| Total unrealized loss position | $ 433,595 | $ 2,994 | $ 93,913 | $ 7,039 | $ 527,508 | $ 10,033 |
| As of 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 |

At December 31, 2012, there were 68 available for sale 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 its amortized cost basis. Unrealized losses at December 31, 2012 were primarily attributable to changes in interest rates. Unrealized losses at December 31, 2011 are primarily related to changes in interest rates, however the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings. 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 analyst s reports. During 2010, United recorded impairment losses of $950,000 on investments in financial institutions that failed or otherwise showed evidence of other-than-temporary impairment. No impairment charges were recognized during 2012 or 2011.

Realized gains and losses are derived using the specific identification method for determining the cost of the securities sold.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(6) Investment Securities, continued**

The following summarizes securities sales activities for the years ended December 31, 2012, 2011 and 2010 *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Proceeds from sales | $ 469,167 | $ 128,217 | $ 75,528 |
| Gross gains on sales | $ 7,364 | $ 1,173 | $ 3,751 |
| Gross losses on sales | (286) | (331) | (249) |
| Impairment losses | | | (950) |
| Net gains on sales of securities | $ 7,078 | $ 842 | $ 2,552 |
| Income tax expense attributable to sales | $ 2,753 | $ 328 | $ 993 |

At year-end 2012 and 2011, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

The amortized cost and fair value of available for sale and held to maturity securities at December 31, 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 | $ 5,328 | $ 5,334 | $ | $ |
| 1 to 5 years | 15,023 | 15,962 | 9,084 | 9,842 |
| 5 to 10 years | 6,518 | 6,823 | 26,054 | 28,819 |
| More than 10 years | 848 | 933 | 16,642 | 18,605 |
| | 27,717 | 29,052 | 51,780 | 57,266 |
| Corporate bonds: | | | | |
| 1 to 5 years | 38,063 | 38,103 | | |
| 5 to 10 years | 120,964 | 115,504 | | |
| More than 10 years | 10,756 | 10,055 | | |
| | 169,783 | 163,662 | | |
| Asset-backed securities: | | | | |
| 1 to 5 years | 50,301 | 50,071 | | |
| 5 to 10 years | 139,546 | 140,724 | | |
| More than 10 years | 19,564 | 19,761 | | |

| | | | | |
|---|---|---|---|---|
| | 209,411 | 210,556 | | |
| Other: | | | | |
| More than 10 years | 2,821 | 2,821 | | |
| | 2,821 | 2,821 | | |
| Total securities other than mortgage-backed securities: | | | | |
| Within 1 year | 5,328 | 5,334 | | |
| 1 to 5 years | 103,387 | 104,136 | 9,084 | 9,842 |
| 5 to 10 years | 267,028 | 263,051 | 26,054 | 28,819 |
| More than 10 years | 33,989 | 33,570 | 16,642 | 18,605 |
| Mortgage-backed securities | 1,408,042 | 1,428,502 | 192,404 | 203,865 |
| | $ 1,817,774 | $ 1,834,593 | $ 244,184 | $ 261,131 |

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

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(7) Loans and Allowance for Loan Losses**

Major classifications of loans at December 31, 2012 and 2011 are summarized as follows *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Commercial (secured by real estate) | $ 1,813,365 | $ 1,821,414 |
| Commercial & industrial | 458,246 | 428,249 |
| Commercial construction | 154,769 | 164,155 |
| Total commercial | 2,426,380 | 2,413,818 |
| Residential mortgage | 1,214,203 | 1,134,902 |
| Residential construction | 381,677 | 448,391 |
| Consumer installment | 152,748 | 112,503 |
| Total loans | 4,175,008 | 4,109,614 |
| Less allowance for loan losses | (107,137) | (114,468) |
| Loans, net | $ 4,067,871 | $ 3,995,146 |

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, east Tennessee and the Greenville, South Carolina metropolitan statistical area. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Changes in the allowance for loan losses are summarized as follows *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Balance beginning of period | $ 114,468 | $ 174,695 | $ 155,602 |
| Provision for loan losses | 62,500 | 251,000 | 223,000 |
| Charge-offs: | | | |
| Commercial (secured by real estate) | 23,062 | 59,468 | 33,593 |
| Commercial & industrial | 2,424 | 24,890 | 10,837 |
| Commercial construction | 5,411 | 55,730 | 9,993 |
| Residential mortgage | 17,262 | 53,707 | 28,806 |
| Residential construction | 24,260 | 118,916 | 136,666 |
| Consumer installment | 2,214 | 3,594 | 4,828 |
| Total loans charged-off | 74,633 | 316,305 | 224,723 |
| Recoveries: | | | |
| Commercial (secured by real estate) | 692 | 448 | 1,167 |
| Commercial & industrial | 1,104 | 967 | 1,762 |
| Commercial construction | 111 | 203 | 431 |
| Residential mortgage | 799 | 738 | 867 |
| Residential construction | 1,272 | 1,678 | 15,370 |
| Consumer installment | 824 | 1,044 | 1,219 |

| | | | |
|---|---|---|---|
| Total recoveries | 4,802 | 5,078 | 20,816 |
| Net charge-offs | 69,831 | 311,227 | 203,907 |
| Balance end of period | $ 107,137 | $ 114,468 | $ 174,695 |

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 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.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(7) Loans and Allowance for Loan Losses, continued**

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 December 31, 2012 and December 31, 2011 *(in thousands)*:

| | Commercial (Secured by Real Estate) | Commercial & Industrial | Commercial Construction | Residential Mortgage | Residential Construction | Consumer Installment | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **Year Ended December 31, 2012** | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | $ 31,644 | $ 5,681 | $ 6,097 | $ 29,076 | $ 30,379 | $ 2,124 | $ 9,467 | $ 114,468 |
| Charge-offs | (23,062) | (2,424) | (5,411) | (17,262) | (24,260) | (2,214) | | (74,633) |
| Recoveries | 692 | 1,104 | 111 | 799 | 1,272 | 824 | | 4,802 |
| Provision | 18,573 | 1,176 | 7,592 | 14,029 | 19,271 | 2,013 | (154) | 62,500 |
| Ending balance | $ 27,847 | $ 5,537 | $ 8,389 | $ 26,642 | $ 26,662 | $ 2,747 | $ 9,313 | $ 107,137 |
| Ending allowance attributable to loans: | | | | | | | | |
| Individually evaluated for impairment | $ 6,106 | $ 490 | $ 2,239 | $ 2,165 | $ 625 | $ 19 | $ | $ 11,644 |
| Collectively evaluated for impairment | 21,741 | 5,047 | 6,150 | 24,477 | 26,037 | 2,728 | 9,313 | 95,493 |
| Total ending allowance balance | $ 27,847 | $ 5,537 | $ 8,389 | $ 26,642 | $ 26,662 | $ 2,747 | $ 9,313 | $ 107,137 |
| Loans: | | | | | | | | |
| Individually evaluated for impairment | $ 104,409 | $ 51,501 | $ 40,168 | $ 22,247 | $ 34,055 | $ 430 | $ | $ 252,810 |
| Collectively evaluated for impairment | 1,708,956 | 406,745 | 114,601 | 1,191,956 | 347,622 | 152,318 | | 3,922,198 |
| Total loans | $ 1,813,365 | $ 458,246 | $ 154,769 | $ 1,214,203 | $ 381,677 | $ 152,748 | $ | $ 4,175,008 |
| **Year Ended December 31, 2011** | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | $ 31,191 | $ 7,580 | $ 6,780 | $ 22,305 | $ 92,571 | $ 3,030 | $ 11,238 | $ 174,695 |
| Charge-offs | (59,468) | (24,890) | (55,730) | (53,707) | (118,916) | (3,594) | | (316,305) |
| Recoveries | 448 | 967 | 203 | 738 | 1,678 | 1,044 | | 5,078 |
| Provision | 59,473 | 22,024 | 54,844 | 59,740 | 55,046 | 1,644 | (1,771) | 251,000 |
| Ending balance | $ 31,644 | $ 5,681 | $ 6,097 | $ 29,076 | $ 30,379 | $ 2,124 | $ 9,467 | $ 114,468 |
| 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 |
| **Year Ended December 31, 2010** | | | | | | | | |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | $ 19,208 | $ 6,892 | $ 5,861 | $ 17,266 | $ 93,585 | $ 2,545 | $ 10,245 | $ 155,602 |
| Charge-offs | (33,593) | (10,837) | (9,993) | (28,806) | (136,666) | (4,828) | | (224,723) |
| Recoveries | 1,167 | 1,762 | 431 | 867 | 15,370 | 1,219 | | 20,816 |
| Provision | 44,409 | 9,763 | 10,481 | 32,978 | 120,282 | 4,094 | 993 | 223,000 |
| Ending balance | $ 31,191 | $ 7,580 | $ 6,780 | $ 22,305 | $ 92,571 | $ 3,030 | $ 11,238 | $ 174,695 |
| Ending allowance attributable to loans: | | | | | | | | |
| Individually evaluated for impairment | $ 268 | $ | $ | $ 137 | $ 644 | $ | $ | $ 1,049 |
| Collectively evaluated for impairment | 30,923 | 7,580 | 6,780 | 22,168 | 91,927 | 3,030 | 11,238 | 173,646 |
| Total ending allowance balance | $ 31,191 | $ 7,580 | $ 6,780 | $ 22,305 | $ 92,571 | $ 3,030 | $ 11,238 | $ 174,695 |
| Loans: | | | | | | | | |
| Individually evaluated for impairment | $ 41,818 | $ 5,874 | $ 20,311 | $ 15,468 | $ 39,505 | $ | $ | $ 122,976 |
| Collectively evaluated for impairment | 1,719,606 | 435,644 | 276,271 | 1,263,312 | 655,661 | 130,656 | | 4,481,150 |
| Total loans | $ 1,761,424 | $ 441,518 | $ 296,582 | $ 1,278,780 | $ 695,166 | $ 130,656 | $ | $ 4,604,126 |

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 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. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Impaired amounts are recorded quarterly and specific reserves are recorded in the allowance for loan losses.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(7) Loans and Allowance for Loan Losses, continued**

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 used 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 generally subject to impairment testing and are separately evaluated for 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.

On junior lien home equity loans, United has limited ability to monitor the delinquency status of the first lien unless the first lien is also held by United. As a result, United applies the weighted average historical loss factor for this category and appropriately adjusts it to reflect the increased risk of loss from these credits.

