UNITED COMMUNITY BANKS INC
Form 10-Q
November 07, 2007

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

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

For the Quarterly Period Ended September 30, 2007

OR

o **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 0-21656

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia	**58-1807304**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
63 Highway 515 **Blairsville, Georgia**	**30512**
Address of Principal Executive Offices	**(Zip Code)**

(706) 781-2265
(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

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

Large accelerated filer þ **Accelerated filer o** **Non-accelerated filer o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES o NO þ

Common stock, par value $1 per share: 47,542,366 shares outstanding as of September 30, 2007

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Part I Financial Information
Item 1 Financial Statements
UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Income *(unaudited)*

(in thousands, except per share data)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest revenue:				
Loans, including fees	$ 127,213	$ 103,190	$ 361,085	$ 285,038
Investment securities:				
Taxable	16,637	11,822	46,081	34,661
Tax exempt	428	474	1,313	1,497
Federal funds sold and deposits in banks	134	365	272	685
Total interest revenue	144,412	115,851	408,751	321,881
Interest expense:				
Deposits:				
NOW	12,046	8,100	34,143	21,429
Money market	5,002	2,155	11,082	4,969
Savings	553	226	1,236	680
Time	42,862	34,694	126,466	89,679
Total deposit interest expense	60,463	45,175	172,927	116,757
Federal funds purchased, repurchase agreements, & other short-term borrowings	4,738	2,254	10,226	5,814
Federal Home Loan Bank advances	5,902	5,828	15,738	18,837
Long-term debt	2,100	2,174	6,505	6,495
Total interest expense	73,203	55,431	205,396	147,903
Net interest revenue	71,209	60,420	203,355	173,978
Provision for loan losses	3,700	3,700	26,100	10,900
Net interest revenue after provision for loan losses	67,509	56,720	177,255	163,078
Fee revenue:				
Service charges and fees	7,855	6,914	23,083	20,095
Mortgage loan and other related fees	2,118	1,928	6,817	5,149
Consulting fees	2,381	2,040	6,369	5,196
Brokerage fees	895	784	3,031	2,430
Securities gains (losses), net	225	(382)	1,818	(385)
Losses on prepayment of borrowings		(346)	(1,164)	(636)
Other	2,141	1,208	6,597	4,031

Total fee revenue	15,615	12,146	46,551	35,880
Total revenue	83,124	68,866	223,806	198,958
Operating expenses:				
Salaries and employee benefits	29,698	26,087	88,037	74,440
Communications and equipment	3,936	3,863	11,593	10,970
Occupancy	3,617	2,945	10,124	8,793
Advertising and public relations	1,537	1,882	5,651	5,718
Postage, printing and supplies	1,479	1,379	4,819	4,184
Professional fees	1,920	938	5,409	3,168
Amortization of intangibles	771	503	1,968	1,509
Other	5,224	3,844	13,124	10,767
Total operating expenses	48,182	41,441	140,725	119,549
Income before income taxes	34,942	27,425	83,081	79,409
Income taxes	12,406	10,012	29,289	29,028
Net income	$ 22,536	$ 17,413	$ 53,792	$ 50,381
Net income available to common shareholders	$ 22,532	$ 17,408	$ 53,778	$ 50,366
Earnings per common share:				
Basic	$ .47	$ .43	$ 1.18	$ 1.25
Diluted	.46	.42	1.16	1.22
Dividends per common share	.09	.08	.27	.24
Weighted average common shares outstanding:				
Basic	48,348	40,223	45,452	40,156
Diluted	48,977	41,460	46,235	41,327

