

UNITED COMMUNITY BANKS INC  
Form 10-Q/A  
February 10, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

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

For the Quarterly Period Ended September 30, 2011

OR

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

For the Transition Period from            to

Commission file number 001-35095

**UNITED COMMUNITY BANKS, INC.**

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(Exact name of registrant as specified in its charter)

Georgia  
(State of Incorporation)

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

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

30512  
(Zip Code)

(706) 781-2265

(Telephone Number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

Common stock, par value \$1 per share 41,611,596 shares voting and 15,914,209 shares non-voting outstanding as of October 31, 2011

**Table of Contents**

**Explanatory Note**

This Amendment to the Form 10-Q (this Amendment) of United Community Banks, Inc. (United) amends and restates United's Form 10-Q for the quarter ended September 30, 2011 that was originally filed with the Securities and Exchange Commission on November 8, 2011 (collectively with Amendment, this Form 10-Q).

This Amendment is filed to reflect United's establishment of a full deferred tax asset valuation allowance as of December 31, 2010 and the effects thereof on certain related disclosures contained in this Form 10-Q, including (i) United's previously reported income tax expense, other comprehensive income in shareholders' equity and net loss for the first, second and third quarters of 2011 and full year 2010, tangible book value, tangible equity and tangible common equity to asset ratios, and regulatory capital ratios as of September 30, 2011, June 30, 2011, March 31, 2011 and December 31, 2010, and (ii) United's disclosure in Item 4 Controls and Procedures.

Unless otherwise indicated, this Amendment does not reflect events occurring after November 8, 2011.

**Table of Contents**

INDEX

**PART I Financial Information**

**Item 1. Financial Statements**

<b><u>Consolidated Statement of Operations (unaudited) for the Three and Nine Months Ended September 30, 2011 and 2010</u></b>	<b>3</b>
--	----------

<b><u>Consolidated Balance Sheet at September 30, 2011 (unaudited), December 31, 2010 (audited) and September 30, 2010 (unaudited)</u></b>	<b>4</b>
--	----------

<b><u>Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Nine Months Ended September 30, 2011 and 2010</u></b>	<b>5</b>
---	----------

<b><u>Consolidated Statement of Cash Flows (unaudited) for the Nine Months Ended September 30, 2011 and 2010</u></b>	<b>6</b>
--	----------

<b><u>Notes to Consolidated Financial Statements</u></b>	<b>7</b>
--	----------

<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>32</b>
---	-----------

<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>60</b>
--	-----------

<b><u>Item 4. Controls and Procedures</u></b>	<b>60</b>
---	-----------

**PART II Other Information**

<b><u>Item 1. Legal Proceedings</u></b>	<b>60</b>
---	-----------

<b><u>Item 1A. Risk Factors</u></b>	<b>60</b>
-------------------------------------	-----------

<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>61</b>
---	-----------

<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<b>61</b>
---	-----------

<b><u>Item 4. (Removed and Reserved)</u></b>	<b>61</b>
--	-----------

<b><u>Item 5. Other Information</u></b>	<b>61</b>
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<b><u>Item 6. Exhibits</u></b>	<b>62</b>
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**Table of Contents****Part I Financial Information****Item 1 Financial Statements****UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Operations (Unaudited)**

(in thousands, except per share data)	September 30, Three Months Ended September 30, (As restated) 2011	September 30, September 30, September 30, (As restated) 2010	September 30, Nine Months Ended September 30, (As restated) 2011	September 30, September 30, September 30, (As restated) 2010
<b>Interest revenue:</b>				
Loans, including fees	\$ 59,294	\$ 68,419	\$ 181,359	\$ 211,245
Investment securities, including tax exempt of \$244, \$279, \$754 and \$886	14,568	14,711	42,964	46,743
Federal funds sold, commercial paper and deposits in banks	261	719	1,832	2,416
<b>Total interest revenue</b>	<b>74,123</b>	<b>83,849</b>	<b>226,155</b>	<b>260,404</b>
<b>Interest expense:</b>				
Deposits:				
NOW	831	1,705	3,191	5,304
Money market	1,129	1,930	4,656	5,516
Savings	52	83	193	250
Time	9,086	16,099	31,813	54,015
<b>Total deposit interest expense</b>	<b>11,098</b>	<b>19,817</b>	<b>39,853</b>	<b>65,085</b>
Federal funds purchased, repurchase agreements and other short-term borrowings	1,081	1,068	3,197	3,162
Federal Home Loan Bank advances	441	796	1,601	2,747
Long-term debt	2,642	2,665	8,169	7,994
<b>Total interest expense</b>	<b>15,262</b>	<b>24,346</b>	<b>52,820</b>	<b>78,988</b>
<b>Net interest revenue</b>	<b>58,861</b>	<b>59,503</b>	<b>173,335</b>	<b>181,416</b>
Provision for loan losses	36,000	50,500	237,000	187,000
<b>Net interest revenue after provision for loan losses</b>	<b>22,861</b>	<b>9,003</b>	<b>(63,665)</b>	<b>(5,584)</b>
<b>Fee revenue:</b>				
Service charges and fees	7,534	7,648	21,862	23,088
Mortgage loan and other related fees	1,148	2,071	3,594	5,151
Brokerage fees	836	731	2,204	1,884
Securities gains, net		2,491	838	2,552
Loss from prepayment of debt		(2,233)	(791)	(2,233)
Other	1,980	2,153	9,534	5,664
<b>Total fee revenue</b>	<b>11,498</b>	<b>12,861</b>	<b>37,241</b>	<b>36,106</b>
<b>Total revenue</b>	<b>34,359</b>	<b>21,864</b>	<b>(26,424)</b>	<b>30,522</b>

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<b>Operating expenses:</b>				
Salaries and employee benefits	25,262	24,891	76,622	72,841
Communications and equipment	3,284	3,620	10,006	10,404
Occupancy	3,794	3,720	11,673	11,370
Advertising and public relations	1,052	1,128	3,347	3,523
Postage, printing and supplies	1,036	1,019	3,239	3,009
Professional fees	2,051	2,117	7,731	6,238
Foreclosed property	2,813	19,752	69,603	45,105
FDIC assessments and other regulatory charges	2,603	3,256	11,660	10,448
Amortization of intangibles	748	793	2,270	2,389
Other	3,877	4,610	14,368	12,707
Goodwill impairment		210,590		210,590
Loss on sale of nonperforming assets				45,349
<b>Total operating expenses</b>	<b>46,520</b>	<b>275,496</b>	<b>210,519</b>	<b>433,973</b>
Loss from continuing operations before income taxes	(12,161)	(253,632)	(236,943)	(403,451)
Income tax benefit	(822)	(17,217)	(296)	(73,046)
<b>Net loss from continuing operations</b>	<b>(11,339)</b>	<b>(236,415)</b>	<b>(236,647)</b>	<b>(330,405)</b>
Loss from discontinued operations, net of income taxes				(101)
Gain from sale of subsidiary, net of income taxes and selling costs				1,266
<b>Net loss</b>	<b>(11,339)</b>	<b>(236,415)</b>	<b>(236,647)</b>	<b>(329,240)</b>
Preferred stock dividends and discount accretion	3,019	2,581	8,813	7,730
<b>Net loss available to common shareholders</b>	<b>\$ (14,358)</b>	<b>\$ (238,996)</b>	<b>\$ (245,460)</b>	<b>\$ (336,970)</b>
Loss from continuing operations per common share Basic	\$ (.25)	\$ (12.62)	\$ (7.23)	\$ (17.89)
Loss from continuing operations per common share Diluted	(.25)	(12.62)	(7.23)	(17.89)
Loss per common share Basic	(.25)	(12.62)	(7.23)	(17.82)
Loss per common share Diluted	(.25)	(12.62)	(7.23)	(17.82)
Weighted average common shares outstanding Basic	57,599	18,936	33,973	18,905
Weighted average common shares outstanding Diluted	57,599	18,936	33,973	18,905

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	September 30, (As restated) September 30, 2011 (unaudited)	September 30, (As restated) December 31, 2010 (audited)	September 30, September 30, 2010 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 57,780	\$ 95,994	\$ 104,033
Interest-bearing deposits in banks	241,440	111,901	64,408
Federal funds sold, commercial paper and short-term investments		441,562	108,579
Cash and cash equivalents	299,220	649,457	277,020
Securities available for sale	1,769,083	1,224,417	1,053,518
Securities held to maturity (fair value \$369,020, \$267,988 and \$263,012)	353,739	265,807	256,694
Mortgage loans held for sale	22,050	35,908	20,630
Loans, net of unearned income	4,109,875	4,604,126	4,759,504
Less allowance for loan losses	146,092	174,695	174,613
Loans, net	3,963,783	4,429,431	4,584,891
Assets covered by loss sharing agreements with the FDIC	83,623	131,887	144,581
Premises and equipment, net	176,839	178,239	178,842
Accrued interest receivable	19,744	24,299	24,672
Goodwill and other intangible assets	9,175	11,446	12,217
Foreclosed property	44,263	142,208	129,964
Net deferred tax asset			146,831
Other assets	152,754	183,160	183,189
<b>Total assets</b>	<b>\$ 6,894,273</b>	<b>\$ 7,276,259</b>	<b>\$ 7,013,049</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Liabilities:			
Deposits:			
Demand	\$ 966,452	\$ 793,414	\$ 783,251
NOW	1,299,512	1,424,781	1,338,371
Money market	1,030,370	891,252	804,644
Savings	200,231	183,894	186,617
Time:			
Less than \$100,000	1,393,559	1,496,700	1,498,379
Greater than \$100,000	905,183	1,002,359	1,033,132
Brokered	209,998	676,772	354,243
Total deposits	6,005,305	6,469,172	5,998,637
Federal funds purchased, repurchase agreements, and other short-term borrowings	102,883	101,067	103,780
Federal Home Loan Bank advances	40,625	55,125	55,125
Long-term debt	120,206	150,146	150,126
Unsettled securities purchases	10,585		
Accrued expenses and other liabilities	31,302	32,171	42,906
<b>Total liabilities</b>	<b>6,310,906</b>	<b>6,807,681</b>	<b>6,350,574</b>

Shareholders equity:

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Preferred stock, \$1 par value; 10,000,000 shares authorized;			
Series A; \$10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; \$1,000 stated value; 180,000 shares issued and outstanding	176,739	175,711	175,378
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613		
Common stock, \$1 par value; 100,000,000 shares authorized;			
41,595,692, 18,937,001 and 18,886,660 shares issued and outstanding	41,596	18,937	18,887
Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding	15,914		
Common stock issuable; 88,501, 67,287 and 61,119 shares	3,590	3,894	3,961
Capital surplus	1,053,565	741,244	740,151
Accumulated deficit	(737,736)	(492,276)	(316,587)
Accumulated other comprehensive income	12,869	20,851	40,468
<b>Total shareholders equity</b>	<b>583,367</b>	<b>468,578</b>	<b>662,475</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 6,894,273</b>	<b>\$ 7,276,259</b>	<b>\$ 7,013,049</b>

See accompanying notes to consolidated financial statements.



**Table of Contents**

**UNITED COMMUNITY BANKS, INC.**

**Consolidated Statement of Changes in Shareholders' Equity (Unaudited)**

**For the Nine Months Ended September 30,**

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Series B	Preferred Stock Series D	Series F	Series G	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings	(Accumulated Deficit)
17	\$ 174,408	\$	\$	\$	\$ 18,809	\$	\$ 3,597	\$ 697,271	\$	20
										(329)
										(329)
								39,813		
					73			1,326		
								1,887		
					2		607	(609)		
							227			
					3		(470)	463		
	970									(7)
17	\$ 175,378	\$	\$	\$	\$ 18,887	\$	\$ 3,961	\$ 740,151	\$	(316)
17	\$ 175,711	\$	\$	\$	\$ 18,937	\$	\$ 3,894	\$ 741,244	\$	(492)
										(236)

										(236)
										3,250
	16,613			(1,551)						(15,062)
		(195,872)	(151,185)	20,618	15,914					310,525
				114						987
		195,872	151,185	3,468						11,035
										1,485
				7				54		(61)
								183		
				3				(541)		538
										(376)
	1,028									(7)
										(1)
17	\$ 176,739	\$ 16,613	\$	\$	\$ 41,596	\$ 15,914	\$	\$ 3,590	\$ 1,053,565	\$ (737)

Comprehensive loss for the third quarters of 2011 and 2010 was \$17.7 million and \$241 million, respectively.