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 December 31, 2012 and 2011, loans with a carrying value of $1.90 billion and $1.52 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

In the ordinary course of business, the Bank grants loans to executive officers, and directors of the holding company and the Bank, including their immediate families and companies with which they are associated. Management believes that such loans are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other customers. The following is a summary of such loans outstanding and the activity in these loans for the year ended December 31, 2012 *(in thousands)*:

| | |
|---|---|
| Balances at December 31, 2011 | $ 5,765 |
| New loans and advances | 4,970 |
| Repayments | (4,108) |
| Adjustment for changes in executive officers and directors | (17) |

| | |
|---|---|
| Balances at December 31, 2012 | $ 6,610 |

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(7) Loans and Allowance for Loan Losses, continued**

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

| | 2012 | 2011 |
|---|---|---|
| Year-end loans with no allocated allowance for loan losses | $ 156,962 | $ 188,509 |
| Year-end loans with allocated allowance for loan losses | 95,848 | 68,750 |
| Total | $ 252,810 | $ 257,259 |
| Amount of allowance for loan losses allocated | $ 11,644 | $ 14,825 |

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the last three years *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Average of individually impaired loans during year | $ 276,178 | $ 126,640 | $ 170,039 |
| Interest income recognized during impairment | 9,531 | 2,662 | |
| Cash-basis interest income recognized | 12,332 | 3,483 | |

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

| | December 31, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | 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) | $ 74,066 | $ 62,609 | $ | $ 82,887 | $ 76,215 | $ |
| Commercial & industrial | 74,572 | 49,572 | | 77,628 | 52,628 | |
| Commercial construction | 23,938 | 17,305 | | 24,927 | 23,609 | |
| Total commercial | 172,576 | 129,486 | | 185,442 | 152,452 | |
| Residential mortgage | 10,336 | 8,383 | | 13,845 | 10,804 | |
| Residential construction | 35,439 | 19,093 | | 38,955 | 25,190 | |
| Consumer installment | | | | 63 | 63 | |
| Total with no related allowance recorded | 218,351 | 156,962 | | 238,305 | 188,509 | |
| With an allowance recorded: | | | | | | |
| Commercial (secured by real estate) | 44,395 | 41,800 | 6,106 | 31,806 | 31,616 | 7,491 |
| Commercial & industrial | 2,170 | 1,929 | 490 | 5,200 | 5,200 | 1,117 |
| Commercial construction | 23,746 | 22,863 | 2,239 | 2,636 | 2,636 | 236 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total commercial | 70,311 | 66,592 | 8,835 | 39,642 | 39,452 | 8,844 |
| Residential mortgage | 14,267 | 13,864 | 2,165 | 7,642 | 7,572 | 2,234 |
| Residential construction | 15,412 | 14,962 | 625 | 21,629 | 21,497 | 3,731 |
| Consumer installment | 441 | 430 | 19 | 235 | 229 | 16 |
| Total with an allowance recorded | 100,431 | 95,848 | 11,644 | 69,148 | 68,750 | 14,825 |
| Total | $ 318,782 | $ 252,810 | $ 11,644 | $ 307,453 | $ 257,259 | $ 14,825 |

There were no loans more than 90 days past due and still accruing interest at December 31, 2012 and 2011. Nonaccrual loans at December 31, 2012 and 2011 were $110 million and $127 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(7) Loans and Allowance for Loan Losses, continued**

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

| | 2012 | 2011 |
|---|---|---|
| Commercial (secured by real estate) | $ 22,148 | $ 27,322 |
| Commercial & industrial | 31,817 | 34,613 |
| Commercial construction | 23,843 | 16,655 |
| Total commercial | 77,808 | 78,590 |
| Residential mortgage | 12,589 | 22,358 |
| Residential construction | 18,702 | 25,523 |
| Consumer installment | 795 | 1,008 |
| Total | $ 109,894 | $ 127,479 |

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

| | 30 - 59 Days Past Due | 60 -89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| **As of December 31, 2012** | | | | | | |
| Commercial (secured by real estate) | $ 8,106 | $ 3,232 | $ 7,476 | $ 18,814 | $ 1,794,551 | $ 1,813,365 |
| Commercial & industrial | 1,565 | 429 | 867 | 2,861 | 455,385 | 458,246 |
| Commercial construction | 2,216 | | 4,490 | 6,706 | 148,063 | 154,769 |
| Total commercial | 11,887 | 3,661 | 12,833 | 28,381 | 2,397,999 | 2,426,380 |
| Residential mortgage | 12,292 | 2,426 | 4,848 | 19,566 | 1,194,637 | 1,214,203 |
| Residential construction | 2,233 | 1,934 | 5,159 | 9,326 | 372,351 | 381,677 |
| Consumer installment | 1,320 | 245 | 289 | 1,854 | 150,894 | 152,748 |
| Total loans | $ 27,732 | $ 8,266 | $ 23,129 | $ 59,127 | $ 4,115,881 | $ 4,175,008 |
| **As of 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 December 31, 2012 and 2011, United has allocated $9.50 million and $8.65 million respectively, of specific reserves to customers whose loan terms have been modified in troubled debt restructurings. United committed to lend additional amounts totaling up to $689,000 and $1.12 million as of December 31, 2012 and 2011, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(7) Loans and Allowance for Loan Losses, continued**

The following table presents additional information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment *(dollars in thousands)*:

| | December 31, 2012 | | | December 31, 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 |
| Commercial (secured by real estate) | 96 | $ 80,261 | $ 75,340 | 74 | $ 70,380 | $ 69,054 |
| Commercial & industrial | 32 | 7,492 | 7,250 | 18 | 806 | 806 |
| Commercial construction | 25 | 37,537 | 33,809 | 11 | 18,053 | 18,053 |
| Total commercial | 153 | 125,290 | 116,399 | 103 | 89,239 | 87,913 |
| Residential mortgage | 117 | 20,323 | 19,296 | 80 | 11,943 | 11,379 |
| Residential construction | 67 | 25,822 | 23,786 | 54 | 24,921 | 24,145 |
| Consumer installment | 51 | 1,292 | 1,282 | 34 | 298 | 293 |
| Total loans | 388 | $ 172,727 | $ 160,763 | 271 | $ 126,401 | $ 123,730 |

Loans modified under the terms of a TDR during the twelve months ended December 31, 2012 and 2011 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that become 90 days or more delinquent during the twelve months ended December 31, 2012 and 2011, respectively, that were initially restructured within one year prior to the twelve months ended December 31, 2012 and 2011, respectively *(dollars in thousands)*:

| | | | | Troubled Debt Restructurings That Have Subsequently Defaulted Within the Previous Twelve Months | |
|---|---|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Recorded Investment |
| **Troubled Debt Restructurings for the Year ended December 31, 2012** | | | | | |
| Commercial (secured by real estate) | 54 | $ 34,450 | $ 32,928 | 7 | $ 3,287 |
| Commercial & industrial | 22 | 3,619 | 3,616 | 3 | 71 |
| Commercial construction | 20 | 34,014 | 33,934 | 3 | 4,224 |
| Total commercial | 96 | 72,083 | 70,478 | 13 | 7,582 |
| Residential mortgage | 67 | 15,132 | 14,303 | 10 | 650 |
| Residential construction | 49 | 19,909 | 17,400 | 16 | 5,728 |
| Consumer installment | 25 | 334 | 328 | 4 | 39 |

| | | | | | |
|---|---|---|---|---|---|
| Total loans | 237 | $ 107,458 | $ 102,509 | 43 | $ 13,999 |
| | | | | | |
| **Year ended December 31, 2011** | | | | | |
| Commercial (secured by real estate) | 57 | $ 56,981 | $ 56,031 | 4 | $ 1,447 |
| Commercial & industrial | 15 | 767 | 767 | 2 | 52 |
| Commercial construction | 9 | 16,243 | 16,243 | | |
| | | | | | |
| Total commercial | 81 | 73,991 | 73,041 | 6 | 1,499 |
| Residential mortgage | 75 | 11,008 | 10,444 | 9 | 718 |
| Residential construction | 44 | 22,584 | 21,821 | 9 | 1,289 |
| Consumer installment | 31 | 205 | 200 | 13 | 68 |
| | | | | | |
| Total loans | 231 | $ 107,788 | $ 105,506 | 37 | $ 3,574 |

Collateral dependent TDRs that subsequently default or are otherwise placed on nonaccrual are charged down to 80% of appraised value consistent with United s policy for nonaccrual loans. Impairment on TDRs that are not collateral dependent continues to be measured based on discounted cash flows regardless of whether the loan has subsequently defaulted.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(7) Loans and Allowance for Loan Losses, continued**

**Risk Ratings**

United categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current 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 new loans that have not yet been assigned a grade.

As of December 31, 2012 and 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 December 31, 2012** | | | | | | |
| Commercial (secured by real estate) | $ 1,591,826 | $ 80,997 | $ 140,542 | $ | $ | $ 1,813,365 |
| Commercial & industrial | 401,607 | 5,404 | 50,293 | | 942 | 458,246 |
| Commercial construction | 104,295 | 7,345 | 43,129 | | | 154,769 |
| Total commercial | 2,097,728 | 93,746 | 233,964 | | 942 | 2,426,380 |
| Residential mortgage | 1,103,069 | 33,689 | 77,445 | | | 1,214,203 |
| Residential construction | 291,940 | 32,907 | 56,830 | | | 381,677 |
| Consumer installment | 148,065 | 1,086 | 3,597 | | | 152,748 |
| Total loans | $ 3,640,802 | $ 161,428 | $ 371,836 | $ | $ 942 | $ 4,175,008 |
| **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 |
| 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 |

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(8) Foreclosed Property**

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

| | 2012 | 2011 |
|---|---|---|
| Commercial real estate | $ 6,368 | $ 10,866 |
| Commercial construction | 2,204 | 3,336 |
| Total commercial | 8,572 | 14,202 |
| Residential mortgage | 5,192 | 7,840 |
| Residential construction | 11,454 | 29,799 |
| Total foreclosed property | 25,218 | 51,841 |
| Less valuation allowance | 6,954 | 18,982 |
| Foreclosed property, net | $ 18,264 | $ 32,859 |
| Balance as a percentage of original loan unpaid principal | 39.7% | 35.9% |