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet

(in thousands, except share and per share data)	**September 30, 2007**	**December 31, 2006**	**September 30, 2006**
	(unaudited)	*(audited)*	*(unaudited)*
ASSETS			
Cash and due from banks	$ 162,710	$ 158,348	$ 130,038
Interest-bearing deposits in banks	75,745	12,936	16,032
Cash and cash equivalents	238,455	171,284	146,070
Securities available for sale	1,296,826	1,107,153	980,273
Mortgage loans held for sale	23,717	35,325	21,522
Loans, net of unearned income	5,952,749	5,376,538	4,965,365
Less allowance for loan losses	90,935	66,566	60,901
Loans, net	5,861,814	5,309,972	4,904,464
Premises and equipment, net	174,918	139,716	129,217
Accrued interest receivable	67,385	58,291	47,336
Goodwill and other intangible assets	326,080	167,058	120,430
Other assets	191,405	112,450	105,978
Total assets	$ 8,180,600	$ 7,101,249	$ 6,455,290
LIABILITIES AND SHAREHOLDERS EQUITY			
Liabilities:			
Deposits:			
Demand	$ 737,357	$ 659,892	$ 666,891
NOW	1,464,956	1,307,654	1,104,516
Money market	495,092	255,862	236,469
Savings	195,132	175,631	167,531
Time:			
Less than $100,000	1,595,278	1,650,906	1,523,843
Greater than $100,000	1,358,302	1,397,245	1,248,738
Brokered	308,191	325,696	361,231
Total deposits	6,154,308	5,772,886	5,309,219
Federal funds purchased, repurchase agreements, and other short-term borrowings	502,081	65,884	56,026
Federal Home Loan Bank advances	519,381	489,084	412,572
Long-term debt	107,996	113,151	111,869
Accrued expenses and other liabilities	63,073	43,477	38,870

Total liabilities	7,346,839	6,484,482	5,928,556
Shareholders equity:			
Preferred stock, $1 par value; $10 stated value; 10,000,000 shares authorized; 25,800, 32,200 and 32,200 shares issued and outstanding	258	322	322
Common stock, $1 par value; 100,000,000 shares authorized; 48,809,301, 42,890,863 and 40,268,604 shares issued and outstanding	48,809	42,891	40,269
Common stock issuable; 66,366, 29,821 and 22,741 shares	1,954	862	638
Capital surplus	462,499	270,383	199,773
Retained earnings	347,478	306,261	291,281
Treasury stock; 1,266,935 shares as of September 30, 2007, at cost	(30,969)		
Accumulated other comprehensive income (loss)	3,732	(3,952)	(5,549)
Total shareholders equity	833,761	616,767	526,734
Total liabilities and shareholders equity	$ 8,180,600	$ 7,101,249	$ 6,455,290

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

(in thousands, except share and per share data)	Preferred Stock	Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2005	$ 322	$ 40,020	$ 271	$ 193,355	$ 250,563	$	$ (11,845)	$ 472,686
Comprehensive income:								
Net income					50,381			50,381
Other comprehensive income:								
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment							749	749
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense and reclassification adjustment							5,547	5,547
Comprehensive income					50,381		6,296	56,677
Cash dividends declared on common stock ($.24 per share)					(9,648)			(9,648)
Exercise of stock options (98,025 shares)		99		641				740
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (128,244 shares)		128		3,566				3,694
Amortization of stock option and restricted stock awards				2,233				2,233
Vesting of restricted stock (22,482 shares)		22		(22)				
Deferred compensation plan, net, including dividend equivalents			367					367
Dividends declared on preferred stock ($.45 per share)					(15)			(15)
Balance, September 30, 2006	$ 322	$ 40,269	$ 638	$ 199,773	$ 291,281	$	$ (5,549)	$ 526,734
Balance, December 31, 2006	$ 322	$ 42,891	$ 862	$ 270,383	$ 306,261	$	$ (3,952)	$ 616,767
Comprehensive income:								
Net income					53,792			53,792
Other comprehensive income:								
							3,282	3,282

Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment								
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense							4,402	4,402
Comprehensive income					53,792		7,684	61,476
Retirement of preferred stock (6,400 shares)	(64)							(64)
Cash dividends declared on common stock ($.27 per share)					(12,561)			(12,561)
Common stock issued for acquisitions (5,691,948 shares)		5,692		185,649				191,341
Exercise of stock options (110,328 shares)		78		457		767		1,302
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (123,692 shares)		118		3,360		139		3,617
Amortization of stock options and restricted stock				2,611				2,611
Vesting of restricted stock (30,310 shares issued, 3,125 shares deferred)		30	93	(123)				
Purchases of treasury stock (1,304,775 shares)						(31,875)		(31,875)
Deferred compensation plan, net, including dividend equivalents			999					999
Tax benefit from options exercised				162				162
Dividends declared on preferred stock ($.45 per share)					(14)			(14)
Balance, September 30, 2007	$ 258	$ 48,809	$ 1,954	$ 462,499	$ 347,478	$ (30,969)	$ 3,732	$ 833,761