See accompanying notes to consolidated financial statements.

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

(in thousands)	September 30, Nine Months Ended September 30, (As restated) 2011	September 30, Nine Months Ended September 30, 2010
<b>Operating activities:</b>		
Net loss	\$ (236,647)	\$ (329,240)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	14,670	11,961
Provision for loan losses	237,000	187,000
Goodwill impairment charge		210,590
Stock based compensation	1,485	1,887
Securities gains, net	(838)	(2,552)
Losses and write downs on sales of other real estate owned	61,473	33,477
Gain from sale of subsidiary		(2,110)
Loss on sale of nonperforming assets		45,349
Loss on prepayment of borrowings	791	2,233
Changes in assets and liabilities:		
Other assets and accrued interest receivable	59,841	(17,528)
Accrued expenses and other liabilities	(2,739)	(1,949)
Mortgage loans held for sale	13,858	9,596
<b>Net cash provided by operating activities</b>	<b>148,894</b>	<b>148,714</b>
<b>Investing activities:</b>		
Investment securities held to maturity:		
Proceeds from maturities and calls	52,520	81,384
Purchases	(142,777)	(24,128)
Investment securities available for sale:		
Proceeds from sales	106,603	75,528
Proceeds from maturities and calls	363,333	634,305
Purchases	(1,000,378)	(544,793)
Net decrease in loans	106,341	65,570
Proceeds from loan sales	99,298	24,723
Proceeds from sales of premises and equipment	636	81
Purchases of premises and equipment	(6,442)	(5,057)
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	70,951	110,459
<b>Net cash (used in) provided by investing activities</b>	<b>(349,915)</b>	<b>441,532</b>
<b>Financing activities:</b>		
Net change in deposits	(463,867)	(625,437)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	1,816	2,391
Repayments of Federal Home Loan Bank advances	(15,291)	(61,181)
Repayments of long-term debt	(30,000)	
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	1,101	1,395
Proceeds from issuance of common and preferred stock, net of offering costs	361,560	
Proceeds from penalty on incomplete private equity transaction	3,250	
Cash dividends on preferred stock	(7,785)	(6,761)

<b>Net cash used in financing activities</b>	(149,216)	(689,593)
<b>Net change in cash and cash equivalents</b>	(350,237)	(99,347)
Cash and cash equivalents at beginning of period	649,457	376,367
<b>Cash and cash equivalents at end of period</b>	\$ 299,220	\$ 277,020
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 55,580	\$ 89,359
Income taxes	179	(37,194)
	See accompanying notes to consolidated financial statements.	

**Table of Contents**

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

**Notes to Consolidated Financial Statements**

**Note 1 Accounting Policies**

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

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

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

**Note 2 Restatement of Consolidated Financial Statements**

Subsequent to filing United s quarterly report on Form 10-Q, for the period ended September 30, 2011, United determined that a full valuation allowance on its deferred tax asset should be recognized as of December 31, 2010. Management decided to establish a valuation allowance against the net deferred tax asset after reconsidering the positive and negative evidence regarding the ultimate realization of the net deferred tax asset. Realization of the net deferred tax asset is dependent upon United s ability to generate future taxable income. Management has concluded that the objective and verifiable negative evidence represented by United s recent losses outweighs the more subjective positive evidence. As a result of this conclusion, United has established a full valuation allowance against its deferred tax asset.

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

Accordingly, the September 30, 2011 consolidated financial statements have been restated to account for this determination. The effect of this change in the consolidated financial statements was as follows (*in thousands except per share amounts*).

	September 30, Three Months Ended September 30, 2011 As Reported	September 30, Adjustment	September 30, September 30, 2011 As Restated	September 30, September 30, Nine Months Ended September 30, 2011 As Reported	September 30, Adjustment	September 30, September 30, September 30, 2011 As Restated
<i>Consolidated Statement of Operations</i>						
Income tax benefit	\$ (5,959)	\$ 5,137	\$ (822)	\$ (95,872)	\$ 95,576	\$ (296)
Net income (loss) from continuing operations	(6,202)	(5,137)	(11,339)	(141,071)	(95,576)	(236,647)
Net income (loss)	(6,202)	(5,137)	(11,339)	(141,071)	(95,576)	(236,647)
Net income (loss) available to common shareholders	(9,221)	(5,137)	(14,358)	(149,884)	(95,576)	(245,460)
Income (loss) from continuing operations per common share basic	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
Income (loss) from continuing operations per common share diluted	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
Income (loss) per common share basic	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
Income (loss) per common share diluted	(0.16)	(0.09)	(0.25)	(4.41)	(2.82)	(7.23)
<i>Consolidated Statement of Changes in Shareholders Equity</i>						
Net loss				\$ (141,071)	\$ (95,576)	\$ (236,647)
Unrealized holding losses on available for sale securities				2,910	1,678	4,588
Unrealized losses on derivative financial instrument qualifying as cash flow hedges				(7,680)	(4,890)	(12,570)
Comprehensive loss				(145,841)	(98,788)	(244,629)
<i>Consolidated Statement of Cash Flows</i>						
Operating activities:						
Net loss				\$ (141,071)	\$ (95,576)	\$ (236,647)
Net change in other assets and accrued interest receivable				(35,735)	95,576	59,841
<i>Consolidated Balance Sheet</i>						
Net deferred tax asset	\$ 264,275	\$ (264,275)	\$	\$ 166,937	\$ (166,937)	\$

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Other assets	153,329	(575)	152,754	183,160		183,160
Total assets	7,159,123	(264,850)	6,894,273	7,443,196	(166,937)	7,276,259
Capital surplus	1,052,690	875	1,053,565	741,244		741,244
(Accumulated deficit) retained earnings	(485,451)	(252,285)	(737,736)	(335,567)	(156,709)	(492,276)
Accumulated other comprehensive income	26,309	(13,440)	12,869	31,079	(10,228)	20,851
Total shareholders equity	848,217	(264,850)	583,367	635,515	(166,937)	468,578
Total liabilities and shareholders equity	7,159,123	(264,850)	6,894,273	7,443,196	(166,937)	7,276,259

**Note 3 Accounting Standards Updates**

In July 2011, the FASB issued Accounting Standards Update No. 2011-06, *Fees Paid to the Federal Government by Health Insurers* ( ASU No. 2011-06 ). ASU No. 2011-06 states that the liability for the annual fee for health insurers mandated by the Patient protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, should be estimated and recorded in full once the entity provides qualifying health insurance. Along with the fee liability, a corresponding deferred cost should be recorded and amortized into expense, typically using a straight-line method. ASU No. 2011-06 is effective for calendar years beginning after December 31, 2013, and does not apply to United.

In July 2011, the FASB issued Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ( ASU No. 2011-07 ). ASU No. 2011-07 requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Also, these entities are required to provide enhanced disclosure about their policies on recognizing revenue and assessing bad debts. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012, and does not apply to United.

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

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* ( ASU No. 2011-08 ). ASU No. 2011-08 allows an entity first to assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. An entity is required to perform step one only if the entity concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount (that is, a likelihood of more than 50 percent). This amends the existing guidance, which required entities to perform step one of the test, at least annually, by calculating and comparing the fair value of a reporting unit to its carrying amount. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, an entity can choose to early adopt the revised standard even if its annual test date is before September 15, 2011 (the date on which the revised standard was issued), provided that the entity has not yet issued its financial statements for the period that includes its annual test date. Since United has no goodwill balance, ASU No. 2011-08 will not currently have an impact on the Company's financial position, results of operation, or disclosures.

In September 2011, the FASB issued Accounting Standards Update No. 2011-09, *Disclosures about an Employer's Participation in a Multiemployer Plan* ( ASU No. 2011-09 ). ASU No. 2011-09 is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and, therefore help financial statement users better understand the financial health of all significant plans in which the employer participates. It is effective for public entities for fiscal years ending after December 15, 2011, with a one year deferral for non-public entities. United does not participate in a multiemployer plan, so this revised standard does not apply to the Company.

**Note 4 Mergers and Acquisitions**

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

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

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

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

(in thousands)	September 30, Purchased Impaired Loans	September 30, Other Purchased Loans	September 30, Other	September 30, Total
Commercial (secured by real estate)	\$	\$ 34,546	\$	\$ 34,546
Commercial (commercial and industrial)		2,485		2,485
Construction and land development	1,771	10,282		12,053
Residential mortgage	186	8,376		8,562
Installment	6	181		187
Total covered loans	1,963	55,870		57,833



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Covered foreclosed property				11,488		11,488		
Estimated loss reimbursement from the FDIC				14,302		14,302		
Total covered assets	\$	1,963	\$	55,870	\$	25,790	\$	83,623

**Table of Contents****UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 5 Securities**

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

	September 30, Three Months Ended September 30,		September 30, Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	\$	\$ 34,711	\$ 106,603	\$ 75,528
Gross gains on sales	\$	\$ 2,491	\$ 1,169	\$ 3,751
Gross losses on sales			331	249
Impairment losses				950
Net gains on sales of securities	\$	\$ 2,491	\$ 838	\$ 2,552
Income tax expense attributable to sales	\$	\$ 969	\$ 326	\$ 993

Substantially all securities with a carrying value of \$1.89 billion, \$1.43 billion, and \$1.26 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at September 30, 2011, December 31, 2010 and September 30, 2010, respectively.

Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost. The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at September 30, 2011, December 31, 2010 and September 30, 2010 are as follows (*in thousands*).

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Fair Value
<u>As of September 30, 2011</u>				
U.S. Government agencies	\$ 5,000	\$ 17	\$	\$ 5,017
State and political subdivisions	50,185	3,721	22	53,884
Mortgage-backed securities <sup>(1)</sup>	298,554	11,871	306	310,119
Total	\$ 353,739	\$ 15,609	\$ 328	\$ 369,020

As of December 31, 2010

U.S. Government agencies	\$ 11,939	\$ 79	\$	\$ 12,018
State and political subdivisions	47,007	416	1,005	46,418
Mortgage-backed securities <sup>(1)</sup>	206,861	2,700	9	209,552
Total	\$ 265,807	\$ 3,195	\$ 1,014	\$ 267,988

As of September 30, 2010

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U.S. Government agencies	\$	6,961	\$	124	\$	7,085
State and political subdivisions		30,752		1,271		32,023
Mortgage-backed securities <sup>(1)</sup>		218,981		4,929	6	223,904
<b>Total</b>	<b>\$</b>	<b>256,694</b>	<b>\$</b>	<b>6,324</b>	<b>\$</b>	<b>263,012</b>

<sup>(1)</sup> All are residential type mortgage-backed securities

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

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

	September 30, Amortized Cost	September 30, Gross Unrealized Gains	September 30, Gross Unrealized Losses	September 30, Fair Value
<b>As of September 30, 2011</b>				
U.S. Government agencies	\$ 33,597	\$ 109	\$	\$ 33,706
State and political subdivisions	25,435	1,400	4	26,831
Mortgage-backed securities <sup>(1)</sup>	1,556,639	39,177	416	1,595,400
Corporate securities	119,066		8,424	110,642
Other	2,504			2,504
<b>Total</b>	<b>\$ 1,737,241</b>	<b>\$ 40,686</b>	<b>\$ 8,844</b>	<b>\$ 1,769,083</b>
<b>As of December 31, 2010</b>				
U.S. Government agencies	\$ 99,969	\$ 67	\$ 1,556	\$ 98,480
State and political subdivisions	27,600	878	36	28,442
Mortgage-backed securities <sup>(1)</sup>	963,475	29,204	1,671	991,008
Corporate securities	105,359	192	1,516	104,035
Other	2,452			2,452
<b>Total</b>	<b>\$ 1,198,855</b>	<b>\$ 30,341</b>	<b>\$ 4,779</b>	<b>\$ 1,224,417</b>
<b>As of September 30, 2010</b>				
U.S. Government agencies	\$ 127,989	\$ 714	\$	\$ 128,703
State and political subdivisions	29,209	1,434	6	30,637
Mortgage-backed securities <sup>(1)</sup>	762,322	35,060	61	797,321
Corporate securities	95,480	61	1,136	94,405
Other	2,452			2,452
<b>Total</b>	<b>\$ 1,017,452</b>	<b>\$ 37,269</b>	<b>\$ 1,203</b>	<b>\$ 1,053,518</b>