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Balance at beginning of year | $ 18,982 | $ 16,565 | $ 7,433 |
| Additions charged to expense | 6,951 | 57,368 | 25,755 |
| Charge-offs upon disposition | (18,979) | (54,951) | (16,623) |
| Balance at end of year | $ 6,954 | $ 18,982 | $ 16,565 |

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net loss on sales | $ 1,924 | $ 11,038 | $ 23,571 |
| Provision for unrealized losses | 6,951 | 57,368 | 25,755 |
| Operating expenses, net of rental income | 5,118 | 10,499 | 16,381 |
| Total foreclosed property expense | $ 13,993 | $ 78,905 | $ 65,707 |

**(9) Premises and Equipment**

Premises and equipment at December 31, 2012 and 2011 are summarized as follows, *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Land and land improvements | $ 81,272 | $ 81,395 |
| Buildings and improvements | 114,127 | 115,226 |
| Furniture and equipment | 66,565 | 64,581 |
| Construction in progress | 1,181 | 1,008 |
| | 263,145 | 262,210 |
| Less accumulated depreciation | 94,225 | 87,122 |
| Premises and equipment, net | $ 168,920 | $ 175,088 |

Depreciation expense was $9.26 million, $9.83 million and $10.6 million for 2012, 2011 and 2010, respectively.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(9) Premises and Equipment, continued**

United leases certain branch properties and equipment under operating leases. Rent expense was $2.30 million, $2.25 million and $2.23 million for 2012, 2011 and 2010, respectively. United does not have any capital leases. Rent commitments under operating leases, before considering renewal options that generally are present, were as follows *(in thousands)*:

| | |
|---|---|
| 2013 | $ 2,591 |
| 2014 | 782 |
| 2015 | 612 |
| 2016 | 386 |
| 2017 | 371 |
| Thereafter | 1,974 |
| Total | $ 6,716 |

**(10) Goodwill and Other Intangible Assets**

A summary of changes in goodwill for the years ended December 31, 2012, 2011 and 2010 is presented below, *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Beginning balance | $ | $ | $ 210,590 |
| Impairment charges | | | (210,590) |
| Ending balance | $ | $ | $ |

The entire balance of United s goodwill was determined to be impaired in the third quarter of 2010 and accordingly, it was fully charged off.

United has finite-lived intangible assets capitalized on its balance sheet in the form of core deposit intangibles. These intangible assets are amortized over their estimated useful lives of no more than 10 years. A summary of core deposit intangible assets as of December 31, 2012 and 2011 is presented below, *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Gross carrying amount | $ 32,652 | $ 32,652 |
| Less accumulated amortization | 27,142 | 24,224 |
| Net carrying amount | $ 5,510 | $ 8,428 |

Amortization expense on finite-lived intangible assets was $2.92 million in 2012, $3.02 million for 2011 and $3.16 million for 2010. Amortization expense for each of the years 2013 through 2017 is estimated below *(in thousands)*:

| | |
|---|---|
| 2013 | $ 2,030 |
| 2014 | 1,349 |
| 2015 | 956 |
| 2016 | 879 |
| 2017 | 263 |

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(11) Deposits**

At December 31, 2012, the contractual maturities of time deposits are summarized as follows *(in thousands)*:

| Maturing In: | |
|---|---|
| 2013 | $ 1,264,184 |
| 2014 | 157,598 |
| 2015 | 134,584 |
| 2016 | 67,963 |
| 2017 | 15,634 |
| thereafter | 275,755 |
| | $ 1,915,718 |

At December 31, 2012, United held $155 million in certificates of deposit obtained through the efforts of third party brokers. At December 31, 2011, United had $179 million of brokered certificates of deposit. The daily average balance of these brokered deposits totaled $156 million and $401 million in 2012 and 2011, respectively. The weighted average rates paid during 2012 and 2011 were 1.09% and 1.53%, respectively, and the weighted average rate as of December 31, 2012 was 2.51%. The brokered certificates of deposit at December 31, 2012 had maturities ranging from 15 to 20 years and are callable by United. The brokered certificates of deposit are being hedged in fair value hedging relationships so the effective rate, which is based on LIBOR, has been less than the rate on the brokered certificates of deposit.

At December 31, 2012 and 2011, $942,000 and $910,000 in overdrawn deposit accounts were reclassified as loans. No specific allowance for loan losses was deemed necessary for these accounts at December 31, 2012 and 2011.

**(12) Federal Home Loan Bank Advances**

At December 31, 2012, United had advances totaling $40.1 million from the FHLB all of which were fixed rate advances. At December 31, 2011, United had advances totaling $40.6 million from the FHLB all of which were fixed rate advances. With the exception of $125,000 that matures in 2016, the advances outstanding at December 31, 2012 had maturities of no more than 20 days with interest rates up to .19%. At December 31, 2012, the weighted average interest rate on FHLB advances was .18%, compared to 4.25% as of December 31, 2011. The FHLB advances are collateralized by commercial (secured by real estate) and residential mortgage loans, investment securities and FHLB stock.

At December 31, 2012, the maturities and current rates of outstanding advances were as follows *(in thousands)*:

| Maturing In: | Amount Maturing | Current Rate Range |
|---|---|---|
| 2013 | $ 40,000 | 0.18% - 0.19% |
| 2016 | 125 | |
| | $ 40,125 | |

**(13) Short-term Borrowings**

United uses a number of sources of short-term borrowings to meet its liquidity needs including federal funds purchased, repurchase agreements and Federal Reserve discount window borrowings. The table below shows the amounts of short-term borrowings outstanding by type at December 31, 2012 and 2011 *(in thousands)*:

| | **2012** | **2011** |
|---|---|---|
| Repurchase agreements | $ 52,574 | $ 102,577 |
| Total short-term borrowings | $ 52,574 | $ 102,577 |

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(14) Long-term Debt**

Long-term debt at December 31, 2012 and 2011 consisted of the following *(in thousands)*:

| | 2012 | 2011 | Issue Date | Stated Maturity Date | Earliest Call Date | Interest Rate |
|---|---|---|---|---|---|---|
| 2012 senior debentures | $ 35,000 | $ | 2012 | 2017 | 2017 | 9.000% |
| Total senior debentures | 35,000 | | | | | |
| 2002 subordinated debentures | | 30,500 | 2002 | 2012 | 2012 | 6.750% |
| 2003 subordinated debentures | 35,000 | 35,000 | 2003 | 2015 | 2010 | 7.500 |
| Total subordinated debentures | 35,000 | 65,500 | | | | |
| United Community Capital Trust | 21,650 | 21,650 | 1998 | 2028 | 2008 | 8.125% |
| United Community Statutory Trust I | 5,155 | 5,155 | 2000 | 2030 | 2010 | 10.600 |
| United Community Capital Trust II | 10,309 | 10,309 | 2000 | 2030 | 2010 | 11.295 |
| Southern Bancorp Capital Trust I | 4,382 | 4,382 | 2004 | 2034 | 2009 | Prime + 1.00 |
| United Community Statutory Trust II | 12,077 | 12,004 | 2008 | 2038 | 2013 | 9.000 |
| United Community Statutory Trust III | 1,232 | 1,225 | 2008 | 2038 | 2013 | Prime + 3.00 |
| Total trust preferred securities | 54,805 | 54,725 | | | | |
| Total long-term debt | $ 124,805 | $ 120,225 | | | | |

Interest is paid semiannually for all senior debentures, subordinated debentures and trust preferred securities.

Senior Debentures

The 2012 senior debentures are not redeemable and will mature on October 15, 2017.

Subordinated Debentures

Subordinated debentures qualify as Tier 2 capital under risk based capital guidelines. The 2003 subordinated debentures were callable at par on September 30, 2010 and are callable at par on September 30 of each year thereafter. At September 30, 2010, the interest rate increased to 7.50% and will remain at that rate until maturity or until it is called. United acquired $1 million of the 2002 subordinated debentures through its acquisition of Southern Community Bank and retired it upon acquisition in 2009. The 2002 subordinated debentures matured in 2012.

Trust Preferred Securities

Trust preferred securities qualify as Tier 1 capital under risk based capital guidelines subject to certain limitations. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption at a premium as provided in the indentures.

The trust preferred securities issued under United Community Statutory Trust II and United Community Statutory Trust III are callable at par any time after October 31, 2013. These trust preferred securities have attached warrants that allow the holder to redeem the trust preferred

securities in exchange for common stock at the exercise price of $100 per share. The warrants can be exercised at any time prior to October 31, 2013, the fifth anniversary of their issuance, at which time the warrants expire.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(15) Earnings Per Share**

United is required to report on the face of the statement of operations, earnings (loss) per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share.

During the years ended December 31, 2012 and 2011, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table *(in thousands)*:

| | | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Series A | 6% fixed[1] | $ 12 | $ 13 | $ 13 |
| Series B | 5% fixed until December 6, 2013, 9% thereafter[1][2] | 10,465 | 10,401 | 10,303 |
| Series D | LIBOR plus 9.6875%, resets quarterly[1] | 1,671 | 1,425 | |
| Total preferred stock dividends | | $ 12,148 | $ 11,839 | $ 10,316 |

(1) All preferred stock dividends are payable quarterly.

(2) 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 is no dilution from dilutive securities for the years ended December 31, 2011 and 2010, due to the anti-dilutive effect of the net loss for those periods. There were no dilutive securities outstanding at December 31, 2012.