* Comprehensive income for the third quarters of 2007 and 2006 was $38,911 and $30,933, respectively.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine Months Ended September 30,	
(in thousands)	**2007**	**2006**
Operating activities, net of effect of business combinations:		
Net income	$ 53,792	$ 50,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	10,553	11,297
Provision for loan losses	26,100	10,900
Stock based compensation	2,611	2,233
(Gain) loss on sale of securities available for sale	(1,818)	385
Gain on sale of other assets	(208)	(151)
Loss on prepayment of borrowings	1,164	636
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(9,149)	(20,007)
Accrued expenses and other liabilities	(8,464)	(845)
Mortgage loans held for sale	11,608	813
Net cash provided by operating activities	86,189	55,642
Investing activities, net of effect of business combinations:		
Proceeds from sales of securities available for sale	106,709	72,402
Proceeds from maturities and calls of securities available for sale	248,991	97,479
Purchases of securities available for sale	(484,229)	(159,772)
Net increase in loans	(81,394)	(566,008)
Purchase of Bank Owned Life Insurance (BOLI)	(50,000)	
Proceeds from sales of premises and equipment	720	1,700
Purchases of premises and equipment	(26,768)	(25,097)
Net cash paid for acquisitions	(4,346)	26,413
Proceeds from sale of other real estate	9,787	2,487
Net cash used by investing activities	(280,530)	(550,396)
Financing activities, net of effect of business combinations:		
Net change in deposits	(186,423)	793,577
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	472,852	(66,855)
Repayments of other borrowings	(5,000)	
Proceeds from FHLB advances	950,000	524,364
Repayments of FHLB advances	(931,164)	(748,000)
Proceeds from exercise of stock options	1,302	740
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	3,617	3,694
Retirement of preferred stock	(64)	

Purchase of treasury stock	(31,875)	
Cash dividends on common stock	(11,719)	(9,251)
Cash dividends on preferred stock	(14)	(15)
Net cash provided by financing activities	261,512	498,254
Net change in cash and cash equivalents	67,171	3,500
Cash and cash equivalents at beginning of period	171,284	142,570
Cash and cash equivalents at end of period	$ 238,455	$ 146,070

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United Community Banks, Inc.

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 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 2006 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.

Note 2 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, 2007, approximately 1,900,000 additional awards could be granted under the plan. Through September 30, 2007, only incentive stock options, nonqualified stock options and restricted stock awards and units had been granted under the plan.

The following table shows stock option activity for the first nine months of 2007.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2006	2,549,823	$ 19.05		
Granted	599,200	30.67		
Exercised	(117,828)	11.70		
Forfeited	(56,900)	27.82		
Expired	(8,588)	24.67		
Outstanding at September 30, 2007	2,965,707	$ 21.50	6.5	$ 14,640
Exercisable at September 30, 2007	1,756,689	$ 16.73	5.0	$ 14,208

The weighted average fair value of stock options granted in the first nine months of 2007 and 2006 was $8.29 and $8.51, respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model. The key assumptions used to determine the fair value of stock options are presented in the table below.

Nine Months Ended September 30,

	2007	2006
Expected volatility	20%	22%
Expected dividend yield	1.1% to 1.5%	1.0% to 1.2%
Expected life (in years)	6.25 to 6.50	6.25
Risk-free rate	4.1% to 4.9%	4.3% to 5.2%

United s stock trading history began in March of 2002 when United listed on the Nasdaq National Market. For 2007 and 2006, expected volatility was determined using United s historical monthly volatility over the period beginning in March of 2002 through the end of the last completed year. Compensation expense for stock options was $1,564,000 and $1,381,000 for the nine months ended September 30, 2007 and 2006, respectively, which was net of deferred tax benefits of $492,000 and $240,000, respectively. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized, net of any applicable tax benefit, over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. The total intrinsic value of options exercised during the nine months ended September 30, 2007 was $2,163,000.

The table below presents the activity in restricted stock for the first nine months of 2007.