<sup>(1)</sup> All are residential type mortgage-backed securities

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

September 30, Less than 12 Months Fair Value	September 30, Unrealized Loss	September 30, 12 Months or More Fair Value	September 30, Unrealized Loss	September 30, Total Fair Value	September 30, Unrealized Loss
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As of September 30,

2011

State and political subdivisions	\$	354	\$	22	\$		\$	354	\$	22
Mortgage-backed securities		9,828		306				9,828		306
Total unrealized loss position	\$	10,182	\$	328	\$		\$	10,182	\$	328

As of December 31,

2010

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

As of September 30,

2010

Mortgage-backed securities	\$	1,964	\$	6	\$		\$	1,964	\$	6
Total unrealized loss position	\$	1,964	\$	6	\$		\$	1,964	\$	6

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

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

	September 30, Less than 12 Months	September 30, Unrealized Loss	September 30, 12 Months or More	September 30, Unrealized Loss	September 30, Fair Value	September 30, Total Unrealized Loss
	Fair Value		Fair Value			
<b>As of September 30, 2011</b>						
State and political subdivisions			10	4	10	4
Mortgage-backed securities	255,896	416			255,896	416
Corporate securities	44,251	3,765	66,341	4,659	110,592	8,424
Total unrealized loss position	\$ 300,147	\$ 4,181	\$ 66,351	\$ 4,663	\$ 366,498	\$ 8,844
<b>As of December 31, 2010</b>						
U.S. Government agencies	\$ 68,412	\$ 1,556	\$	\$	\$ 68,412	\$ 1,556
State and political subdivisions	1,082	30	12	6	1,094	36
Mortgage-backed securities	59,505	1,630	2,799	41	62,304	1,671
Corporate securities	69,985	1,516			69,985	1,516
Other						
Total unrealized loss position	\$ 198,984	\$ 4,732	\$ 2,811	\$ 47	\$ 201,795	\$ 4,779
<b>As of September 30, 2010</b>						
State and political subdivisions	\$	\$	\$ 12	\$ 6	\$ 12	\$ 6
Mortgage-backed securities	5,055	1	10,730	60	15,785	61
Corporate securities	59,864	1,136			59,864	1,136
Total unrealized loss position	\$ 64,919	\$ 1,137	\$ 10,742	\$ 66	\$ 75,661	\$ 1,203

At September 30, 2011, there were 32 available for sale securities and 2 held to maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at September 30, 2011 were primarily attributable to changes in interest rates.

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

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

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

	September 30, Available for Sale		September 30, Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>U.S. Government agencies:</b>				
5 to 10 years	\$ 25,000	\$ 25,047	\$	\$
More than 10 years	8,597	8,659	5,000	5,017
	33,597	33,706	5,000	5,017
<b>State and political subdivisions:</b>				
Within 1 year	4,357	4,398		
1 to 5 years	14,291	15,198	4,821	5,081
5 to 10 years	5,939	6,344	19,483	21,132
More than 10 years	848	891	25,881	27,671
	25,435	26,831	50,185	53,884
<b>Corporate securities:</b>				
1 to 5 years	18,549	16,848		
5 to 10 years	99,517	93,494		
More than 10 years	1,000	300		
	119,066	110,642		
<b>Other:</b>				
More than 10 years	2,504	2,504		
	2,504	2,504		
<b>Total securities other than mortgage-backed securities:</b>				
Within 1 year	4,357	4,398		
1 to 5 years	32,840	32,046	4,821	5,081
5 to 10 years	130,456	124,885	19,483	21,132
More than 10 years	12,949	12,354	30,881	32,688
Mortgage-backed securities	1,556,639	1,595,400	298,554	310,119
	\$ 1,737,241	\$ 1,769,083	\$ 353,739	\$ 369,020

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





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

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

	September 30, September 30, 2011	September 30, December 31, 2010	September 30, September 30, 2010
Commercial (secured by real estate)	\$ 1,771,101	\$ 1,761,424	\$ 1,781,271
Commercial construction	168,531	296,582	309,519
Commercial (commercial and industrial)	429,043	441,518	456,368
Total commercial	2,368,675	2,499,524	2,547,158
Residential construction	474,552	695,166	763,424
Residential mortgage	1,149,678	1,278,780	1,315,994
Consumer installment	116,970	130,656	132,928
Total loans	4,109,875	4,604,126	4,759,504
Less allowance for loan losses	146,092	174,695	174,613
Loans, net	\$ 3,963,783	\$ 4,429,431	\$ 4,584,891

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

Changes in the allowance for loan losses for the three and nine months ended September 30, 2011 and 2010 are summarized as follows (*in thousands*).

	September 30, Three Months Ended September 30, 2011	September 30, September 30, 2010	September 30, Nine Months Ended September 30, 2011	September 30, September 30, 2010
Balance beginning of period	\$ 127,638	\$ 174,111	\$ 174,695	\$ 155,602
Provision for loan losses	36,000	50,500	237,000	187,000
Charge-offs:				
Commercial (secured by real estate)	2,270	14,343	54,410	27,070
Commercial construction	1,705	1,989	52,400	5,660
Commercial (commercial and industrial)	866	1,458	5,832	7,776
Residential construction	7,668	25,661	106,692	111,632
Residential mortgage	6,399	8,043	47,742	19,435
Consumer installment	970	1,162	2,949	3,708
Total loans charged-off	19,878	52,656	270,025	175,281

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Recoveries:				
Commercial (secured by real estate)	78	131	352	1,137
Commercial construction	80	17	191	22
Commercial (commercial and industrial)	446	251	849	1,592
Residential construction	1,287	1,727	1,544	3,083
Residential mortgage	289	348	660	672
Consumer installment	152	184	826	786
Total recoveries	2,332	2,658	4,422	7,292
Net charge-offs	17,546	49,998	265,603	167,989
Balance end of period	\$ 146,092	\$ 174,613	\$ 146,092	\$ 174,613

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

At September 30, 2011, December 31, 2010 and September 30, 2010, loans with a carrying value of \$1.37 billion, \$1.02 billion and \$1.10 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

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

	September 30, Commercial (Secured by Real Estate)	September 30, Commercial Construction	September 30, Commercial (Commercial and Industrial)	September 30, Residential Construction	September 30, Residential Mortgage	September 30, Consumer Installment	September 30, Unallocated	September 30, Total
<b><u>Nine Months Ended September 30, 2011</u></b>								
Allowance for loan losses:								
Beginning balance	\$ 31,191	\$ 6,780	\$ 7,580	\$ 92,571	\$ 22,305	\$ 3,030	\$ 11,238	\$ 174,695
Charge-offs	(54,410)	(52,400)	(5,832)	(106,692)	(47,742)	(2,949)		(270,025)
Recoveries	352	191	849	1,544	660	826		4,422
Provision	48,344	54,133	20,174	57,842	53,786	1,296	1,425	237,000
Ending balance	\$ 25,477	\$ 8,704	\$ 22,771	\$ 45,265	\$ 29,009	\$ 2,203	\$ 12,663	\$ 146,092
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$ 4,070	\$ 4,038	\$ 17,067	\$ 7,267	\$ 1,062	\$ 37	\$	\$ 33,541
Collectively evaluated for impairment	21,407	4,666	5,704	37,998	27,947	2,166	12,663	112,551
Total ending allowance balance	\$ 25,477	\$ 8,704	\$ 22,771	\$ 45,265	\$ 29,009	\$ 2,203	\$ 12,663	\$ 146,092
Loans:								
Individually evaluated for impairment	\$ 54,126	\$ 23,844	\$ 52,433	\$ 44,189	\$ 8,043	\$ 95	\$	\$ 182,730
Collectively evaluated for impairment	1,716,975	144,687	376,610	430,363	1,141,635	116,875		3,927,145
Total loans	\$ 1,771,101	\$ 168,531	\$ 429,043	\$ 474,552	\$ 1,149,678	\$ 116,970	\$	\$ 4,109,875

**December 31, 2010**

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Allowance for loan losses:									
Ending allowance attributable to loans:									
Individually evaluated for impairment									
\$	268	\$		\$	644	\$	137	\$	1,049
Collectively evaluated for impairment									
	30,923		6,780		7,580		91,927		22,168
									3,030
									11,238
									173,646
Total ending allowance balance									
\$	31,191	\$	6,780	\$	7,580	\$	92,571	\$	22,305
									3,030
									11,238
									174,695

Loans:									
Individually evaluated for impairment									
\$	41,818	\$	20,311	\$	5,874	\$	39,505	\$	15,468
Collectively evaluated for impairment									
	1,719,606		276,271		435,644		655,661		1,263,312
									130,656
									4,481,150
Total loans									
\$	1,761,424	\$	296,582	\$	441,518	\$	695,166	\$	1,278,780
									130,656
									4,604,126

**Nine Months Ended September 30, 2010**

Allowance for loan losses:									
Beginning balance									
\$	19,208	\$	5,861	\$	6,892	\$	93,585	\$	17,266
	2,545		10,245		155,602				
Charge-offs									
	(27,070)		(5,660)		(7,776)		(111,632)		(19,435)
									(3,708)
Recoveries									
	1,137		22		1,592		3,083		672
									786
Provision									
	30,412		7,764		7,667		116,913		21,394
									3,409
									(559)
									187,000
Ending balance									
\$	23,687	\$	7,987	\$	8,375	\$	101,949	\$	19,897
									3,032
									9,686
									174,613

Ending allowance attributable to loans:									
Individually evaluated for impairment									
\$	15	\$	578	\$		\$	653	\$	20
Collectively evaluated for impairment									
	23,672		7,409		8,375		101,296		19,877
									3,032
									9,686
									173,347
Total ending allowance balance									
\$	23,687	\$	7,987	\$	8,375	\$	101,949	\$	19,897
									3,032
									9,686
									174,613

Loans:									
Individually evaluated for impairment									
\$	47,880	\$	15,156	\$	8,182	\$	60,691	\$	25,067
Collectively evaluated for impairment									
	1,733,391		294,363		448,186		702,733		1,290,927
									132,928
									4,602,528
Total loans									
\$	1,781,271	\$	309,519	\$	456,368	\$	763,424	\$	1,315,994
									132,928
									4,759,504

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United reviews all loans that are on nonaccrual with a balance of \$500,000 or greater for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. All troubled debt restructurings are considered impaired regardless of accrual status. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired nonaccrual loans are applied as a reduction of the outstanding principal balance. Impairment amounts calculated for nonaccrual collateral-dependent loans \$500,000 and greater are recorded quarterly. Specific reserves are recorded in the allowance for loan losses for impairment amounts calculated on nonaccrual, non-collateral-dependent loans \$500,000 and greater, and all accruing troubled debt restructured loans.

**Table of Contents**

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

**Notes to Consolidated Financial Statements**

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

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

	September 30, September 30, 2011	September 30, December 31, 2010	September 30, September 30, 2010
Period-end loans with no allocated allowance for loan losses	\$ 66,636	\$ 115,338	\$ 149,865
Period-end loans with allocated allowance for loan losses	116,094	7,638	7,111
<b>Total</b>	<b>\$ 182,730</b>	<b>\$ 122,976</b>	<b>\$ 156,976</b>

Amount of allowance for loan losses allocated

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three and nine months ended September 30, 2011 and 2010 (*in thousands*).