The following table sets forth the computation of basic and diluted loss per common share for the years ended December 31, 2012, 2011 and 2010 *(in thousands, except per share data)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net income (loss) available to common stockholders | $ 21,708 | $ (238,584) | $ (512,660) |
| Income (loss) per common share: | | | |
| Basic | .38 | $ (5.97) | $ (27.09) |
| Diluted | .38 | (5.97) | (27.09) |
| Weighted average common shares: | | | |
| Basic | 57,857 | 39,943 | 18,925 |
| Effect of dilutive securities: | | | |
| Stock options | | | |
| Warrants | | | |
| Diluted | 57,857 | 39,943 | 18,925 |

At December 31, 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 Series B preferred stock; 129,670 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of $100 per share; 482,528 shares issuable

upon exercise of stock options granted to employees with a weighted average exercise price of $97.73; 485,584 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 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at $12.50 per share.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(16) Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2012, 2011 and 2010 is as follows *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Current | $ 1,050 | $ (3,983) | $ 1,963 |
| Deferred | 9,446 | (94,808) | (88,124) |
| Increase in valuation allowance | (9,446) | 94,808 | 157,378 |
| Total income tax expense (benefit) | $ 1,050 | $ (3,983) | $ 71,217 |

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate of 35% to income (loss) before income taxes are as follows *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Pretax income (loss) at statutory rates | $ 12,217 | $ (80,755) | $ (151,302) |
| Add (deduct): | | | |
| State taxes, net of federal benefit | 577 | (9,210) | (9,431) |
| Nondeductible goodwill impairment charges | | | 71,561 |
| Bank owned life insurance earnings | (444) | (556) | (606) |
| Adjustment to reserve for uncertain tax positions | (577) | (4,593) | 2,903 |
| Tax-exempt interest revenue | (816) | (836) | (993) |
| Nondeductible interest expense | 18 | 34 | 62 |
| Tax credits | (460) | (350) | (501) |
| Increase in valuation allowance | (9,446) | 94,808 | 157,378 |
| Other | (19) | (2,525) | 2,146 |
| Total income tax expense (benefit) | $ 1,050 | $ (3,983) | $ 71,217 |

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(16) Income Taxes, continued**

The following summarizes the sources and expected tax consequences of future taxable deductions (revenue) which comprise the net deferred tax asset at December 31, 2012 and 2011, which is included in other assets *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Deferred tax assets: | | |
| Allowances for loan losses | $ 41,521 | $ 44,528 |
| Net operating loss carryforwards | 221,335 | 226,716 |
| Deferred compensation | 5,526 | 7,032 |
| Reserve for losses on foreclosed properties | 3,702 | 8,804 |
| Nonqualified share based compensation | 4,424 | 4,260 |
| Accrued expenses | 1,960 | 779 |
| Investment in low income housing tax credit partnerships | 1,443 | 1,562 |
| Unamortized pension actuarial losses and prior service cost | 1,677 | 1,848 |
| Acquired intangible assets | 890 | 74 |
| Unrealized losses on cash flow hedges | 3,048 | |
| Other | 3,919 | 2,431 |
| Total deferred tax assets | 289,445 | 298,034 |
| Deferred tax liabilities: | | |
| Unrealized gains on cash flow hedges | | 1,796 |
| Unrealized gains on securities available for sale | 6,629 | 9,882 |
| Premises and equipment | 3,414 | 3,989 |
| Loan origination costs | 3,876 | 3,503 |
| Gain from acquisition of Southern Community Bank | 4,021 | 4,629 |
| Prepaid expenses | 1,082 | 1,279 |
| Total deferred tax liabilities | 19,022 | 25,078 |
| Less valuation allowance | 270,423 | 272,956 |
| Net deferred tax asset | $ | $ |

At December 31, 2012 and 2011, United did not report any deferred tax assets as it had established a full valuation allowance based on the weighting of the evidence supporting the realization of the deferred tax asset. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard.

At December 31, 2012, United had state net operating loss carryforwards of approximately $32 million that begin to expire in 2023, and approximately $659 million that begin to expire in 2028, if not previously utilized. United has state tax credit carryforwards of approximately $7.1 million that begin to expire in 2013, if not previously utilized. United has $530 million in Federal net operating loss carryforwards that begin to expire in 2029, if not previously utilized. United has $2.3 million of Federal general business tax credits that begin to expire in 2028, if not previously utilized as well as $2.9 million in federal alternative minimum tax credits which have no expiration date.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(16) Income Taxes, continued**

A reconciliation of the beginning and ending unrecognized tax benefit is as follows *(in thousands)*:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Balance at beginning of year | $ 5,985 | $ 11,133 | $ 8,252 |
| Additions based on tax positions related to prior years | 130 | | |
| Decreases based on tax positions related to prior years | | (3,369) | (119) |
| Additions based on tax positions related to the current year | 500 | 585 | 3,982 |
| Decreases resulting from a lapse in the applicable statute of limitations | (957) | (1,362) | (982) |
| Decreases based on settlements with taxing authorities | (589) | (1,002) | |
| Balance at end of year | $ 5,069 | $ 5,985 | $ 11,133 |

Approximately $4.01 million of this amount would increase income from continuing operations, and thus affect United s effective tax rate, if ultimately recognized into income.

It is United s policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income taxes accounts. In 2012 and 2011, United reversed $120,000 and $1.27 million, respectively, in previously recorded penalties and interest as a result of statute expiration on affected returns, settlement with a state taxing authority and a change in estimate relating to prior year tax positions. The total amount of interest and penalties recorded in the consolidated statement of operations for the year ended December 31, 2010 was $235,000. The amount accrued for interest and penalties at December 31, 2012 and 2011 was $85,000 and $330,000, respectively.

United and its subsidiaries file a consolidated U.S. federal income tax return, as well as file various returns in the states where its banking offices are located. United s Georgia filed income tax returns for the years before 2009 are no longer subject to examination by taxing authorities. United s North Carolina filed income tax returns are no longer subject to examination by taxing authorities for years before 2009. The federal and remaining state filed income tax returns are no longer subject to examination by taxing authorities for years before 2009.

**(17) Pension and Employee Benefit Plans**

United offers a defined contribution 401(k) and Profit Sharing Plan ( Plan ) that covers substantially all employees meeting certain minimum service requirements. The Plan allows employees to make pre-tax contributions to the Plan and United matches these employee contributions up to 5% of eligible compensation, subject to Plan and regulatory limits. United also makes discretionary profit sharing contributions of up to 3.5% of eligible compensation based on earnings performance. Employees begin to receive matching contributions after completing one year of service and benefits vest after three years of service. United s Plan is administered in accordance with applicable laws and regulations. Through March 31, 2012, United matched employee contributions dollar-for-dollar up to 5% of eligible compensation. Effective April 1, 2012, the matching contribution was reduced in half to 50% of employee contributions up to 5% of eligible compensation. Compensation expense from continuing operations related to the Plan totaled $1.66 million, $2.86 million and $2.97 million in 2012, 2011 and 2010, respectively. The Plan allows employees to choose to invest among a number of investment options, including United s common stock. During 2012, 2011 and 2010, the Plan purchased 86,350, 372,363 and 89,833 shares, respectively, directly from United at the average of the high and low stock price on the date of purchase.

United sponsors a non-qualified deferred compensation plan for its executive officers, certain other key employees and members of United s and the Bank s Boards of Directors, and its community banks advisory boards of directors. The deferred compensation plan provides for the pre-tax deferral of compensation, fees and other specified benefits. The deferred compensation plan also permits each employee participant to elect to

defer a portion of his or her base salary or bonus and permits each director participant to elect to defer all or a portion of his or her director s fees. Further, the deferred compensation plan allows for additional contributions by an employee, with matching contributions by United, for amounts that exceed the allowable amounts under the tax-qualified 401(k) plan. During 2012, 2011 and 2010, United recognized $24,000, $24,000 and $31,000, respectively, in matching contributions from continuing operations for this provision of the deferred compensation plan. The Board of Directors may also elect to make a discretionary contribution to any or all participants. No discretionary contributions were made in 2012, 2011 or 2010.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(17) Pension and Employee Benefit Plans, continued**

United also has an unfunded noncontributory defined benefit pension plan ( Modified Retirement Plan ) that covers certain executive officers and other key employees. The Modified Retirement Plan provides a fixed annual retirement benefit to plan participants. Expenses incurred from continuing operations for these post-retirement benefits were approximately $1.87 million, a net credit of $160,000, and $1.50 million for 2012, 2011 and 2010, respectively. The 2011 $160,000 credit balance was due to a one-time $2.24 million credit adjustment for reclassification of unamortized actuarial gains and losses and prior service costs to other comprehensive income.

Information about changes in obligations and plan assets of the Modified Retirement Plan follows *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Change in benefit obligation: | | |
| Beginning benefit obligation | $ 12,064 | $ 8,684 |
| Service cost | 598 | 477 |
| Interest cost | 537 | 489 |
| Plan amendments | | 1,540 |
| Actuarial losses | 41 | 1,026 |
| Benefits paid | (210) | (152) |
| Accumulated benefit obligation at end of year | 13,030 | 12,064 |
| Change in plan assets, at fair value: | | |
| Beginning plan assets | | |
| Actual return | | |
| Employer contribution | 209 | 152 |
| Benefits paid | (209) | (152) |
| Ending plan assets | | |
| Funded status at end of year (plan assets less benefit obligations) | $ (13,030) | $ (12,064) |

Amounts recognized in accumulated other comprehensive income at December 31 consist of *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Net actuarial losses | $ 2,152 | $ 2,226 |
| Prior service cost | 2,159 | 2,524 |
| | $ 4,311 | $ 4,750 |

The accumulated benefit obligation was $13.0 million and $12.1 million, respectively, at December 31, 2012 and 2011.

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(17) Pension and Employee Benefit Plans, continued**

Components of net periodic benefit cost and other amounts recognized in other comprehensive income *(in thousands):*

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Service cost | $ 597 | $ 477 | $ 338 |
| Interest cost | 537 | 489 | 402 |
| Amortization of prior service cost | 365 | 279 | 163 |
| Amortization of net losses | 115 | 27 | |
| Net periodic benefit cost | 1,614 | 1,272 | 903 |
| Net actuarial loss | $ 41 | $ 1,026 | $ 500 |
| Amortization of net loss | (115) | (27) | |
| Prior service cost | | 1,540 | 414 |
| Amortization of prior service cost | (365) | (279) | (163) |
| Total recognized in other comprehensive income | (439) | 2,260 | 751 |
| Total net periodic benefit cost and accumulated other comprehensive income | $ 1,175 | $ 3,532 | $ 1,654 |

The estimated net loss and prior service costs for the Modified Retirement Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $167,000 and $365,000, respectively, as of December 31, 2012.