Restricted Stock	Shares		Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2006	78,440	$	25.85
Granted	48,400		30.96
Vested	(33,435)		24.43
Forfeited and expired	(3,000)		31.57
Outstanding at September 30, 2007	90,405	$	28.92

Compensation expense for restricted stock is based on the fair 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, 2007 and 2006, compensation expense of $555,000 and $612,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was $2,217,000 at September 30, 2007.

As of September 30, 2007, there was $9,651,000 of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is amortized into expense over the vesting period, which is usually 48 months and is expected to be recognized over a weighted-average period of 1.6 years. The aggregate grant date fair value of options and restricted stock awards that vested during the nine months ended September 30, 2007, was $3,258,000.

Note 3 Common Stock Issued / Common Stock Issuable / Treasury Stock Purchase

United provides a Dividend Reinvestment and Share Purchase Plan (DRIP) to its shareholders. Under the plan, shareholders of record can voluntarily reinvest all or a portion of their cash dividends into shares of United s common stock, as well as purchase additional stock through the plan for cash. 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, 2007 and September 30, 2006, United issued 123,692 shares and 128,244 shares, respectively, and increased capital by $3.6 million and $3.7 million, respectively, through these programs.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At September 30, 2007 and September 30, 2006, 66,336 shares and 22,741 shares, respectively, were issuable under the deferred compensation plan.

United had in place a Board approved repurchase authorization of 1,000,000 shares of its outstanding common stock that expires on December 31, 2007. At its July 19, 2007 meeting, United s Board of Directors increased the authorization to 2,000,000 shares. In the third quarter, United repurchased 1,304,775 shares of its outstanding

common stock at a cost of $31.9 million. At its October 18, 2007 board meeting, United s Board further increased the authorization to 3,000,000 shares and extended the expiration date to December 31, 2008.

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Note 4 Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30.

(in thousands, except per share data)

Note 4

Calculation of Basic and Diluted EPS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Basic earnings per share:				
Weighted average shares outstanding	48,348	40,223	45,452	40,156
Net income available to common shareholders	$ 22,532	$ 17,408	$ 53,778	$ 50,366
Basic earnings per share	$ .47	$ .43	$ 1.18	$ 1.25
Diluted earnings per share:				
Weighted average shares outstanding	48,348	40,223	45,452	40,156
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the period	565	843	733	781
Common stock issuable under deferred compensation plan	64	22	50	18
Effect of conversion of subordinated debt		372		372
Total weighted average shares and common stock equivalents outstanding	48,977	41,460	46,235	41,327
Net income available to common shareholders	$ 22,532	$ 17,408	$ 53,778	$ 50,366
Income effect of conversion of subordinated debt, net of tax		43		122
Net income, adjusted for effect of conversion of subordinated debt, net of tax	$ 22,532	$ 17,451	$ 53,778	$ 50,488
Diluted earnings per share	$ .46	$ .42	$ 1.16	$ 1.22

Note 5 Mergers and Acquisitions

On June 1, 2007, United acquired 100 percent of the outstanding common shares of Gwinnett Commercial Group, Inc. (Gwinnett), a community bank holding company headquartered in Lawrenceville, Georgia. Gwinnett s results of operations are included in consolidated financial results from the acquisition date. Gwinnett was the parent company of First Bank of the South, a community bank with five full service banking offices serving the north metro Atlanta counties of Gwinnett, DeKalb and north Fulton and a commercial loan office in Walton County. United has continued to expand its presence in metropolitan Atlanta and the acquisition of Gwinnett accomplishes a long standing strategic goal of encircling metro Atlanta. The aggregate purchase price was approximately $222.9 million, including 5,691,948 shares of United s common stock and $31.5 million in cash that was exchanged for all of the outstanding common shares and options to purchase common shares of Gwinnett. The value of the common stock issued of $33.62

per share was determined based on the average of the closing market price of United s common shares over the period beginning two days before and ending two days after the terms of the acquisition were agreed to and announced.