	September 30, Three Months Ended September 30, 2011	September 30, September 30, 2010	September 30, Nine Months Ended September 30, 2011	September 30, September 30, 2010
Average balance of individually evaluated impaired loans during period	\$ 109,164	\$ 159,271	\$ 81,031	\$ 180,531
Interest income recognized during impairment	797		797	
Cash-basis interest income recognized	630		630	

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

	September 30, September 30, 2011	September 30, September 30, 2011	September 30, September 30, 2011	September 30, December 31, 2010	September 30, September 30, 2010	September 30, September 30, 2010	September 30, September 30, 2010	September 30, September 30, 2010	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	\$ 45,242	\$ 38,242	\$	\$ 60,238	\$ 39,588	\$	\$ 64,951	\$ 46,179	\$

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Commercial insured by (estate)									
Commercial construction	6,803	6,309		33,898	20,311		27,876	13,041	
Commercial Commercial									
Industrial)	48	48		10,115	5,874		12,078	8,182	
Commercial Commercial construction	52,093	44,599		104,251	65,773		104,905	67,402	
Commercial construction	31,646	16,421		59,502	34,597		97,152	57,907	
Commercial Leasehold improvement	7,745	5,588		21,528	14,968		33,413	24,556	
Commercial Leasehold improvement	28	28							
Commercial with no advance recorded	91,512	66,636		185,281	115,338		235,470	149,865	
Commercial insured by (estate)									
Commercial insured by (estate)	16,173	15,884	4,070	2,230	2,230	268	2,283	1,701	
Commercial construction	17,850	17,535	4,038				2,115	2,115	5
Commercial Commercial									
Industrial)	54,259	52,385	17,067						
Commercial Commercial construction	88,282	85,804	25,175	2,230	2,230	268	4,398	3,816	5
Commercial construction	28,428	27,768	7,267	14,480	4,908	644	4,500	2,784	6
Commercial Leasehold improvement	2,455	2,455	1,062	500	500	137	511	511	
Commercial Leasehold improvement	67	67	37						
Commercial with an advance recorded	119,232	116,094	33,541	17,210	7,638	1,049	9,409	7,111	1,2
Total	\$ 210,744	\$ 182,730	\$ 33,541	\$ 202,491	\$ 122,976	\$ 1,049	\$ 244,879	\$ 156,976	\$ 1,2



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

There were no loans more than 90 days past due and still accruing interest at September 30, 2011, December 31, 2010 or September 30, 2010. Nonaccrual loans at September 30, 2011, December 31, 2010 and September 30, 2010 were \$144 million, \$179 million and \$218 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

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

	September 30, September 30, 2011	September 30, Nonaccrual Loans December 31, 2010	September 30, September 30, 2010
Commercial (secured by real estate)	\$ 21,998	\$ 44,927	\$ 53,646
Commercial construction	11,370	21,374	17,279
Commercial (commercial and industrial)	53,009	5,611	7,670
Total commercial	86,377	71,912	78,595
Residential construction	34,472	54,505	79,321
Residential mortgage	22,671	51,083	58,107
Consumer installment	964	1,594	1,743
Total	\$ 144,484	\$ 179,094	\$ 217,766
Balance as a percentage of unpaid principal	77.8% <sup>(1)</sup>	67.2%	70.0%

<sup>(1)</sup> Excluding single loan relationship with \$25 million special allowance classified as nonaccrual in the third quarter, the ratio is 62.2%. The following table presents the aging of the recorded investment in past due loans as of September 30, 2011, December 31, 2010 and September 30, 2010 by class of loans (*in thousands*).

	September 30, 30 - 59 Days Past Due	September 30, 60 - 89 Days Past Due	September 30, Greater Than 90 Days Past Due	September 30, Total Past Due	September 30, Loans Not Past Due	September 30, Total
<b>As of September 30, 2011</b>						
Commercial (secured by real estate)	\$ 4,587	\$ 4,730	\$ 10,594	\$ 19,911	\$ 1,751,190	\$ 1,771,101
Commercial construction	149	173	2,107	2,429	166,102	168,531
Commercial (commercial and industrial)	1,141	1,507	691	3,339	425,704	429,043

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Total commercial	5,877	6,410	13,392	25,679	2,342,996	2,368,675
Residential construction	2,685	2,403	14,546	19,634	454,918	474,552
Residential mortgage	13,979	3,308	12,471	29,758	1,119,920	1,149,678
Consumer installment	1,531	404	291	2,226	114,744	116,970
Total loans	\$ 24,072	\$ 12,525	\$ 40,700	\$ 77,297	\$ 4,032,578	\$ 4,109,875

**As of December 31, 2010**

Commercial (secured by real estate)	\$ 10,697	\$ 3,672	\$ 19,457	\$ 33,826	\$ 1,727,598	\$ 1,761,424
Commercial construction	4,616	2,917	9,189	16,722	279,860	296,582
Commercial (commercial and industrial)	2,016	2,620	3,092	7,728	433,790	441,518
Total commercial	17,329	9,209	31,738	58,276	2,441,248	2,499,524
Residential construction	13,599	5,158	34,673	53,430	641,736	695,166
Residential mortgage	24,375	7,780	38,209	70,364	1,208,416	1,278,780
Consumer installment	2,104	462	808	3,374	127,282	130,656
Total loans	\$ 57,407	\$ 22,609	\$ 105,428	\$ 185,444	\$ 4,418,682	\$ 4,604,126

**As of September 30, 2010**

Commercial (secured by real estate)	\$ 11,121	\$ 7,870	\$ 34,918	\$ 53,909	\$ 1,727,362	\$ 1,781,271
Commercial construction	3,399	2,009	9,310	14,718	294,801	309,519
Commercial (commercial and industrial)	1,941	1,166	4,824	7,931	448,437	456,368
Total commercial	16,461	11,045	49,052	76,558	2,470,600	2,547,158
Residential construction	13,025	25,330	46,626	84,981	678,443	763,424
Residential mortgage	24,911	9,262	40,155	74,328	1,241,666	1,315,994
Consumer installment	1,785	614	861	3,260	129,668	132,928
Total loans	\$ 56,182	\$ 46,251	\$ 136,694	\$ 239,127	\$ 4,520,377	\$ 4,759,504

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

As of September 30, 2011 and December 31, 2010, \$7.75 million and \$173,000 of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. There were no specific reserves established for loans considered to be troubled debt restructurings at September 30, 2010. United committed to lend additional amounts totaling up to \$1.06 million, \$1.17 million, and \$256,000 as of September 30, 2011 and December 31, 2010, and September 30, 2010 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment. (*dollars in thousands*).

	September 30, Number of Contracts	September 30, Pre- Modification Outstanding Recorded Investment	September 30, Post- Modification Outstanding Recorded Investment
<b>As of September 30, 2011</b>			
Commercial (secured by real estate)	31	\$ 41,177	\$ 38,177
Commercial construction	7	14,123	14,123
Commercial (commercial and industrial)	7	304	304
<b>Total commercial</b>	<b>45</b>	<b>55,604</b>	<b>52,604</b>
Residential construction	46	21,369	20,374
Residential mortgage	16	2,792	2,635
Consumer installment	3	95	95
<b>Total loans</b>	<b>110</b>	<b>\$ 79,860</b>	<b>\$ 75,708</b>
<b>As of December 31, 2010</b>			
Commercial (secured by real estate)	41	\$ 40,649	\$ 36,759
Commercial construction	16	37,980	37,067
Commercial (commercial and industrial)	7	645	364
<b>Total commercial</b>	<b>64</b>	<b>79,274</b>	<b>74,190</b>
Residential construction	63	22,012	20,782
Residential mortgage	43	6,574	6,285
Consumer installment	7	124	124
<b>Total loans</b>	<b>177</b>	<b>\$ 107,984</b>	<b>\$ 101,381</b>
<b>As of September 30, 2010</b>			
Commercial (secured by real estate)	40	\$ 31,142	\$ 27,145
Commercial construction	10	11,499	10,587
Commercial (commercial and industrial)	7	193	193
<b>Total commercial</b>	<b>57</b>	<b>42,834</b>	<b>37,925</b>
Residential construction	57	22,640	20,954
Residential mortgage	38	7,016	6,492
Consumer installment	5	944	944

Total loans	157	\$	73,434	\$	66,315
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**Table of Contents****UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The following table presents the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted which we define as 90 days or more past due (*dollars in thousands*).

	September 30, Troubled Debt Restructurings That Have Subsequently Three Months Ended September 30, 2011		September 30, September 30, September 30, September 30, Nine Months Ended September 30, 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial (secured by real estate)		\$	3	\$ 1,337
Commercial construction				
Commercial (commercial and industrial)			1	44
Total commercial			4	1,381
Residential construction	4	679	7	1,242
Residential mortgage	1	56	2	402
Consumer installment			1	28
Total loans	5	\$ 735	14	\$ 3,053

**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 the Company will sustain some loss if deficiencies are not corrected. Immediate corrective action is necessary.

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

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

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

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

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

	September 30, Pass	September 30, Watch	September 30, Substandard	September 30, Doubtful / Loss	September 30, Not Rated	September 30, Total
<b><u>As of September 30, 2011</u></b>						
Commercial (secured by real estate)	\$ 1,520,604	\$ 94,147	\$ 156,350	\$	\$	\$ 1,771,101
Commercial construction	115,021	15,611	37,899			168,531
Commercial (commercial and industrial)	337,796	6,986	83,381		880	429,043
Total commercial	1,973,421	116,744	277,630		880	2,368,675
Residential construction	320,567	43,340	110,645			474,552
Residential mortgage	1,012,423	37,892	99,363			1,149,678
Consumer installment	112,457	847	3,666			116,970
Total loans	\$ 3,418,868	\$ 198,823	\$ 491,304	\$	\$ 880	\$ 4,109,875
<b><u>As of December 31, 2010</u></b>						
Commercial (secured by real estate)	\$ 1,476,974	\$ 82,762	\$ 201,688	\$	\$	\$ 1,761,424
Commercial construction	174,049	10,413	112,120			296,582
Commercial (commercial and industrial)	402,969	15,153	22,379		1,017	441,518
Total commercial	2,053,992	108,328	336,187		1,017	2,499,524
Residential construction	398,926	82,973	213,267			695,166
Residential mortgage	1,103,487	38,378	136,915			1,278,780
Consumer installment	125,134	650	4,872			130,656
Total loans	\$ 3,681,539	\$ 230,329	\$ 691,241	\$	\$ 1,017	\$ 4,604,126
<b><u>As of September 30, 2010</u></b>						
Commercial (secured by real estate)	\$ 1,487,855	\$ 82,530	\$ 210,886	\$	\$	\$ 1,781,271
Commercial construction	176,933	12,715	119,871			309,519

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Commercial (commercial and industrial)	375,433	49,954	29,921		1,060	456,368
Total commercial	2,040,221	145,199	360,678		1,060	2,547,158
Residential construction	418,571	88,156	256,697			763,424
Residential mortgage	1,125,651	45,993	144,350			1,315,994
Consumer installment	126,102	878	5,948			132,928
Total loans	\$ 3,710,545	\$ 280,226	\$ 767,673	\$	\$ 1,060	\$ 4,759,504

**Note 7 Foreclosed Property**

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

	September 30, September 30, 2011	September 30, December 31, 2010	September 30, September 30, 2010
Commercial real estate	\$ 11,873	\$ 25,893	\$ 16,557
Commercial construction	5,862	17,808	15,679
Total commercial	17,735	43,701	32,236
Residential construction	42,295	91,385	82,538
Residential mortgage	9,397	23,687	27,482
Total foreclosed property	69,427	158,773	142,256
Less valuation allowance	25,164	16,565	12,292
Foreclosed property, net	\$ 44,263	\$ 142,208	\$ 129,964
Balance as a percentage of original loan unpaid principal	33.4%	64.4%	65.9%

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

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

	September 30, Three Months Ended September 30,		September 30, Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of year	\$ 30,386	\$ 8,572	\$ 16,565	\$ 7,433
Additions charged to expense	1,772	7,051	53,475	17,724
Direct write downs	(6,994)	(3,331)	(44,876)	(12,865)
Balance at end of period	\$ 25,164	\$ 12,292	\$ 25,164	\$ 12,292

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

	September 30, Three Months Ended September 30,		September 30, Nine Months Ended September 30,	
	2011	2010	2011	2010
Net (gain) loss on sales	\$ (804)	\$ 7,137	\$ 7,998	\$ 15,753
Provision for unrealized losses	1,772	7,051	53,475	17,724
Operating expenses, net of rental income	1,845	5,564	8,130	11,628
Total foreclosed property expense	\$ 2,813	\$ 19,752	\$ 69,603	\$ 45,105

**Note 8 Earnings Per Share**

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

	September 30, Three Months Ended September 30,		September 30, Nine Months Ended September 30,	
	2011	2010	2011	2010
Series A 6% fixed	\$ 3	\$ 3	\$ 10	\$ 10
Series B 5% fixed until December 6, 2013, 9% thereafter	2,598	2,578	7,798	7,720
Series D LIBOR plus 9.6875%, resets quarterly	418		1,005	
Total preferred stock dividends	\$ 3,019	\$ 2,581	\$ 8,813	\$ 7,730

All preferred stock dividends are payable quarterly.