Weighted-average assumptions used to determine pension benefit obligations at year end and net periodic pension cost are shown in the table below:

| | 2012 | 2011 |
|---|---|---|
| Discount rate for dissclosures | 4.00% | 4.50% |
| Discount rate for net periodic benefit cost | 4.50% | 5.15% |
| Rate of compensation increase | NA | NA |
| Measurement date | 12/31/2012 | 12/31/2011 |

The following benefit payments, which reflect expected future service, are expected *(in thousands)*:

| | |
|---|---|
| 2013 | $ 517 |
| 2014 | 693 |
| 2015 | 689 |
| 2016 | 755 |
| 2017 | 778 |
| Following five years | 4,709 |

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(18) 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 arrangements 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 December 31, 2012 and 2011 *(in thousands)*:

***Derivatives Designated as Hedging Instruments under ASC 815***

| Interest Rate Products | Balance Sheet Location | Fair Value December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Asset derivatives | Other assets | $ 23 | $ |
| Liability derivatives | Other liabilities | $ 11,900 | $ 422 |

***Derivatives not Designated as Hedging Instruments under ASC 815***

| Interest Rate Products | Balance Sheet Location | Fair Value December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Asset derivatives | Other assets | $ 635 | $ |
| Liability derivatives | Other liabilities | $ 643 | $ |

Derivative contracts that are not accounted for as hedging instruments 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 December 31, 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. 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 December 31, 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 that were designated as cash flow hedges of interest rate risk.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(18) Derivatives and Hedging Activities, continued**

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 December 31, 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 in interest revenue over the remaining life of the contract on a straight line basis. During the years ended December 31, 2012, 2011 and 2010, United accelerated the reclassification of $238,000, $4.96 million and $1.37 million, respectively, in gains from terminated positions as a result of the forecasted transactions becoming probable not to occur. These amounts are recognized in other fee revenue as hedge ineffectiveness. During the next twelve months, United estimates that the remaining $904,000 of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to loan 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 December 31, 2012, United had 13 interest rate swaps with an aggregate notional amount of $166 million that were designated as fair value hedges of interest rate risk. At December 31, 2011, United had one interest rate swap with an aggregate notional amount of $14.8 million that was designated as a fair value hedge 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 income statement line item as the offsetting loss or gain on the related derivatives. During the years ended December 31, 2012, 2011 and 2010, United recognized net gains of $870,000 $37,000 and $215,000 respectively, related to ineffectiveness of the fair value hedging relationships. Offsetting the 2012 gain was the write off of $449,000 in prepaid broker fees on brokered deposits. The prepaid broker fees were related to the brokered deposits (hedged item) that were called and resulted in a portion of the ineffectiveness gain. United also recognized a net reduction of interest expense of $2.42 million, $110,000 and $3.97 million for the years ended December 31, 2012, 2011 and 2010, respectively, related to United s fair value hedges, which includes net settlements on the derivatives.

**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 years ended December 31, 2012, 2011 and 2010.

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

| Location of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative | | | Amount of Gain (Loss) Recognized in Income on Hedged Item | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Other fee revenue | $ 540 | $ 328 | $ (3,760) | $ 330 | $ (291) | $ 3,975 |

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

**(18) Derivatives and Hedging Activities, continued**

**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) | | | |
|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | Location | 2012 | 2011 | 2010 |
| Interest rate products | $ (8,739) | $ | $ 2,314 | Interest revenue | $ 3,475 | $ 10,157 | $ 17,326 |
| | | | | Other expense | 238 | 4,963 | 1,370 |
| Total | $ (8,739) | $ | $ 2,314 | | $ 3,713 | $ 15,120 | $ 18,696 |

**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 December 31, 2012, collateral totaling $11.5 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.

**(19) Regulatory Matters**
Capital Requirements

United and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, United and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures (as defined) established by regulation to ensure capital adequacy require United and the Bank to maintain minimum amounts and ratios of Total capital and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets.

As of December 31, 2012, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must exceed the well-capitalized guideline ratios, as set forth in the table and meet certain other requirements. Management believes that the Bank exceeded all well-capitalized requirements, and there have been no conditions or events since year-end that would change the status of well-capitalized. The regulatory designation of well-capitalized under prompt corrective action regulations is not applicable to United (a bank holding company). However, Regulation Y defines well-capitalized for a bank holding company

for the purpose of determining eligibility for a streamlined review process for acquisition proposals. For such purposes, well-capitalized requires United to maintain a minimum Tier 1 risk-based capital ratio of 6% and a minimum Total risk-based capital ratio of 10%.

In November 2011, United entered into an informal memorandum of understanding with the Federal Reserve Bank of Atlanta and the Georgia Department of Banking and Finance (the Holding Company MOU ). The Holding Company MOU provides, among other things, 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 and Georgia Department of Banking and Finance.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(19) Regulatory Matters, continued**

Additionally, the Holding Company MOU requires that United ensures that the Bank functions in a safe and sound manner. United believes it is in compliance with all requirements of the Holding Company MOU.

The Bank is currently subject to an informal memorandum of understanding with the FDIC and Georgia Department of Banking and Finance (the Bank MOU ). The Bank MOU requires, among other things, that the Bank maintain its Tier I 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.

Minimum amounts required for capital adequacy purposes and to be well-capitalized under prompt corrective action provisions are presented below for United and the Bank *(dollars in thousands)*:

| | Regulatory Guidelines | | United Community Banks, Inc. (consolidated) | | United Community Bank | |
|---|---|---|---|---|---|---|
| | Minimum | Well Capitalized | 2012 | 2011 | 2012 | 2011 |
| Risk-based ratios: | | | | | | |
| Tier 1 capital | 4.0% | 6.0% | 14.16% | 13.69% | 14.48% | 13.60% |
| Total capital | 8.0 | 10.0 | 15.73 | 15.41 | 15.74 | 14.87 |
| Leverage ratio | 3.0 | | 9.64 | 8.83 | 9.86 | 8.78 |
| Tier 1 capital | | | $ 652,692 | $ 618,695 | $ 666,585 | $ 614,532 |
| Total capital | | | 724,915 | 696,881 | 724,738 | 671,718 |

Cash, Dividend, Loan and Other Restrictions

At December 31, 2012 and 2011, the Bank did not have a required reserve balance at the Federal Reserve Bank. Federal and state banking regulations place certain restrictions on dividends paid by the Bank to United. At December 31, 2012, the Bank had $24 million available for distribution to United in the form of dividends subject to regulatory approval.

On December 5, 2008, United entered into a Letter Agreement and Securities Purchase Agreement (the Purchase Agreement ) with the U.S. Treasury Department ( Treasury ) under the Troubled Asset Relief Program ( TARP ) Capital Purchase Program discussed below, pursuant to which United sold (i) 180,000 shares of United s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock ) and (ii) a warrant (the Warrant ) to purchase 426,540 shares (219,909 shares, as adjusted for subsequent stock dividends and a 50% reduction following United s September 2009 stock offering) of United s common stock for an aggregate purchase price of $180 million in cash. Pursuant to the terms of the Purchase Agreement, the ability of United to declare or pay dividends or distributions on its common stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share of ($.45) declared on the common stock prior to December 5, 2008, as adjusted for subsequent stock dividends and other similar actions.

The Federal Reserve Act requires that extensions of credit by the Bank to certain affiliates, including United, be secured by specific collateral, that the extension of credit to any one affiliate be limited to 10% of capital and surplus (as defined), and that extensions of credit to all such affiliates be limited to 20% of capital and surplus.

**(20) Commitments and Contingencies**

United and the Bank are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the

extent of involvement the Bank has in particular classes of financial instruments.

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

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(20) Commitments and Contingencies, continued**

The following table summarizes, as of December 31, 2012 and 2011, the contract amount of off-balance sheet instruments *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit | $ 313,798 | $ 415,093 |
| Letters of credit | 13,683 | 15,888 |
| Minimum Lease Payments | 6,716 | 9,124 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn on, the total commitment amounts do not necessarily represent future cash requirements. United evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management s credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

Letters of credit are conditional commitments issued by United and could result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party or upon the non-performance of the customer. Those guarantees are primarily issued to local businesses and government agencies. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In most cases, the Bank holds real estate, certificates of deposit, and other acceptable collateral as security supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments varies.

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

As disclosed on February 22, 2013, United and FILB Co-Investments LLC ( FILB-Co ) agreed to settle all outstanding claims and counterclaims in connection with the previously disclosed lawsuit between United and FILB-Co. FILB-Co filed a lawsuit against United with respect to purported contractual rights under the Securities Purchase Agreement that FILB-Co claimed were assigned to it by Fletcher. Fletcher made the purported assignment to FILB-Co in response to redemption requests to Fletcher by several investors in one of Fletcher s funds ( Leveraged ). Fletcher then transferred its interests in FILB-Co to those investors, who challenged Fletcher s attempted redemption as commercially worthless in liquidation proceedings commenced in the Grand Court of the Cayman Islands. As the result of those proceedings, the Cayman court ordered the liquidation of Leveraged, and a court-appointed liquidator was appointed to manage FILB-Co. Subsequently, Fletcher filed for bankruptcy protection in the U.S. Bankruptcy Court for the Southern District of New York.

Fletcher has stated that it did not assign the Warrant or its right to an alleged registration failure penalty under the Securities Purchase Agreement (apart from a claim for a portion thereof) to FILB-Co, and United has received purported partial warrant exercise notices from Fletcher that include incorrect calculations of the number of settlement shares Fletcher would receive upon exercise and demands for the payment of such a penalty. United believes that any current exercise of the Warrant would not result in the issuance of any settlement shares because, among other things, the Warrant may only be exercised for net shares via a cashless exercise formula, and, following United s 2011 reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination, the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. United also believes that no registration failure penalty is due. As a result, United has responded to Fletcher with United s calculations related to the Warrant and denied any liability for any such penalty.

In connection with the FILB-Co settlement, United recorded $4 million in litigation charges which includes the establishment of litigation reserves associated with claims that may be made against United by Fletcher.

The settlement with FILB-Co is expected to be completed promptly following completion of a definitive agreement and the receipt of necessary court approvals.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(21) Preferred Stock**

United may issue preferred stock in one or more series, up to a maximum of 10,000,000 shares. Each series shall include the number of shares issued, preferences, special rights and limitations as determined by the Board of Directors.

Series A

At December 31, 2012 and 2011, there were 21,700 Series A preferred shares, respectively, issued and outstanding, which were issued as non-cumulative preferred stock. The dividend rate of the Series A preferred stock is 6% per annum, provided a dividend has been declared for the common shares. The holders of the Series A preferred stock maintain a liquidation preference to the common stockholder. The Series A preferred stock has no voting rights and United may redeem the Series A preferred stock for an amount equal to the stated value plus the accrued dividend.