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The following table summarizes the estimated fair values of assets acquired and liabilities assumed on the acquisition date (in thousands):

		Gwinnett Commercial Group
Assets acquired:		
Cash and cash equivalents	$	16,472
Federal funds sold		36,655
Investment securities		48,157
Loans, net		526,629
Premises and equipment		16,690
Core deposit intangible		6,874
Goodwill		154,076
Other assets		3,425
Total assets acquired		808,978
Liabilities assumed:		
Deposits		567,845
Other borrowed funds		10,000
Other liabilities		8,274
Total liabilities assumed		586,119
Net assets acquired	$	222,859

The financial information below presents the pro forma earnings of United assuming that the results of operations of Gwinnett and Southern Bancorp, Inc., acquired on December 1, 2006, were included in consolidated earnings as of the beginning of the earliest reported period (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Total revenue	$ 83,123	$ 80,267	$ 235,053	$ 231,345
Net income	22,535	21,671	58,049	62,105
Diluted earnings per share	.46	.44	1.18	1.27

At September 30, 2007, accrued merger costs of $2,480,000 remained unpaid relating to acquisitions closed in 2007, 2006 and 2004. The severance and related costs include change in control payments for which payment had been deferred, the majority of which will be paid in January of 2008. Professional fees include legal fees, investment banker fees, and fees for other professional services related to the business combinations. Contract termination costs include amounts claimed by service providers as a result of early termination of service contracts related to the acquisitions. During the first quarter, the one contract termination charge that was in dispute was resolved, and goodwill was reduced accordingly. A reconciliation of the activities in 2007 related to accrued merger costs is below (in thousands):

Activity with accrued merger cost
For the Nine Months Ended September 30, 2007

	Beginning Balance	Purchase Adjustments	Amounts Charged to Earnings	Amounts Paid	Ending Balance
Severance and related costs	$ 577	$ 2,348	$	$ (451)	$ 2,474
Professional fees	47	705		(746)	6
Contract termination costs	804	(785)		(19)	
Totals	$ 1,428	$ 2,268	$	$ (1,216)	$ 2,480

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Note 6 Reclassification

Certain amounts for the comparative periods of 2006 have been reclassified to conform to the 2007 presentation.

Note 7 Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159 (SFAS No. 159), *The Fair Value for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with the FASB s long-term measurement objective for accounting for financial instruments. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply SFAS No. 157, *Fair Value Measurements*. United expects to adopt this standard beginning January 1, 2008. The financial statement impact is being evaluated; however, it is not expected to be material to United s financial position, results of operations or disclosures.

United adopted Financial Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* on January 1, 2007. The adoption of FIN 48 had no effect on United s financial statements. The amount of unrecognized tax benefits as of January 1, 2007 totaled $2.0 million. All of this amount would increase income from continuing operations, and thus impact United s effective tax rate, if ultimately recognized into income. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

It is United s policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income taxes accounts. As of January 1, 2007, $403,000 in interest and penalties had been accrued.

United and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various returns in the states where its banking offices are located. The Company s filed income tax returns are no longer subject to examination by taxing authorities for years before 2003.

Note 8 Special Fraud Related Loan Loss Provision

The second quarter 2007 provision for loan losses included a special $15 million provision for fraud related loan losses in two real estate developments located near Spruce Pine, North Carolina. During the second quarter of 2007, the North Carolina Attorney General obtained a receiver to take custody of the developers assets citing possible fraud on the part of the developers. United has loans outstanding to 83 individual borrowers that total $23.6 million secured by undeveloped lots in these developments. United was one of twelve banks that had loaned money to borrowers to finance the purchase of lots. The loans were made to appropriately qualified borrowers in accordance with United s standard underwriting procedures. At the time the loans were made, we were not aware that most of the borrowers were simultaneously obtaining loans for additional lots at other banks and thereby taking on debt possibly beyond their repayment ability. We were also unaware that the borrowers down payments were not paid in cash as indicated on the closing statements but were financed by a second mortgage from the developer and that the developer agreed to service the borrowers debts. We have also subsequently learned that the appraisals relied upon in the underwriting process had been inflated by using comparable sales that were not at arms length to persons related to the developer and that many of the lots were subdivided into parcels that are too small to be used for their intended purpose. Based on our findings and our internal estimate of expected losses, we recorded a $15 million special provision for loan losses. We are working with the receiver, the other banks involved, the borrowers and our insurance carrier in order to minimize our losses. As of September 30, 2007, none of the loans had been charged off, but all are on non-accrual status and included in nonperforming assets.