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

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

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

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

	September 30, Three Months Ended September 30, (As restated)		September 30, Nine Months Ended September 30, (As restated)	
	2011	2010	2011	2010
Net loss available to common shareholders	\$ (14,358)	\$ (238,996)	\$ (245,460)	\$ (336,970)
<b>Weighted average shares outstanding:</b>				
Basic	57,599	18,936	33,973	18,905
Effect of dilutive securities				
Convertible securities				
Stock options				
Warrants				
Diluted	57,599	18,936	33,973	18,905
<b>Loss per common share:</b>				
Basic	\$ (.25)	\$ (12.62)	\$ (7.23)	\$ (17.82)
Diluted	\$ (.25)	\$ (12.62)	\$ (7.23)	\$ (17.82)

At September 30, 2011, United had a number of potentially dilutive securities outstanding including a warrant to purchase 219,909 common shares at \$61.40 per share issued to the U.S. Treasury in connection with the issuance of United's Series B preferred stock; 129,670 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of \$100 per share; 585,829 shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$94.33; 404,644 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 shares issuable upon exercise of warrants exercisable at \$21.25 per share granted to Fletcher International in connection with a 2010 asset purchase and sale agreement; 2,476,191 shares issuable upon conversion of preferred stock if Fletcher International exercises its option to purchase \$65 million in convertible preferred stock, convertible at \$26.25 per share; 1,162,791 shares issuable upon exercise of warrants, exercisable at \$30.10 per share to be granted to Fletcher International upon exercise of its option to acquire preferred stock; and 1,551,126 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at \$12.50 per share.

**Note 9 Derivatives and Hedging Activities****Risk Management Objective of Using Derivatives**

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

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As of September 30, 2011, December 31, 2010 and September 30, 2010 United had no active derivative instruments outstanding.

### **Cash Flow Hedges of Interest Rate Risk**

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

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

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. Such derivatives were originally used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2011, \$575,000 and \$4.69 million, respectively, in hedge ineffectiveness was recognized in other fee revenue. During the three and nine months ended September 30, 2010, \$327,000 and \$970,000, respectively, in hedge ineffectiveness was recognized in other fee revenue.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United's prime-based, variable-rate loans. At September 30, 2011, the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the next twelve months, United estimates that an additional \$5.33 million of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to interest revenue.

**Fair Value Hedges of Interest Rate Risk**

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

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2010, United recognized net gains of \$9,000 and \$215,000, respectively, related to ineffectiveness of the fair value hedging relationships. There were no active fair value hedges during the first nine months of 2011.

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

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

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

Location of Gain (Loss)	September 30,	September 30,	September 30,	September 30,
	Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Hedged Item	
	2011	2010	2011	2010
<b>Three Months Ended September 30,</b>				
Other fee revenue	\$	\$ (1,167)	\$	\$ 1,176
<b>Nine Months Ended September 30,</b>				
Other fee revenue	\$	\$ (3,760)	\$	\$ 3,975



**Table of Contents****UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Derivatives in Cash Flow Hedging Relationships** *(in thousands)*.

	September 30, Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) 2011	September 30, 2010	September 30, Gain (Loss) Reclassified from Comprehensive Income into Location 2011	September 30, Accumulated Other Income (Effective Portion) 2010	September 30, 2010
<b>Three Months Ended September 30,</b>					
			Interest revenue	\$ 2,373	\$ 3,349
			Other income	575	327
Interest rate products	\$	\$	Total	\$ 2,948	\$ 3,676
<b>Nine Months Ended September 30,</b>					
			Interest revenue	\$ 7,885	\$ 14,283
			Other income	4,687	970
Interest rate products	\$	\$ 2,314	Total	\$ 12,572	\$ 15,253

**Credit-risk-related Contingent Features**

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

**Note 10 Stock-Based Compensation**

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as nonvested stock awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of September 30, 2011, 328,505 additional awards could be granted under the plan, subject to shareholder approval of a 612,488 increase in shares available under the plan. Through September 30, 2011, incentive stock options, nonqualified stock options, restricted stock awards and units and base salary stock grants had been granted under the plan.

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

Options	September 30, Shares	September 30, Weighted- Average Exercise	September 30, Weighted- Average	September 30, Aggregate Intrinsic
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		Price	Remaining Contractual Term (Years)	Value (\$000)
Outstanding at December 31, 2010	678,313	\$ 92.99		
Granted	10,000	11.20		
Forfeited	(6,527)	42.59		
Expired	(95,957)	79.75		
Outstanding at September 30, 2011	585,829	94.33	4.4	\$
Exercisable at September 30, 2011	518,815	100.63	4.0	

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

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

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

	September 30, Nine Months Ended September 30, 2011	September 30, Nine Months Ended September 30, 2010
Expected volatility	33.00%	52.36%
Expected dividend yield	0.00%	0.00%
Expected life (in years)	5.00	6.15
Risk-free rate	2.05%	3.10%

Compensation expense relating to stock options of \$651,000 and \$1.55 million was included in earnings for the nine months ended September 30, 2011 and 2010, respectively. Deferred tax benefits of \$253,000 and \$603,000, respectively, were included in the determination of income tax benefit for the nine month periods ended September 30, 2011 and 2010. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that are expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first nine months of 2011 or 2010.

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

<b>Restricted Stock</b>	<b>September 30, Shares</b>	<b>September 30, Weighted- Average Grant- Date Fair Value</b>
Outstanding at December 31, 2010	23,214	\$ 59.67
Granted	394,519	10.26
Vested	(13,089)	34.53
Outstanding at September 30, 2011	404,644	12.31

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the nine months ended September 30, 2011 and 2010, compensation expense of \$779,000 and \$360,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was \$3.44 million at September 30, 2011.

As of September 30, 2011, there was \$4.70 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.4 years. The aggregate grant date fair value of options and restricted stock awards that vested during the nine months ended September 30, 2011, was \$2.05 million.

**Note 11 Common and Preferred Stock Issued / Common Stock Issuable**



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United sponsors a Dividend Reinvestment and Share Purchase Plan ( DRIP ) that allows participants who already own United 's common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. United 's 401(k) retirement plan regularly purchases shares of United 's common stock directly from United. In addition, United has an Employee Stock Purchase Program ( ESPP ) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the nine months ended September 30, 2011 and 2010, United issued 113,787 and 72,281 shares, respectively, and increased capital by \$1.10 million and \$1.40 million, respectively, through these programs. The DRIP program has been suspended until 2012 when United expects to regain its S-3 filing status.

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

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At September 30, 2011 and 2010, 88,501 and 61,119 shares, respectively, were issuable under the deferred compensation plan.

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

During the first quarter of 2011, United entered into investment agreements (the *Investment Agreements*) with Corsair Georgia, L.P. ( *Corsair* ) and a group of institutional investors (the *Additional Investors* ). United issued 3,467,699 of the Company's common stock for \$9.50 per share, 195,872 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the *Series F Preferred Stock* ), and 151,185 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the *Series G Preferred Stock* ). Under the terms of the Investment Agreements and following receipt of required shareholder approvals which were received on June 16, 2011, at United's annual shareholders' meeting, the Series F Preferred Stock converted into 20,618,156 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. This private placement transaction resulted in an increase to shareholders' equity of \$362 million, net of \$18.4 million in issuance costs. Following conversion of the convertible preferred stock, Corsair owned approximately 22.5% of United's total outstanding common stock. The Additional Investors owned approximately 47.2% of United's total outstanding common stock.

**Note 12 Reclassifications and Reverse Stock Split**

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

**Note 13 Discontinued Operations**

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

**Note 14 Transaction with Fletcher International**

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



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

As part of the agreement, Fletcher received a warrant to acquire 1,411,765 shares of United's common stock at a price of \$21.25 per share. The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. In accordance with the terms of the securities purchase agreement, Fletcher has the right during the next two years to purchase up to \$65 million in United's Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock pays a dividend equal to the lesser of 8% or LIBOR plus 4%. The Series C Convertible Preferred Stock is convertible by Fletcher into common stock at \$26.25 per share (2,476,191 shares). If Fletcher had not purchased all of the Series C Convertible Preferred Stock by May 29, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of the commitment amount not purchased by May 29, 2012. Fletcher paid United \$3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. The payment was recorded directly in shareholders equity, net of applicable income tax effects. Fletcher will receive an additional warrant to purchase \$35 million in common stock at \$30.10 per share (1,162,791 shares) when it purchases the last \$35 million of Series C Convertible Preferred Stock. All of the warrants settle on a cashless exercise basis and the net shares to be delivered upon cashless exercise will be less than what would have been issuable if the warrant had been exercised for cash.

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

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*).

	September 30, Valuation Approach	September 30, Fair Value Hierarchy	September 30, Fair Value
<b>Warrants Issued / Assets Transferred to Fletcher at Fair Value:</b>			
Warrant to purchase \$30 million in common stock at \$21.25 per share	Black-Scholes	Level 3	\$ 17,577
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236
<b>Fair value of equity instruments recognized in capital surplus</b>			<b>39,813</b>
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655
<b>Total nonperforming assets transferred</b>			<b>103,089</b>
<b>Total value of assets and equity instruments transferred</b>			<b>142,902</b>
<b>Less Cash and Notes Receivable Received in Exchange at Fair Value:</b>			
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
<b>Total value of cash and notes receivable received</b>			<b>98,558</b>

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Fair value of assets and equity instruments transferred in excess of cash and notes received	44,344
Transaction fees	1,005
<b>Loss recognized on Fletcher transaction</b>	<b>\$ 45,349</b>

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

The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

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

**Table of Contents**

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

**Notes to Consolidated Financial Statements**

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

**Table of Contents****UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 15 Assets and Liabilities Measured at Fair Value****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

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

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

**Liabilities**

Deferred compensation plan liability	\$ 2,659	\$	\$	\$ 2,659
<b>Total liabilities</b>	<b>\$ 2,659</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,659</b>

December 31, 2010	September 30, Level 1	September 30, Level 2	September 30, Level 3	September 30, Total
<b>Assets</b>				
Securities available for sale:				
U.S. Government agencies	\$	\$ 98,480	\$	\$ 98,480
State and political subdivisions		28,442		28,442
Mortgage-backed securities		986,074	4,934	991,008
Corporate securities		103,685	350	104,035
Other		2,452		2,452
Deferred compensation plan assets	3,252			3,252
<b>Total</b>	<b>\$ 3,252</b>	<b>\$ 1,219,133</b>	<b>\$ 5,284</b>	<b>\$ 1,227,669</b>

**Liabilities**

Deferred compensation plan liability	\$ 3,252	\$	\$	\$ 3,252
<b>Total liabilities</b>	<b>\$ 3,252</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3,252</b>

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September 30, 2010	September 30, Level 1	September 30, Level 2	September 30, Level 3	September 30, Total
<b>Assets</b>				
Securities available for sale:				
U.S. Government agencies	\$	\$ 98,708	\$ 29,995	\$ 128,703
State and political subdivisions		30,637		30,637
Mortgage-backed securities		791,946	5,375	797,321
Corporate securities		64,055	30,350	94,405
Other		2,452		2,452
Deferred compensation plan assets	2,973			2,973
<b>Total</b>	<b>\$ 2,973</b>	<b>\$ 987,798</b>	<b>\$ 65,720</b>	<b>\$ 1,056,491</b>
<b>Liabilities</b>				
Deferred compensation plan liability	\$ 2,973			\$ 2,973
<b>Total liabilities</b>	<b>\$ 2,973</b>			<b>\$ 2,973</b>



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

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

	<b>September 30, Securities Available for Sale</b>
Balance at December 31, 2010	\$ 5,284
Amounts included in earnings	(18)
Paydowns	(1,120)
Balance at September 30, 2011	\$ 4,146

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

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

	<b>September 30, Level 1</b>	<b>September 30, Level 2</b>	<b>September 30, Level 3</b>	<b>September 30, Total</b>
<b><u>September 30, 2011</u></b>				
<b>Assets</b>				
Loans	\$	\$	\$ 140,577	\$ 140,577
Foreclosed properties			38,823	38,823
Total	\$	\$	\$ 179,400	\$ 179,400
<b><u>December 31, 2010</u></b>				
<b>Assets</b>				
Loans	\$	\$	\$ 106,904	\$ 106,904
Foreclosed properties			85,072	85,072
Total	\$	\$	\$ 191,976	\$ 191,976
<b><u>September 30, 2010</u></b>				
<b>Assets</b>				
Loans	\$	\$	\$ 121,257	\$ 121,257
Foreclosed properties			81,436	81,436
Total	\$	\$	\$ 202,693	\$ 202,693

**Assets and Liabilities Not Measured at Fair Value**

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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. United did not have any active derivative contracts outstanding at September 30, 2011, December 31, 2010 or September 30, 2010.