Series B

On December 5, 2008, United sold 180,000 shares of Series B Preferred Stock with the Warrant to purchase 426,540 shares (439,817 shares adjusted for stock dividends declared subsequent to issuance) of common stock, to Treasury under Treasury s Capital Purchase Program. The proceeds from the sale of $180 million were allocated between the Series B Preferred Stock and the Warrant based on their relative fair values at the time of the sale. Of the $180 million in proceeds, $173 million was allocated to the Series B Preferred Stock and $6.90 million was allocated to the Warrant. The accretion of the discount recorded on the Series B Preferred Stock that resulted from allocating a portion of the proceeds to the Warrant is accreted directly to retained earnings over a five-year period applying a level yield, and is reported on the consolidated statement of operations in the determination of the amount of net loss available to common shareholders. The exercise price of the Warrant is $63.30 ($61.40 as adjusted for stock dividends declared subsequent to issuance) and it is exercisable at any time on or before December 5, 2018. According to the terms of the agreement with Treasury, the number of shares issuable under the Warrant was reduced by 50% due to the sale of $211 million in qualifying common equity in the third quarter of 2009. As a result, the number of shares issuable under the warrant was reduced to 219,909.

The Series B Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Series B Preferred Stock is redeemable at any time at the stated amount of $1,000 per share plus any accrued and unpaid dividends. The Series B Preferred Stock is non-voting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B Preferred Stock.

Series D

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

**(22) Shareholders Equity**

In 2007, the shareholders approved the Amended and Restated 2000 Key Employee Stock Option Plan ( 2000 Plan ). Under the original terms of the 2000 Plan, awards of 500,000 options, restricted stock awards, stock awards, performance share awards or stock appreciation rights could be granted for shares of United s common stock. The plan has been subsequently amended to increase the number of shares available for grant. Options granted under the 2000 Plan can have an exercise price no less than the fair market value at the date of grant. The general terms of the 2000 Plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock grants provide for accelerated vesting if there is a change in control of United or certain other conditions are met (as defined in the plan document). As of December 31, 2012, 1,204,000 additional awards could be granted under the 2000 Plan. Through December 31, 2012, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards had been granted under the 2000 Plan.

Certain acquired companies had stock option plans for their key employees with provisions similar to United s plan. Options under acquired plans were converted at the exchange ratio effective for common shares. No options are available for grant under any of the acquired plans.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(22) Shareholders Equity, continued**

Restricted stock and options outstanding and activity for the years ended December 31, 2012, 2011 and 2010 consisted of the following:

| | Restricted Stock | | Options | | | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Exercise Price | Weighted Average Remaining Term (Yrs.) | Aggregate Intrinsic Value (000 s) |
| December 31, 2009 | 33,509 | 64.30 | 732,688 | 91.50 | | |
| Granted | 86 | 25.10 | 2,500 | 24.55 | | |
| Exercised | (10,381) | 74.26 | | | | |
| Cancelled | | | (56,875) | 70.40 | | |
| December 31, 2010 | 23,214 | 59.67 | 678,313 | 93.00 | | |
| Granted | 410,051 | 10.15 | 10,000 | 11.20 | | |
| Exercised | (18,621) | 26.77 | | | | |
| Cancelled | | | (104,666) | 76.87 | | |
| December 31, 2011 | 414,644 | 12.19 | 583,647 | 94.48 | | |
| Granted | 200,612 | 8.73 | | | | |
| Exercised | (114,673) | 14.77 | | | | |
| Cancelled | (14,999) | 10.25 | (101,119) | 78.98 | | |
| December 31, 2012 | 485,584 | 10.72 | 482,528 | 97.73 | 3.57 | $ |
| Vested / Exercisable at December 31, 2012 | 15,490 | 35.62 | 461,491 | 101.10 | 3.40 | |

During 2012 and 2011, 20,489 shares and 10,140 shares, respectively, having a grant date fair value of $172,000 and $86,000, respectively, were granted to certain executive officers over the course of the year as part of their base compensation with no restrictions or vesting requirement. Those shares are included in the table above as granted and exercised within the same year. The grant date fair value was included in compensation expense during 2012 and 2011.

The following is a summary of stock options outstanding at December 31, 2012:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Shares | Range | Weighted Average Price | Average Remaining Life | Shares | Weighted Average Price |
| 12,023 | $10.00 - 30.00 | $ 13.53 | 8.27 | 3,767 | $ 16.15 |
| 52,574 | 30.01 - 50.00 | 31.64 | 6.32 | 39,793 | 31.70 |
| 91,901 | 50.01 - 70.00 | 66.29 | 5.15 | 91,901 | 66.29 |
| 69,042 | 70.01 - 90.00 | 78.84 | 0.48 | 69,042 | 78.84 |
| 36,722 | 90.01 - 110.00 | 106.96 | 2.22 | 36,722 | 106.96 |
| 62,276 | 110.01 - 130.00 | 114.10 | 1.75 | 62,276 | 114.10 |

| | | | | | |
|---|---|---|---|---|---|
| 152,587 | 130.01 - 150.00 | 143.80 | 3.74 | 152,587 | 143.80 |
| 5,403 | 150.01 - 170.00 | 152.10 | 4.21 | 5,403 | 152.10 |
| 482,528 | 10.00 - 170.00 | 97.73 | 3.57 | 461,491 | 101.10 |

The weighted average fair value of options granted in 2011 and 2010 was $3.64 and $13.19 respectively. No options were granted in 2012. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model. 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 the options.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(22) Shareholders Equity, continued**

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Expected volatility | NA | 33% | 52% |
| Expected dividend yield | NA | 0.0% | 0.0% |
| Expected life (in years) | NA | 5.00 | 6.15 |
| Risk free rate | NA | 2.1% | 3.1% |

Compensation expense relating to options of $256,000, $835,000 and $1.97 million, respectively, was included in earnings for 2012, 2011 and 2010. A deferred income tax benefit related to stock option expense of $99,000, $325,000 and $780,000 was included in the determination of income tax expense in 2012, 2011 and 2010, respectively. The amount of compensation expense for all periods was determined based on the fair value of options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. There were no options exercised during 2012, 2011 and 2010.

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United s common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. Compensation expense recognized in the consolidated statement of operations for restricted stock in 2012, 2011 and 2010 was $1.66 million, $1.25 million and $493,000, respectively. The total intrinsic value of restricted stock at December 31, 2012 was approximately $4.57 million.

As of December 31, 2012, there was $3.45 million of unrecognized compensation cost related to nonvested stock options and restricted stock granted under the 2000 Plan. The cost is expected to be recognized over a weighted-average period of 1.94 years. The aggregate grant date fair value of options and restricted stock that vested during 2012 was $2.52 million.

United sponsors a Dividend Reinvestment and Stock 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 and no shares were issued in 2012. During 2011 and 2010, 538 shares and 7,062 shares, respectively, were issued in connection with the DRIP.

United s 401(k) retirement plan regularly purchases shares of United s common stock directly from United. During 2012, 2011 and 2010, United s 401(k) retirement plan purchased 86,350 shares, 372,363 shares and 89,833 shares, respectively, directly from United at the average of the high and low stock prices on the transaction dates. 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. During 2012, 2011 and 2010 United issued 23,555 shares, 31,573 shares and 24,882 shares, respectively through the ESPP.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component is accounted for as an equity instrument and is reflected in the consolidated balance sheet 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 December 31, 2012 and 2011, United had 133,238 and 93,681 shares, respectively, of its common stock that was issuable under the deferred compensation plan.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(22) Shareholders Equity, continued**

The table below shows the components of accumulated other comprehensive loss at December 31, 2012 and 2011 *(in thousands)*:

| | 2012 | 2011 |
|---|---|---|
| Unrealized gains on securities available for sale, net of tax | $ 2,556 | $ 10,874 |
| Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of tax | (21,885) | (9,433) |
| Unamortized actuarial gains and losses under defined benefit plans, net of amortization | (4,311) | (4,750) |
| Accumulated other comprehensive loss | $ (23,640) | $ (3,309) |

**(23) Fair Value**

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

Fair Value Hierarchy

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

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

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

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

Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security s credit rating, prepayment assumptions and other factors such

as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Deferred Compensation Plan Assets and Liabilities

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

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(23) Fair Value, continued**

Mortgage Loans Held for Sale

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

Loans

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

Foreclosed Assets

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

Goodwill and Other Intangible Assets

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

Derivative Financial Instruments

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

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rate of the floors. The variable interest rates used in the calculation of projected receipts on the floor are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To

comply with the provisions of ASC 820, United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(23) Fair Value, continued**

Although United has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2012, United had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, United has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

| **December 31, 2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets: | | | | |
| Securities available for sale | | | | |
| State and political subdivisions | $ | $ 29,052 | $ | $ 29,052 |
| Mortgage-backed securities | | 1,428,502 | | 1,428,502 |
| Corporate bonds | | 163,312 | 350 | 163,662 |
| Asset-backed securities | | 210,556 | | 210,556 |
| Other | | 2,821 | | 2,821 |
| Deferred compensation plan assets | 3,101 | | | 3,101 |
| Derivative financial instruments | | 658 | | 658 |
| Total assets | $ 3,101 | $ 1,834,901 | $ 350 | $ 1,838,352 |
| Liabilities: | | | | |
| Deferred compensation plan liability | $ 3,101 | $ | $ | $ 3,101 |
| Brokered certificates of deposit | | 154,641 | | 154,641 |
| Derivative financial instruments | | 12,543 | | 12,543 |
| Total liabilities | $ 3,101 | $ 167,184 | $ | $ 170,285 |

| **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 assets | $ 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 |

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(23) Fair Value, continued**

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 | | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| Balance at beginning of period | $ 350 | $ 5,284 | $ 38,892 |
| Amounts included in earnings | | (19) | (78) |
| Impairment losses | | | (950) |
| Paydowns | | (1,119) | |
| Other comprehensive income | | | (700) |
| Transfers between valuation levels, net | | (3,796) | (31,880) |
| Balance at end of period | $ 350 | $ 350 | $ 5,284 |

In 2011 and 2010, United transferred mortgage backed securities from Level 3 to Level 2. Previously, these securities had not been priced and the book value was assigned as the fair value. During the subsequent quarter, the security was able to be priced based on objectively observable inputs based on similar assets.