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

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

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

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

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

	September 30, September 30, 2011		September 30, December 31, 2010		September 30, September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>						
Securities held to maturity	\$ 353,739	\$ 369,020	\$ 265,807	\$ 267,988	\$ 256,694	\$ 263,012
Loans, net	3,963,783	3,787,214	4,429,431	4,196,142	4,584,891	4,272,201
<b>Liabilities:</b>						
Deposits	6,005,305	5,998,994	6,469,172	6,481,867	5,998,637	6,003,543
Federal Home Loan Bank advances	40,625	43,685	55,125	59,498	55,125	60,215
Long-term debt	120,206	114,673	150,146	93,536	150,126	124,964

**Note 16 Bulk Sale of Loans**

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

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Forward-Looking Statements**

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act ), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as believes , expects , may , will , could , should , projects , plans , goal , targets , 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 risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

our ability to maintain profitability;

our ability to fully realize our deferred tax asset balances, including net operating loss carryforwards;

the condition of the banking system and financial markets;

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

our ability to raise capital as may be necessary;

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

changes in the cost and availability of funding;

the success of the local economies in which we operate;

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

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

the accounting and reporting policies of United;

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

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

competition from financial institutions and other financial service providers;

the United States Department of Treasury may change the terms of our Series B Preferred Stock;

risks with respect to future expansion and acquisitions;

conditions in the stock market, the public debt market and other capital markets deteriorate;

the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;

the failure of other financial institutions;

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

regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators, or any such proceedings or enforcement actions that is more severe than we anticipate.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission. United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

## Table of Contents

### Overview

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

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At September 30, 2011 United had total consolidated assets of \$6.89 billion, total loans of \$4.11 billion, excluding the loans acquired from Southern Community Bank ( SCB ) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of \$6.01 billion and stockholders' equity of \$583 million.

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

Operating income (loss) from continuing operations and operating income (loss) from continuing operations per diluted share are non-GAAP (accounting principles generally accepted in the United States of America ( GAAP )) performance measures. United's management believes that operating performance is useful in analyzing United's financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 39.

United reported a net loss from continuing operations of \$11.3 million for the third quarter of 2011. This compared to a net operating loss from continuing operations of \$25.8 million for the third quarter of 2010. The 2010 net operating loss from continuing operations excluded goodwill impairment charges of \$211 million. The loss for the third quarter of 2011 was due to the classification of United's largest lending relationship which resulted in the recording of a \$25.0 million provision for loan losses. Diluted operating loss from continuing operations per common share was \$.25 for the third quarter of 2011, compared to a diluted operating loss from continuing operations per common share of \$1.50 for the third quarter of 2010. The noncash goodwill impairment charges added \$11.12 per share to the diluted operating loss from continuing operations for the third quarter of 2010 bringing the total net loss per share from continuing operations for the third quarter of 2010 to \$12.62.

For the nine months ended September 30, 2011, United reported a net operating loss from continuing operations of \$237 million, which primarily reflects the credit losses taken in the first quarter associated with the Problem Asset Disposition Plan. This compared to a net operating loss from continuing operations of \$120 million for the first nine months of 2010, which included the \$30.0 million after-tax loss from the Fletcher transaction and excluded the \$211 million goodwill impairment charge. Net loss for the nine months ended September 30, 2010, which includes discontinued operations and goodwill impairment, totaled \$329 million. Diluted operating loss from continuing operations per common share was \$7.23 for the nine months ended September 30, 2011, compared with diluted operating loss from continuing operations per common share of \$6.75 for the same period in 2010. The diluted operating loss per share from continuing operations for the first nine months of 2010 excluded \$11.14 per share in loss related to the third quarter 2010 goodwill impairment charge bringing the total net loss from continuing operations per share for the first nine months of 2010 to \$17.89.

United's operating provision for loan losses was \$36.0 million for the three months ended September 30, 2011, compared to \$50.5 million for the same period in 2010. The third quarter 2011 loan loss provision included a \$25.0 million loan loss allocation established for United's largest lending relationship. Net charge-offs for the third quarter of 2011 were \$17.5 million, compared to \$50.0 million for the third quarter of 2010. For the nine months ended September 30, 2011, United's operating provision for loan losses was \$237 million, compared to \$187 million for the same period of 2010. Net charge-offs for the first nine months of 2011 were \$266 million, compared to \$168 million for the first nine months of 2010. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of \$166 million and nonperforming loans with a pre-charge down carrying amount of \$101 million were collectively written down to the expected sales proceeds of \$80.6 million, in conjunction with a bulk transaction (the Bulk Loan Sale ). United recognized net charge-offs of \$186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of \$7.27 million. As of September 30, 2011, United's allowance for loan losses was \$146 million, or 3.55% of loans, compared to \$175 million, or 3.67% of loans, at September 30, 2010. Nonperforming assets of \$189 million, which excludes assets of Southern Community Bank ( SCB ) that are covered by loss sharing agreements with the FDIC, decreased to 2.74% of total assets at September 30, 2011, compared to 4.42% as of December 31, 2010 and 4.96% as of September 30, 2010. The decrease in this ratio was due to the execution of a plan to sell approximately \$293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately \$142 million in foreclosed properties (the Problem Asset Disposition Plan ) as well as a general improving trend in credit quality indicators. During the third quarter of 2011, United classified its largest lending relationship of \$76.6 million, which caused nonperforming assets to increase from 1.66% of total assets at June 30, 2011.



## **Table of Contents**

Taxable equivalent net interest revenue was \$59.3 million for the third quarter of 2011, compared to \$60.0 million for the same period of 2010. The decrease in net interest revenue was primarily the result of a decrease in average loan balances and a 2 basis point decrease in the net interest margin. Average loans for the quarter declined \$702 million from the third quarter of 2010. The impact of the decrease in average loan balances was substantially offset by lower deposit rates. Net interest margin decreased from 3.57% for the three months ended September 30, 2010 to 3.55% for the same period in 2011. For the nine months ended September 30, 2011, taxable equivalent net interest revenue was \$175 million, compared to \$183 million for the same period of 2010. Net interest margin decreased from 3.56% for the nine months ended September 30, 2010 to 3.42% for the same period in 2011. Interest reversals on performing loans that were moved to held for sale during the first quarter 2011 accounted for 4 basis points of the 14 basis points decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in 2011 and lowered the margin by approximately 49 basis points in the first quarter, 76 basis points in the second quarter and 67 basis points in the third quarter. In order to reduce the amount of excess liquidity, United has called its callable brokered deposits. Additionally, United has lowered rates on retail certificates of deposit and other deposit products, which is expected to result in some balance attrition.

Operating fee revenue decreased \$1.36 million, or 11%, from the third quarter of 2010 and increased \$1.14 million, or 3%, from the first nine months of 2010. The quarterly decrease was due to a decline in overdraft fees, which were down \$886,000 for the three months ended September 30, 2011, due to regulatory changes. The year-to-date increase was primarily attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges, especially during the second quarter of 2011.

For the third quarter of 2011, operating expenses of \$46.5 million were down \$18.4 million from the third quarter of 2010. This comparison excludes the \$211 million goodwill impairment charge in the third quarter of 2010. Lower foreclosed property costs accounted for \$16.9 million of the decrease. For the nine months ended September 30, 2011, operating expenses of \$211 million were up \$32.5 million from the same period of 2010. This comparison excludes the \$45.3 million loss on the sale of nonperforming assets in the second quarter of 2010 and the \$211 million goodwill impairment charge in the third quarter of 2010. The increase was primarily due to an increase in foreclosed property costs in anticipation of the Bulk Loan Sale and other accelerated asset dispositions. Foreclosed property costs were up \$24.5 million from the first nine months of 2010.

## **Recent Developments**

On June 16, 2011 shareholders approved the conversion of \$195.9 million of Series F and \$151.2 million of Series G Mandatorily Convertible Perpetual Preferred Stock into 20,618,156 shares of United's common stock and 15,914,209 shares of United's non-voting common stock, respectively. The conversion occurred as of the close of business on June 20, 2011 pursuant to the March 30, 2011 private placement agreements with a group of institutional investors.

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

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

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

## **Critical Accounting Policies**

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





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**Table of Contents****GAAP Reconciliation and Explanation**

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: operating provision for loan losses, operating fee revenue, operating revenue, operating expense, operating (loss) income from continuing operations, operating (loss) income, operating earnings (loss) from continuing operations per share, operating earnings (loss) per share, operating earnings (loss) from continuing operations per diluted share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 39.

**Discontinued Operations**

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

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

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

The loans made to the LLCs in connection with their respective purchases are the same for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are all cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. According to the terms of the agreements, at least one year of estimated cash flow requirements must be held in cash. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher Inc. without United's consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to provide sufficient cash flow to service the loans 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 LCCs 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 for the three months ended September 30, 2011. The Company plans to obtain updated appraisals for the underlying collateral associated with this relationship during the fourth quarter of 2011.

Also on April 1, 2010, United and Fletcher International Ltd ( Fletcher Ltd ), together with Fletcher Inc. and their affiliates, Fletcher ), entered into a securities purchase agreement (the Securities Purchase Agreement ) pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United's Series C convertible preferred stock, par value \$1.00 per share (the Convertible Preferred Stock ), at a purchase price of \$1,000 per share, for an aggregate purchase price of \$65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd.'s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. had not purchased all of the Convertible Preferred Stock by May 29, 2011, it was required to pay United



**Table of Contents**

5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of any commitment amount not purchased by May 29, 2012. Fletcher has paid United \$3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 29, 2011. As such penalty payment is associated with Fletcher's option to purchase preferred stock and is therefore considered an equity transaction, it was recorded as an increase to capital surplus in shareholders' equity.

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

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

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

***Accounting Treatment***

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

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

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

**Table of Contents**

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

	September 30, Valuation Approach	September 30, Fair Value Hierarchy	September 30, Fair Value
<b>Warrants Issued / Assets Transferred to Fletcher at Fair Value:</b>			
Warrant to purchase \$30 million in common stock at \$21.25 per share	Black-Scholes	Level 3	\$ 17,577 <sup>(1)</sup>
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236 <sup>(2)</sup>
<b>Fair value of equity instruments recognized in capital surplus</b>			<b>39,813</b>
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434 <sup>(3)</sup>
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655 <sup>(3)</sup>
<b>Total nonperforming assets transferred</b>			<b>103,089</b>
<b>Total value of assets and equity instruments transferred</b>			<b>142,902</b>
<b>Cash and Notes Receivable Received in Exchange at Fair Value:</b>			
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 <sup>(4)</sup>
<b>Total value of cash and notes receivable received</b>			<b>98,558</b>
<b>Fair value of assets and equity instruments transferred in excess of cash and notes received</b>			<b>44,344</b>
Transaction fees			1,005
<b>Loss recognized on Fletcher transaction</b>			<b>\$ 45,349</b>

**Notes**

- (1) The \$17.6 million value of the \$30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price \$23.85; term 9 years; and volatility 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.
- (2) The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.
- (3) The \$103 million of nonperforming assets sold were transferred at United's carrying value which had been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

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

**Table of Contents**

**Table 1 Financial Highlights**

**Selected Financial Information**

	September 30, (As restated) Third Quarter	September 30, 2011 (As restated) Second Quarter	September 30, (As restated) First Quarter	September 30, 2010 Fourth Quarter	September 30, 2010 Third Quarter	September 30, Third Quarter 2011-2010 Change	September 30, For the Nine Months Ended (As restated) 2011	September 30, 2010
per share	\$ 74,543	\$ 76,931	\$ 75,965	\$ 81,215	\$ 84,360		\$ 227,439	\$ 261,908
	15,262	17,985	19,573	21,083	24,346		52,820	78,988
	59,281	58,946	56,392	60,132	60,014	(1)%	174,619	182,920
loan	36,000	11,000	190,000	47,750	50,500		237,000	187,000
	11,498	13,905	11,838	12,442	12,861	(11)	37,241	36,106
re <sup>(1)(2)</sup>	34,779	61,851	(121,770)	24,824	22,375		(25,140)	32,026
	46,520	48,728	115,271	64,918	64,906	(28)	210,519	178,034
forming								45,349
from efore	(11,741)	13,123	(237,041)	(40,094)	(42,531)		(235,659)	(191,357)
expense	(402)	1,095	295	144,760	(16,706)		988	(71,542)
(loss) tions	(11,339)	12,028	(237,336)	(184,854)	(25,825)		(236,647)	(119,815)
irment					(210,590)			(210,590)
loss e tax				11,750				
e tax diary, net								(101)
	(11,339)	12,028	(237,336)	(173,104)	(236,415)		(236,647)	(329,240)
discount	3,019	3,016	2,778	2,586	2,581		8,813	7,730
able to	\$ (14,358)	\$ 9,012	\$ (240,114)	\$ (175,690)	\$ (238,996)		\$ (245,460)	\$ (336,970)
ne (loss) ons	\$ (.25)	\$ .16	\$ (13.00)	\$ (9.87)	\$ (1.50)		\$ (7.23)	\$ (6.75)
om	(.25)	.16	(13.00)	(9.25)	(12.62)		(7.23)	(17.89)
	(.25)	.16	(13.00)	(9.25)	(12.62)		(7.23)	(17.82)
	6.77	7.11	2.20	15.40	25.70	(74)	6.77	25.70