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United s assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2012 and 2011, aggregated by the level in the fair value hierarchy within which those measurements fall *(in thousands)*:

| **December 31, 2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets: | | | | |
| Loans | $ | $ | $ 165,751 | $ 165,751 |
| Foreclosed properties | | | 14,788 | 14,788 |
| Total assets | $ | $ | $ 180,539 | $ 180,539 |

| **December 31, 2011** | **Level 3** | **Total** |
|---|---|---|

| | Level 1 | Level 2 | | |
|---|---|---|---|---|
| Assets: | | | | |
| Loans | $ | $ | $ 133,828 | $ 133,828 |
| Foreclosed properties | | | 29,102 | 29,102 |
| Total assets | $ | $ | $ 162,930 | $ 162,930 |

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

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(23) Fair Value, continued**

For assets and liabilities that are not presented on the balance sheet at fair value, United uses the following methods to determine fair value:

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

The short maturity of United s assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet value.

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 a significant effect on fair value estimates and have not been considered in the estimates.

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

The carrying amount and fair values for other financial instruments included in United s balance sheet at December 31, 2012 and 2011 are as follows *(in thousands)*:

| | December 31, 2012 | | | | | December 31, 2011 | |
|---|---|---|---|---|---|---|---|
| | Carrying | Fair Value Level | | | | Carrying | |
| | Amount | Level 1 | Level 2 | Level 3 | Total | Amount | Fair Value |
| Assets: | | | | | | | |
| Securities held to maturity | $ 244,184 | $ | $ 261,131 | $ | $ 261,131 | $ 330,203 | $ 343,531 |
| Loans, net | 4,067,871 | | | 3,957,669 | 3,957,669 | 3,995,146 | 3,800,343 |
| Liabilities: | | | | | | | |
| Deposits | 5,952,140 | | 5,988,743 | | 5,988,743 | 6,097,983 | 6,093,772 |
| Federal Home Loan Bank advances | 40,125 | | 40,125 | | 40,125 | 40,625 | 43,236 |
| Long-term debt | 124,805 | | | 118,626 | 118,626 | 120,225 | 115,327 |

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(24) Condensed Financial Statements of United Community Banks, Inc. (Parent Only)**

**Statement of Operations**

**For the Years Ended December 31, 2012, 2011 and 2010**

*(in thousands)*

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Shared service fees from subsidiaries | $ 6,714 | $ 7,646 | $ 6,266 |
| Other | 1,169 | 609 | 501 |
| Total income | 7,883 | 8,255 | 6,767 |
| Interest expense | 10,201 | 9,587 | 9,249 |
| Other expense | 8,717 | 9,367 | 7,683 |
| Total expenses | 18,918 | 18,954 | 16,932 |
| Income tax benefit (expense) | 398 | (1,272) | (9,961) |
| Loss before equity in undistributed loss of subsidiaries | (10,637) | (11,971) | (20,126) |
| Equity in undistributed earnings (loss) of subsidiaries | 44,493 | (214,775) | (482,218) |
| Net income (loss) | $ 33,856 | $ (226,746) | $ (502,344) |

**Balance Sheet**

**As of December 31, 2012 and 2011**

*(in thousands)*

| | 2012 | 2011 |
|---|---|---|
| Assets | | |
| Cash | $ 54,047 | $ 66,632 |
| Investment in subsidiaries | 655,934 | 631,770 |
| Other assets | 6,708 | 28,253 |
| Total assets | $ 716,689 | $ 726,655 |
| Liabilities and Shareholders Equity | | |
| Long-term debt | $ 124,805 | $ 120,225 |
| Other liabilities | 10,479 | 30,944 |
| Total liabilities | 135,284 | 151,169 |
| Shareholders equity | 581,405 | 575,486 |

| | | |
|---|---|---|
| Total liabilities and shareholders equity | $ 716,689 | $ 726,655 |

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**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(24) Condensed Financial Statements of United Community Banks, Inc. (Parent Only), continued**

**Statement of Cash Flows**

**For the Years Ended December 31, 2012, 2011 and 2010**

*(in thousands)*

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating activities: | | | |
| Net income (loss) | $ 33,856 | $ (226,746) | $ (502,344) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Equity in undistributed (earnings) loss of the subsidiaries | (44,493) | 214,775 | 482,218 |
| Depreciation, amortization and accretion | 142 | 122 | 241 |
| Stock-based compensation | 1,976 | 2,144 | 2,459 |
| Change in assets and liabilities: | | | |
| Other assets | 21,722 | (3,604) | 47,080 |
| Other liabilities | (20,483) | 6,590 | (36,782) |
| **Net cash used in operating activities** | (7,280) | (6,719) | (7,128) |
| Investing activities: | | | |
| Investment in subsidiaries | | (292,000) | |
| Purchases of securities available for sale | | | (187) |
| **Net cash used in investing activities** | | (292,000) | (187) |
| Financing activities: | | | |
| Repayment of subordinated notes | (30,500) | | |
| Proceeds from issuance of senior notes | 35,000 | | |
| Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans | 894 | 1,453 | 1,831 |
| 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 Series A preferred stock | (12) | (13) | (13) |
| Cash dividends on Series B preferred stock | (9,000) | (9,020) | (9,000) |
| Cash dividends on Series D preferred stock | (1,687) | (1,210) | |
| **Net cash (used in) provided by financing activities** | (5,305) | 356,020 | (7,182) |
| **Net change in cash** | (12,585) | 57,301 | (14,497) |
| Cash at beginning of year | 66,632 | 9,331 | 23,828 |
| **Cash at end of year** | $ 54,047 | $ 66,632 | $ 9,331 |

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

During the past two years, United did not change accountants nor have any disagreements with its accountants on any matters of accounting principles or practices or financial statement disclosure. Also, as previously disclosed in United s Current Report on Form 8-K, filed on October 22, 2012, United has engaged PricewaterhouseCoopers, LLP as its independent registered accounting firm for the year ended December 31, 2013.

**ITEM 9A. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure 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 December 31, 2012.

Based on that evaluation, the 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 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 under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified.

**Changes in Internal Control Over Financial Reporting**

No changes were made to United s internal control over financial reporting during the fourth quarter of 2012 that materially affected, or are reasonably likely to materially affect, United s internal control over financial reporting.

**Management s Report on Internal Control Over Financial Reporting**

United s management is responsible for establishing and maintaining adequate internal control over financial reporting. Management s assessment of the effectiveness of United s internal control over financial reporting as of December 31, 2012 is included in Item 8 of this Report under the heading Management s Report on Internal Controls Over Financial Reporting.

**ITEM 9B. OTHER INFORMATION.**

There were no items required to be reported on Form 8-K during the fourth quarter of 2012 that were not reported on Form 8-K.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information contained under the headings Information Regarding Nominees and Other Directors , Corporate Governance and Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement to be used in connection with the solicitation of proxies for United s 2013 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference. Pursuant to instruction 3 to paragraph (b) of Item 401 of Regulation S-K, information relating to the executive officers of United is included in Item 1 of this Report.

### ITEM 11. EXECUTIVE COMPENSATION.

The information contained under the heading Compensation of Executive Officers and Directors in the Proxy Statement to be used in connection with the solicitation of proxies for United s 2013 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information contained under the heading Principal and Management Shareholders and the Equity Compensation Plan Information table in the Proxy Statement to be used in connection with the solicitation of proxies for United s 2013 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference. For purposes of determining the aggregate market value of United s voting stock held by nonaffiliates, shares held by all directors and executive officers of United have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be Affiliates of United as defined by the Commission.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information contained under the heading Corporate Governance Certain Relationships and Related Transactions in the Proxy Statement to be used in connection with the solicitation of proxies for United s 2013 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information contained under the heading Other Matters Independent Registered Public Accounting Firm in the Proxy Statement to be used in connection with the solicitation of proxies for United s 2013 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a) 1. Financial Statements.
The following consolidated financial statements are located in Item 8 of this Report:

Report of Independent Registered Public Accounting Firm

Consolidated Statement of Operations Years ended December 31, 2012, 2011, and 2010

Consolidated Balance Sheet December 31, 2012 and 2011

Consolidated Statement of Changes in Shareholders Equity Years ended December 31, 2012, 2011, and 2010

Consolidated Statement of Cash Flows Years ended December 31, 2012, 2011, and 2010

Notes to Consolidated Financial Statements

2. Financial Statement Schedules.
Schedules to the consolidated financial statements are omitted, as the required information is not applicable.

3. Exhibits.
The following exhibits are required to be filed with this Report on Form 10-K by Item 601 of Regulation S-K:

| Exhibit No. | Exhibit |
|---|---|
| 3.1 | Restated Articles of Incorporation of United Community Banks, Inc., as amended (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed with the SEC on August 9, 2011). |
| 3.2 | Amended and Restated Bylaws of United Community Banks, Inc., as amended (incorporated herein by reference to Exhibit 3.2 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2011, filed with the SEC on May 4, 2011). |
| 4.1 | See Exhibits 3.1 and 3.2 for provisions of the Restated Articles of Incorporation of United Community Banks, Inc., as amended, and the Amended and Restated Bylaws, as amended, of United Community Banks, Inc., which define the rights of security holders. |
| 4.2 | Letter Agreement, dated December 5, 2008, by and between United Community Banks, Inc. and the United States Department of the Treasury (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on December 5, 2008). |
| 4.3 | Securities Purchase Agreement, dated as of April 1, 2010 (incorporated herein by reference to Exhibit 1.2 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on April 1, 2010), as amended by the Amendment to Securities Purchase Agreement, dated as of June 11, 2010 (incorporated herein by reference to Exhibit 1.1 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on June 14, 2010). |