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	6.61	6.94	1.69	14.80	25.26	(74)	6.61	25.26
	(15.06)%	42.60%	(526.54)%	(196.10)%	(148.04)%		(151.32)%	(65.69)%
	(.64)	.66	(13.04)	(9.47)	(12.47)		(4.37)	(5.70)
	3.55	3.41	3.30	3.58	3.57		3.42	3.56
io from								
(3)	65.73	66.88	169.08	89.45	89.38		99.39	102.14
	8.55	8.06	6.15	7.80	11.37		7.58	11.70
s (5)	8.42	7.93	6.01	7.64	9.19		7.47	9.28
y to								
	5.65	1.37	2.70	5.22	6.78		3.23	6.94
y to								
	8.52	8.69	0.75	5.64	9.60		8.52	9.60
	\$ 144,484	\$ 71,065	\$ 83,769	\$ 179,094	\$ 217,766		\$ 144,484	\$ 217,766
	44,263	47,584	54,378	142,208	129,964		44,263	129,964
ssets								
	188,747	118,649	138,147	321,302	347,730		188,747	347,730
es	146,092	127,638	133,121	174,695	174,613		146,092	174,613
fs (1)	17,546	16,483	231,574	47,668	49,998		265,603	167,989
es to								
	3.55%	3.07%	3.17%	3.79%	3.67%		3.55%	3.67%
fs to								
	1.68	1.58	20.71	4.03	4.12		8.28	4.54
closed								
	4.54	2.82	3.25	6.77	7.11		4.54	7.11
	2.74	1.66	1.79	4.42	4.96		2.74	4.96
ES (\$ in								
	\$ 4,194	\$ 4,266	\$ 4,599	\$ 4,768	\$ 4,896	(14)	\$ 4,352	\$ 5,026
	2,150	2,074	1,625	1,354	1,411	52	1,952	1,487
	6,630	6,924	6,902	6,680	6,676	(1)	6,817	6,870
	7,000	7,363	7,379	7,254	7,522	(7)	7,246	7,723
	6,061	6,372	6,560	6,294	6,257	(3)	6,329	6,399
	598	594	454	566	855	(30)	549	904
	57,599	25,427	18,466	18,984	18,936		33,973	18,905
d								
	57,599	57,543	18,466	18,984	18,936		33,973	18,905
n								
	\$ 4,110	\$ 4,163	\$ 4,194	\$ 4,604	\$ 4,760	(14)	\$ 4,110	\$ 4,760
	2,123	2,188	1,884	1,490	1,310	62	2,123	1,310
	6,894	7,152	7,709	7,276	7,013	(2)	6,894	7,013
	6,005	6,183	6,598	6,469	5,999		6,005	5,999
	583	603	586	469	662	(12)	583	662
ding								
	57,510	57,469	20,903	18,937	18,887		57,510	18,887

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



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

	September 30, (As restated) Third Quarter	September 30, 2011 (As restated) Second Quarter	September 30, (As restated) First Quarter	September 30, 2010 Fourth Quarter	September 30, 2010 Third Quarter	September 30, For the Nine Months (As restated) 2011	September 30, For the Nine Months 2010	September 30, For the Nine Months 2009
<b>Income tax expense (benefit) reconciliation</b>								
Income tax expense (benefit) taxable equivalent	\$ 74,543	\$ 76,931	\$ 75,965	\$ 81,215	\$ 84,360	\$ 227,439	\$ 227,439	\$ 227,439
Valuation adjustment	(420)	(429)	(435)	(497)	(511)	(1,284)	(1,284)	(1,284)
Income tax expense (benefit) (GAAP)	\$ 74,123	\$ 76,502	\$ 75,530	\$ 80,718	\$ 83,849	\$ 226,155	\$ 226,155	\$ 226,155
<b>Revenue reconciliation</b>								
Revenue taxable equivalent	\$ 59,281	\$ 58,946	\$ 56,392	\$ 60,132	\$ 60,014	\$ 174,619	\$ 174,619	\$ 174,619
Valuation adjustment	(420)	(429)	(435)	(497)	(511)	(1,284)	(1,284)	(1,284)
Revenue (GAAP)	\$ 58,861	\$ 58,517	\$ 55,957	\$ 59,635	\$ 59,503	\$ 173,335	\$ 173,335	\$ 173,335
<b>Loan losses reconciliation</b>								
Provision for loan losses	\$ 36,000	\$ 11,000	\$ 190,000	\$ 47,750	\$ 50,500	\$ 237,000	\$ 237,000	\$ 237,000
Reversal of special fraud-related provision for loan loss				(11,750)				
Loan losses (GAAP)	\$ 36,000	\$ 11,000	\$ 190,000	\$ 36,000	\$ 50,500	\$ 237,000	\$ 237,000	\$ 237,000
<b>Other income reconciliation</b>								
Other income taxable equivalent	\$ 34,779	\$ 61,851	\$ (121,770)	\$ 24,824	\$ 22,375	\$ (25,140)	\$ (25,140)	\$ (25,140)
Valuation adjustment	(420)	(429)	(435)	(497)	(511)	(1,284)	(1,284)	(1,284)
Reversal of special fraud-related provision for loan loss				11,750				
Other income (GAAP)	\$ 34,359	\$ 61,422	\$ (122,205)	\$ 36,077	\$ 21,864	\$ (26,424)	\$ (26,424)	\$ (26,424)
<b>Provision for loan loss reconciliation</b>								
Provision for loan losses	\$ 46,520	\$ 48,728	\$ 115,271	\$ 64,918	\$ 64,906	\$ 210,519	\$ 210,519	\$ 210,519
Reversal of special fraud-related provision for loan loss					210,590			
Provision for loan losses (GAAP)	\$ 46,520	\$ 48,728	\$ 115,271	\$ 64,918	\$ 275,496	\$ 210,519	\$ 210,519	\$ 210,519
<b>Income from continuing operations before taxes</b>								
Income (loss) from continuing operations before taxes	\$ (11,741)	\$ 13,123	\$ (237,041)	\$ (40,094)	\$ (42,531)	\$ (235,659)	\$ (235,659)	\$ (235,659)
Valuation adjustment	(420)	(429)	(435)	(497)	(511)	(1,284)	(1,284)	(1,284)
Reversal of special fraud-related provision for loan loss					(210,590)			
Income from continuing operations before taxes	\$ (12,161)	\$ 12,694	\$ (237,476)	\$ (28,841)	\$ (253,632)	\$ (236,943)	\$ (236,943)	\$ (236,943)
<b>Income tax expense (benefit) reconciliation</b>								
Income tax expense (benefit)	\$ (402)	\$ 1,095	\$ 295	\$ 144,760	\$ (16,706)	\$ 988	\$ 988	\$ 988
Valuation adjustment	(420)	(429)	(435)	(497)	(511)	(1,284)	(1,284)	(1,284)
Income tax expense (benefit) (GAAP)	\$ (822)	\$ 666	\$ (140)	\$ 144,263	\$ (17,217)	\$ (296)	\$ (296)	\$ (296)

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**Earnings (loss) from continuing operations per share reconciliation**

Earnings (loss) from continuing operations per share	\$	(.25)	\$	.16	\$	(13.00)	\$	(9.87)	\$	(1.50)	\$	(7.23)	\$
Provision for loan loss impairment charge										(11.12)			
Benefit of special fraud-related provision for loan loss								.62					

**Earnings (loss) from continuing operations per share (GAAP)**

	\$	(.25)	\$	.16	\$	(13.00)	\$	(9.25)	\$	(12.62)	\$	(7.23)	\$
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**Per common share reconciliation**

Book value per common share	\$	6.61	\$	6.94	\$	1.69	\$	14.80	\$	25.26	\$	6.61	\$
Goodwill and other intangibles		.16		.17		.51		.60		.44		.16	

**Per common share (GAAP)**

	\$	6.77	\$	7.11	\$	2.20	\$	15.40	\$	25.70	\$	6.77	\$
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**Ratio from continuing operations reconciliation**

Efficiency ratio from continuing operations	65.73%	66.88%	169.08%	89.45%	89.38%	99.39%
Provision for loan loss impairment charge					290.00	

**Ratio from continuing operations (GAAP)**

	65.73%	66.88%	169.08%	89.45%	379.38%	99.39%
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**Ratio to assets reconciliation**

Common equity to assets	5.65%	1.37%	2.70%	5.22%	6.78%	3.23%
Preferred equity	2.77	6.56	3.31	2.42	2.41	4.24

**Ratio to assets**

	8.42	7.93	6.01	7.64	9.19	7.47
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**Goodwill and other intangibles**

	.13	.13	.14	.16	2.18	.11
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**Ratios (GAAP)**

	8.55%	8.06%	6.15%	7.80%	11.37%	7.58%
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**Ratio of common equity to risk-weighted assets**

Common equity to risk-weighted assets	8.52%	8.69%	.75%	5.64%	9.60%	8.52%
Accumulated comprehensive income	(.29)	(.42)	(.32)	(.42)	(.81)	(.29)

**Deferred tax limitation**

	(2.94)
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Preferred	1.19	1.15	1.13	1.06	1.06	1.19
Preferred equity	4.33	4.20	5.87	3.53	3.51	4.33

**Ratio (Regulatory)**

	13.75%	13.62%	7.43%	9.81%	10.42%	13.75%
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**Charge-offs reconciliation**

Charge-offs	\$	17,546	\$	16,483	\$	231,574	\$	47,668	\$	49,998	\$	265,603	\$
Partial recovery of fraud-related charge-off								(11,750)					

**Ratios (GAAP)**

	\$	17,546	\$	16,483	\$	231,574	\$	35,918	\$	49,998	\$	265,603	\$
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**Ratio of charge-offs to average loans reconciliation**

Charge-offs to average loans	1.68%	1.58%	20.71%	4.03%	4.12%	8.28%
Partial recovery of fraud-related charge-off					(1.00)	

**Ratio of charge-offs to average loans (GAAP)**

	1.68%	1.58%	20.71%	3.03%	4.12%	8.28%
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**Table of Contents****Results of Operations**

United reported a net operating loss from continuing operations of \$11.3 million for the third quarter of 2011. This compared to a net operating loss from continuing operations of \$25.8 million for the same period in 2010, which excluded a goodwill impairment charge of \$211 million. Including the goodwill impairment charge, the net loss for the third quarter of 2010 was \$236 million. The loss for the third quarter of 2011 was due to the classification of United's largest lending relationship which resulted in the recording of a \$25.0 million provision for loan losses. For the third quarter of 2011, diluted operating loss from continuing operations per share was \$.25. This compared to diluted operating loss from continuing operations per share of \$1.50 for the third quarter of 2010, which excluded \$11.12 in loss per share related to goodwill impairment bringing the total loss from continuing operations per share to \$12.62. For the nine months ended September 30, 2011, United reported a net operating loss from continuing operations of \$237 million compared to a net operating loss from continuing operations of \$120 million for the same period in 2010, which excludes the \$211 million charge for goodwill impairment in 2010. The operating loss for the nine months ended September 30, 2011 reflects the Board of Directors' decision in the first quarter to adopt the Problem Asset Disposition Plan to quickly dispose of problem assets following United's successful private placement at the end of the first quarter. Diluted operating loss from continuing operations per common share was \$7.23 for the nine months ended September 30, 2011, compared with diluted operating loss from continuing operations per common share of \$6.75 for the same period in 2010. The diluted operating loss per share from continuing operations for the first nine months of 2010 excluded \$11.14 in loss per share related to the third quarter 2010 goodwill impairment charge bringing the total loss from continuing operations per share to \$17.89. See schedule on page 39 for a reconciliation of operating performance measures to the most closely related performance measures calculated in accordance with GAAP.