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| Exhibit No. | Exhibit |
|---|---|
| 4.4 | Form of Warrants to Purchase Shares of Common Stock of United Community Banks, Inc. (incorporated herein by reference to Exhibit 1.3 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on April 1, 2010), as amended by Amendment to Warrants to Purchase Shares of Common Stock of United Community Banks, Inc., dated as of June 11, 2010 (incorporated herein by reference to Exhibit 1.2 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on June 14, 2010). |
| 4.5 | Tax Benefits Preservation Plan, dated as of February 22, 2011, by and between United Community Banks, Inc. and Illinois Stock Transfer Company (incorporated herein by reference to Exhibit 4.1 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on February 24, 2011), as amended by Amendment to Tax Benefits Preservation Plan, dated as of March 29, 2011 (incorporated herein by reference to Exhibit 4.1 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on March 31, 2011) and as amended by Second Amendment to Tax Benefits Preservation Plan, dated as of June 17, 2011 (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on June 21, 2011). |
| 4.6 | Form of Summary of Rights for Tax Benefits Preservation Plan, dated as of February 22, 2011, by and between United Community Banks, Inc. and Illinois Stock Transfer Company (incorporated herein by reference to Exhibit 4.2 to United Community Banks, Inc. s Current Report on Form 8-K, filed with the SEC on February 24, 2011). |
| 4.7 | Form of Warrant to Purchase Common Stock (incorporated herein by reference to Exhibit 4.3 to United Community Banks, Inc s Current Report on Form 8-K, filed with the SEC on February 24, 2011). |
| 10.1 | United Community Banks, Inc. s Profit Sharing Plan, amended and restated as of January 1, 2001 (incorporated herein by reference to Exhibit 4.3 to United Community Banks, Inc. s Registration Statement on Form S-8, File No. 333-86876, filed with the SEC on April 24, 2002).* |
| 10.2 | Amendment No. 1 to United Community Banks, Inc. s Profit Sharing Plan, dated as of March 15, 2002 (incorporated herein by reference to Exhibit 4.4 to United Community Banks, Inc. s Registration Statement on Form S-8, File No. 333-86876, filed with the SEC on April 24, 2002).* |
| 10.3 | United Community Banks, Inc. s 2000 Key Employee Stock Option Plan (incorporated herein by reference to Exhibit 10 to United Community Banks, Inc. s Registration Statement on Form S-8, File No. 333-99849, filed with the SEC on September 19, 2002).* |
| 10.4 | Amendment to United Community Banks, Inc. s 2000 Key Employee Stock Option Plan, dated March 5, 2004 (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Registration Statement on Form S-4, File No. 333-118893, filed with the SEC on September 9, 2004).* |
| 10.5 | Split-Dollar Agreement between United Community Banks, Inc. and Jimmy C. Tallent dated June 1, 1994 (incorporated herein by reference to Exhibit 10.11 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 1994, File No. 0-21656).* |

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| Exhibit No. | Exhibit |
|---|---|
| 10.6 | Amendment Number 2 to United Community Banks, Inc. 2000 Key Employee Stock Option Plan, dated April 26, 2006 (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, File No. 000-21656, filed with the SEC on August 4, 2006).* |
| 10.7 | United Community Banks, Inc. s Amended and Restated 2000 Key Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 000-21656, filed with the SEC on May 1, 2007).* |
| 10.8 | Form of Senior Executive Officer Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.3 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, File No. 000-21656, filed with the SEC on August 7, 2009).* |
| 10.9 | Form of Amended and Restated Change of Control Severance Agreement by and between United Community Banks, Inc. and Jimmy C. Tallent, Guy W. Freeman, Rex S. Schuette and David Shearrow (incorporated herein by reference to Exhibit 10.8 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, File No. 000-21656, filed with the SEC on February 27, 2009).* |
| 10.10 | Employment Agreement by and between United Community Banks, Inc. and Glenn S. White (incorporated herein by reference to Exhibit 10.9 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, File No. 000-21656, filed with the SEC on February 27, 2009).* |
| 10.11 | United Community Banks, Inc. s Amended and Restated Modified Retirement Plan, effective as of January 1, 2005 (incorporated herein by reference to Exhibit 10.10 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, File No. 000-21656, filed with the SEC on February 27, 2009).* |
| 10.12 | United Community Banks, Inc. s Amended and Restated Deferred Compensation Plan, effective as of January 1, 2005 (incorporated herein by reference to Exhibit 10.11 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, File No. 000-21656, filed with the SEC on February 27, 2009).* |
| 10.13 | United Community Banks, Inc. Dividend Reinvestment and Share Purchase Plan (incorporated herein by reference to Exhibit 4 to United Community Banks, Inc. s Registration Statement on Form S-3D, File No. 333-127477, filed with the SEC on August 12, 2005).* |
| 10.14 | United Community Banks, Inc. Employee Stock Purchase Plan, effective as of December 20, 2005 (incorporated herein by reference to Exhibit 4 to United Community Banks, Inc. s Registration Statement on Form S-8, File No. 333-130489, filed with the SEC on December 20, 2005).* |
| 10.15 | Form of Senior Executive Officer Nonqualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, File No. 000-21656, filed with the SEC on August 7, 2009).* |

| Exhibit No. | Exhibit |
|---|---|
| 10.16 | Form of Executive Officer Restricted Stock Unit Award Agreement (incorporated herein by reference to Exhibit 10.2 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, File No. 000-21656, filed with the SEC on August 7, 2009).* |
| 10.17 | United Community Banks, Inc. s Management Incentive Plan, effective as of January 1, 2007 (incorporated herein by reference to Exhibit 10.5 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 000-21656, filed with the SEC on May 1, 2007).* |
| 10.18 | Amendment No. 1 to United Community Banks, Inc. s Amended and Restated 2000 Key Employee Stock Option Plan dated April 13, 2007 (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 000-21656, filed with the SEC on April 13, 2007).* |
| 10.19 | Subordinated Term Loan Agreement, dated as of August 29, 2008, among United Community Bank, as borrower, the lenders from time to time party thereto, and SunTrust Bank as administrative agent (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s current report on Form 8-K, File No. 000-21656, filed with the SEC on August 29, 2008).* |
| 10.20 | Letter Agreement, dated December 5, 2008, between United Community Banks, Inc. and the United States Treasury, with respect to the issuance and sale of Series B Preferred Stock and the Warrant (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s current Report on Form 8-K, File No. 000-21656, filed with the SEC on December 5, 2008).* |
| 10.21 | Form of Senior Executive Officer Waiver, dated December 5, 2008, by Jimmy C. Tallent, Guy W. Freeman, Rex S. Schuette, David Shearrow and Glenn S. White (incorporated herein by reference to Exhibit 10.23 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, File No. 000-21656, filed with the SEC on February 27, 2009).* |
| 10.22 | Asset Purchase and Sale Agreement, dated April 1, 2010 by and among United Community Bank and Fletcher International, Inc. and certain affiliates thereof who may become parties thereto as purchasers (incorporated herein by reference to Exhibit 1.1 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 000-21656, filed with the SEC on April 1, 2010).* |
| 10.23 | Securities Purchase Agreement, dated April 1, 2010 between United Community Banks, Inc. and Fletcher International, Ltd. (incorporated herein by reference to Exhibit 1.2 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 000-21656, filed with the SEC on April 1, 2010).* |
| 10.24 | Amendment to Securities Purchase Agreement, dated June 11, 2010 between United Community Banks, Inc. and Fletcher International, Ltd. (incorporated herein by reference to Exhibit 1.1 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 000-21656, filed with the SEC on June 14, 2010).* |
| 10.25 | Share Exchange Agreement dated as of February 22, 2011, by and among United Community Banks, Inc. and Elm Ridge Offshore Master Fund, Ltd and Elm Ridge Value Partners L.P. (incorporated herein by reference to Exhibit 10.25 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-35095, filed with the SEC on March 16, 2011).* |

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| Exhibit No. | Exhibit |
|---|---|
| 10.26 | Investment Agreement, dated as of March 16, 2011, between United Community Banks, Inc. and Corsair Georgia, L.P. (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 001-35095, filed with the SEC on March 17, 2011).* |
| 10.27 | Form of Subscription Agreement, dated as of March 16, 2011, between United Community Banks, Inc. and each Additional Investor (incorporated herein by reference to Exhibit 10.2 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 001-35095, filed with the SEC on March 17, 2011).* |
| 10.28 | Asset Purchase and Sale Agreement, dated as of April 18, 2011, among United Community Bank, CF Southeast, LLC and CF Southeast Trust 2011-1 (incorporated herein by reference to Exhibit 10.3 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2011, File No. 001-35095, filed with the SEC on May 4, 2011).* |
| 10.29 | Employment Agreement, dated as of September 14, 2012, between United Community Bank and H. Lynn Harton (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc. s Current Report on Form 8-K, File No. 001-35095, filed with the SEC on September 19, 2012).* |
| 14 | Code of Ethical Conduct (incorporated herein by reference to Exhibit 14 to United Community Banks, Inc. s Annual Report on Form 10-K for the year ended December 31, 2003, File No. 000-21656, filed with the SEC on March 8, 2004). |
| 21 | Subsidiaries of United. |
| 23 | Consent of Independent Registered Public Accounting Firm |
| 24 | Power of Attorney of certain officers and directors of United (included on Signature Page) |
| 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. |
| 99 | TARP Compliance Certification pursuant to 31 C.F.R. Section 30.15. |
| 101.INS** | XBRL Report Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema Document |
| 101.CAL** | XBRL Taxonomy Calculation Linkbase Document |
| 101.LAB** | XBRL Taxonomy Label Linkbase Document |
| 101.PRE** | XBRL Presentation Linkbase Document |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document |

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* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K pursuant to Item 15(b) of Form 10-K.

** Indicates furnished herewith.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, United has duly caused this Report on Form 10-K, to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Blairsville, State of Georgia, on the 1st day of March, 2013.

**UNITED COMMUNITY BANKS, INC.**

**(Registrant)**

***/s/ Jimmy C. Tallent***
Jimmy C. Tallent

President, Chief Executive Officer and Director

(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, Controller and Chief Accounting

Officer

(Principal Accounting Officer)

## POWER OF ATTORNEY AND SIGNATURES

Know all men by these presents, that each person whose signature appears below constitutes and appoints Jimmy C. Tallent and W.C. Nelson, Jr., or either of them, as attorney-in-fact, with each having the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of United and in the capacities set forth and on the 28th day of February, 2013.

***/s/ Jimmy C. Tallent***
Jimmy C. Tallent
President, Chief Executive Officer and Director
(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, Controller and Chief Accounting Officer
(Principal Accounting Officer)

***/s/ L. Cathy Cox***
L. Cathy Cox
Director

***/s/ Steven J. Goldstein***
Steven J. Goldstein
Director

***/s/ Robert L. Head, Jr.***
Robert L. Head, Jr.
Director

***/s/ Thomas A. Richlovsky***
Thomas A. Richlovsky
Director

***/s/ W.C. Nelson, Jr.***
W. C. Nelson, Jr.
Chairman of the Board

***/s/ Clifford V. Brokaw***
Clifford V. Brokaw
Director

***/s/ Robert Blalock***
Robert Blalock
Director

***/s/ John D. Stephens***
John D. Stephens
Director

***/s/ Tim Wallis***
Tim Wallis
Director

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**EXHIBIT INDEX**

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