**Net Interest Revenue (Taxable Equivalent)**

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Taxable equivalent net interest revenue for the three months ended September 30, 2011 was \$59.3 million, down \$733,000, or 1%, from the third quarter of 2010. The decrease in net interest revenue for the third quarter of 2011 compared to the third quarter of 2010 was mostly due to lower average loan balances which was substantially offset by lower rates on deposits and a more favorable deposit mix. United continues its intense focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

Average loans decreased \$702 million, or 14%, from the third quarter of last year. The decrease in the loan portfolio was primarily the result of weak loan demand as well as the Bulk Loan Sale completed in April 2011. Loan charge-offs, foreclosure activity and management's efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have also contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During the third quarter of 2011, United funded \$87.8 million in new loans, primarily commercial and small business loans in north Georgia, the Atlanta MSA and coastal Georgia.

Average interest-earning assets for the third quarter of 2011 decreased \$45.8 thousand, or 1%, from the same period in 2010. Average loans decreased \$702 million from the third quarter of 2010, however this decrease was offset by a \$739 million increase in average investment securities. The increase in the securities portfolio was due to purchases of floating rate mortgage-backed securities in an effort to temporarily invest excess liquidity, including the proceeds from the new capital raised at the end of the first quarter of 2011. Average interest-bearing liabilities decreased \$387 million, or 7%, from the third quarter of 2010 due to the rolling off of higher-cost brokered deposits and certificates of deposit as funding needs decreased. The average yield on interest earning assets for the three months ended September 30, 2011, was 4.47%, down 55 basis points from 5.02% for the same period of 2010. A significant contributing factor to the decrease in the yield on interest earning assets was due to the build-up of excess liquidity resulting in a shift in earning asset mix from loans, which generally yield a higher rate than other asset classes, to temporary investments which have relatively low yields. The change in mix more than offset a 7 basis point increase in the average loan yield from the third quarter of 2010. In light of the weak economic environment, in late 2010, United sought to maintain above normal levels of liquidity by entering into brokered deposit arrangements and temporarily investing the proceeds in floating rate mortgage-backed securities at a slightly negative spread. Liquidity levels increased further as a result of the first quarter capital transaction. Following the capital transaction, management has sought to reduce liquidity levels and will continue to do so.

The average cost of interest-bearing liabilities for the third quarter of 2011 was 1.12% compared to 1.66% for the same period of 2010, reflecting United's ability to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United's shrinking balance sheet also permitted the reduction of more expensive wholesale borrowings.

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

assets, which includes the positive effect of funding a portion of interest-earning assets with customers' non-interest bearing deposits and stockholders' equity.

**Table of Contents**

For the three months ended September 30, 2011 and 2010, the net interest spread was 3.35% and 3.36%, respectively, while the net interest margin was 3.55% and 3.57%, respectively. The reduction in average loan balances negatively impacted the margin.

For the first nine months of 2011, net interest revenue was \$175 million, a decrease of \$8.30 million, or 5%, from the first nine months of 2010. Average earning assets decreased \$52.8 million, or 1%, during the first nine months of 2011 compared to the same period a year earlier. The yield on earning assets decreased 63 basis points from 5.09% for the nine months ended September 30, 2010 to 4.46% for the nine months ended September 30, 2011 due to declining average loan balances, an increase in excess liquidity invested in short-term low rate assets, and interest reversals on performing loans classified as held for sale as part of the Bulk Loan Sale. The transfer reduced net interest margin by 4 basis points in the first nine months of 2011. The cost of interest bearing liabilities over the same period decreased 53 basis points. The combined effect of the lower yield on interest-earning assets, partially offset by the lower cost of interest-bearing liabilities resulted in the net interest margin decreasing 14 basis points from the nine months ended September 30, 2010 to the nine months ended September 30, 2011. The buildup of excess liquidity also contributed to the decrease in the net interest margin.

**Table of Contents**

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

**Table 2 Average Consolidated Balance Sheets and Net Interest Analysis**

For the Three Months Ended September 30,

(dollars in thousands, taxable equivalent)	September 30, Average Balance (As restated)	September 30, 2011 Interest	September 30, Avg. Rate	September 30, Average Balance	September 30, 2010 Interest	September 30, Avg. Rate
<b>Assets:</b>						
Interest-earning assets:						
Loans, net of unearned income <sup>(1)(2)</sup>	\$ 4,193,951	\$ 59,394	5.62%	\$ 4,896,471	\$ 68,540	5.55%
Taxable securities <sup>(3)</sup>	2,125,154	14,324	2.70	1,384,682	14,431	4.17
Tax-exempt securities <sup>(1)(3)</sup>	24,675	399	6.47	26,481	459	6.93
Federal funds sold and other interest-earning assets	286,194	426	.60	368,108	930	1.01
<b>Total interest-earning assets</b>	<b>6,629,974</b>	<b>74,543</b>	<b>4.47</b>	<b>6,675,742</b>	<b>84,360</b>	<b>5.02</b>
Non-interest-earning assets:						
Allowance for loan losses	(128,654)			(194,300)		
Cash and due from banks	53,500			107,825		
Premises and equipment	177,798			179,839		
Other assets <sup>(3)</sup>	267,349			752,780		
<b>Total assets</b>	<b>\$ 6,999,967</b>			<b>\$ 7,521,886</b>		
<b>Liabilities and Shareholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$ 1,258,929	831	.26	\$ 1,318,779	1,705	.51
Money market	1,024,559	1,129	.44	781,903	1,930	.98
Savings	199,793	52	.10	186,123	83	.18
Time less than \$100,000	1,448,024	4,539	1.24	1,541,772	7,190	1.85
Time greater than \$100,000	940,864	3,456	1.46	1,065,789	5,506	2.05
Brokered	260,423	1,091	1.66	573,606	3,403	2.35
<b>Total interest-bearing deposits</b>	<b>5,132,592</b>	<b>11,098</b>	<b>.86</b>	<b>5,467,972</b>	<b>19,817</b>	<b>1.44</b>
Federal funds purchased and other borrowings	103,850	1,081	4.13	104,370	1,068	4.06
Federal Home Loan Bank advances	40,625	441	4.31	80,220	796	3.94
Long-term debt	138,457	2,642	7.57	150,119	2,665	7.04
<b>Total borrowed funds</b>	<b>282,932</b>	<b>4,164</b>	<b>5.84</b>	<b>334,709</b>	<b>4,529</b>	<b>5.37</b>
<b>Total interest-bearing liabilities</b>	<b>5,415,524</b>	<b>15,262</b>	<b>1.12</b>	<b>5,802,681</b>	<b>24,346</b>	<b>1.66</b>
Non-interest-bearing liabilities:						

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Non-interest-bearing deposits	928,788	789,231
Other liabilities	57,427	74,482
Total liabilities	6,401,739	6,666,394
Shareholders equity	598,228	855,492
<b>Total liabilities and shareholders equity</b>	<b>\$ 6,999,967</b>	<b>\$ 7,521,886</b>
<b>Net interest revenue</b>	<b>\$ 59,281</b>	<b>\$ 60,014</b>
Net interest-rate spread	3.35%	3.36%
<b>Net interest margin <sup>(4)</sup></b>	<b>3.55%</b>	<b>3.57%</b>

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$37.9 million in 2011 and \$45.4 million in 2010 are included in other assets for purposes of this presentation.
- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

**Table of Contents**

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

**Table 3 Average Consolidated Balance Sheets and Net Interest Analysis**

For the Nine Months Ended September 30,

(dollars in thousands, taxable equivalent)	September 30, Average Balance (As restated)	September 30, 2011 Interest	September 30, Avg. Rate	September 30, Average Balance	September 30, 2010 Interest	September 30, Avg. Rate
<b>Assets:</b>						
Interest-earning assets:						
Loans, net of unearned income <sup>(1)(2)</sup>	\$ 4,351,524	\$ 181,422	5.57%	\$ 5,025,739	\$ 211,399	5.62%
Taxable securities <sup>(3)</sup>	1,926,365	42,210	2.92	1,458,120	45,857	4.19
Tax-exempt securities <sup>(1)(3)</sup>	25,178	1,234	6.53	28,470	1,450	6.79
Federal funds sold and other interest-earning assets	514,392	2,573	.67	357,881	3,202	1.19
<b>Total interest-earning assets</b>	<b>6,817,459</b>	<b>227,439</b>	<b>4.46</b>	<b>6,870,210</b>	<b>261,908</b>	<b>5.09</b>
Non-interest-earning assets:						
Allowance for loan losses	(145,689)			(191,888)		
Cash and due from banks	102,251			104,446		
Premises and equipment	178,694			180,936		
Other assets <sup>(3)</sup>	293,386			758,903		
<b>Total assets</b>	<b>\$ 7,246,101</b>			<b>\$ 7,722,607</b>		
<b>Liabilities and Shareholders Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$ 1,313,752	3,191	.32	\$ 1,335,034	5,304	.53
Money market	977,863	4,656	.64	750,685	5,516	.98
Savings	194,433	193	.13	184,420	250	.18
Time less than \$100,000	1,509,753	14,980	1.33	1,612,691	23,968	1.99
Time greater than \$100,000	973,335	11,480	1.58	1,110,195	18,378	2.21
Brokered	475,687	5,353	1.50	650,588	11,669	2.40
<b>Total interest-bearing deposits</b>	<b>5,444,823</b>	<b>39,853</b>	<b>.98</b>	<b>5,643,613</b>	<b>65,085</b>	<b>1.54</b>
Federal funds purchased and other borrowings	102,711	3,197	4.16	103,697	3,162	4.08
Federal Home Loan Bank advances	49,442	1,601	4.33	100,727	2,747	3.65
Long-term debt	146,221	8,169	7.47	150,098	7,994	7.12
<b>Total borrowed funds</b>	<b>298,374</b>	<b>12,967</b>	<b>5.81</b>	<b>354,522</b>	<b>13,903</b>	<b>5.24</b>
<b>Total interest-bearing liabilities</b>	<b>5,743,197</b>	<b>52,820</b>	<b>1.23</b>	<b>5,998,135</b>	<b>78,988</b>	<b>1.76</b>
Non-interest-bearing liabilities:						



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Non-interest-bearing deposits	884,417	755,845
Other liabilities	69,131	64,622
Total liabilities	6,696,745	6,818,602
Shareholders equity	549,356	904,005
<b>Total liabilities and shareholders equity</b>	<b>\$ 7,246,101</b>	<b>\$ 7,722,607</b>
<b>Net interest revenue</b>	<b>\$ 174,619</b>	<b>\$ 182,920</b>
Net interest-rate spread	3.23%	3.33%
<b>Net interest margin <sup>(4)</sup></b>	<b>3.42%</b>	<b>3.56%</b>

- (1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
- (2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.
- (3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$32.4 million in 2011 and \$44.1 million in 2010 are included in other assets for purposes of this presentation.
- (4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

**Table of Contents**

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

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

	September 30, Three Months Ended September 30, 2011 Compared to 2010			September 30, Nine Months Ended September 30, 2011 Compared to 2010		
	Volume	Increase (decrease) Due to Changes in Rate	Total	Volume	Increase (decrease) Due to Changes in Rate	Total
<b>Interest-earning assets:</b>						
Loans	\$ (9,940)	\$ 794	\$ (9,146)	\$ (28,125)	\$ (1,852)	\$ (29,977)
Taxable securities	6,075	(6,182)	(107)	12,429	(16,076)	(3,647)
Tax-exempt securities	(30)	(30)	(60)	(163)	(53)	(216)
Federal funds sold and other interest-earning assets	(177)	(327)	(504)	1,093	(1,722)	(629)
<b>Total interest-earning assets</b>	(4,072)	(5,745)	(9,817)	(14,766)	(19,703)	(34,469)
<b>Interest-bearing liabilities:</b>						
NOW accounts	(74)	(800)	(874)	(83)	(2,030)	(2,113)
Money market accounts	480	(1,281)	(801)	1,398	(2,258)	(860)
Savings deposits	6	(37)	(31)	13	(70)	(57)
Time deposits less than \$100,000	(415)	(2,236)	(2,651)	(1,448)	(7,540)	(8,988)
Time deposits greater than \$100,000	(591)	(1,459)	(2,050)	(2,070)	(4,828)	(6,898)
Brokered deposits	(1,503)	(809)	(2,312)	(2,647)	(3,669)	(6,316)