Note 9 Commitments and Contingencies

United is currently undergoing routine income tax audits by the Georgia Department of Revenue and the North Carolina Department of Revenue for the 2003, 2004, and 2005 tax years. The audits are still in process and no additional taxes have yet been assessed. United believes it has appropriately complied with the tax laws of each state

and does not expect the results of the audits to have a material effect on United s financial statements.

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

Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding United Community Banks, Inc. (United), including, without limitation, statements relating to United s expectations with respect to revenue, credit losses, levels of nonperforming assets, expenses, earnings and other measures of financial performance. Words such as may , could , would , should , believes , expects , anticipates , estimates , intends , plans , targets or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond United s control). The following factors, among others, could cause United s financial performance to differ materially from the expectations expressed in such forward-looking statements:

our recent operating results may not be indicative of future operating results;

our business is subject to the success of the local economies in which we operate;

we may face risks with respect to future expansion and acquisitions or mergers;

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

our concentration of construction and land development loans is subject to unique risks that could adversely affect our earnings;

if our allowance for loan losses is not sufficient to cover actual loan losses, our earnings would decrease;

competition from financial institutions and other financial service providers may adversely affect our profitability;

business increases, productivity gains and other investments are lower than expected or do not occur as quickly as anticipated;

competitive pressures among financial services companies increase significantly;

the strength of the United States economy in general and/or the strength of the local economies of the states in which United conducts operations changes;

trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, change;

inflation or market conditions fluctuate;

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

financial services laws and regulations change;

technology changes and United fails to adapt to those changes;

consumer spending and saving habits change;

unanticipated regulatory or judicial proceedings occur; and

United is unsuccessful at managing the risks involved in the foregoing.

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.

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Overview

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

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, 2007, United had total consolidated assets of $8.2 billion, total loans of $6.0 billion, total deposits of $6.2 billion and stockholders equity of $833.8 million.

United s activities are primarily conducted by its wholly owned Georgia and North Carolina banking subsidiaries (which are collectively referred to as the Banks in this discussion) and Brintech, Inc., a consulting firm providing professional services to the financial services industry.

Net income was $22.5 million for the quarter ended September 30, 2007, which is an increase of 29% from the $17.4 million earned during the quarter ended September 30, 2006. Diluted earnings per common share increased 10% to $.46 for the quarter, compared to $.42 for the third quarter 2006. Return on tangible equity for the third quarter of 2007 was 17.54%, compared to 17.29% for the third quarter of 2006. Return on assets for the third quarter of 2007 was 1.11% as compared to 1.09% for the third quarter of 2006.

Reported earnings of $53.8 million for the nine months ended September 30, 2007 included a special $15.0 million provision for fraud related loan losses involving two halted real estate developments near Spruce Pine, North Carolina. The after-tax impact of this provision was $9.2 million, or $.20 per diluted share. Because management believes these losses are an isolated and non-recurring event we will highlight operating earnings information, which excludes the special provision, to provide a better understanding of our ongoing earnings and credit trends.

For the first nine months of 2007, net operating income was $63.0 million compared to $50.4 million for the same period in 2006, an increase of 25%. Diluted operating earnings per share was $1.36 for the nine months ended September 30, 2007, compared with $1.22 for 2006, an increase of 11%. Operating return on tangible equity for the first nine months of 2007 was 17.42% compared to 17.54% for 2006. Operating return on assets for the nine months of 2007 was 1.11% compared to 1.09% for 2006.

Operating earnings were driven by strong revenue growth over the past twelve months. During the first nine months of 2007, United saw a slow-down in loan growth, caused primarily by a lack of demand for new construction loans and loans for acquisition and development projects. Also during 2007, competitive pressures drove pricing on certificates of deposit above rates for similar structured wholesale borrowings leading to a shift in funding toward lower priced wholesale borrowed funds.

Both net charge offs and nonperforming assets increased from a year ago and last quarter reflecting the current cycle in the housing market. Net charge offs as a percentage of average loans of 35 basis points compared with 15 basis points last quarter and 11 basis points a year ago. Nonperforming assets as a percentage of total assets rose to 77 basis points from 14 basis points a year ago and 54 basis points at the end of the second quarter. Included in nonperforming assets are $23.6 million in loans in the halted real estate developments near Spruce Pine, North Carolina. Excluding the Spruce Pine lot loans, the ratio of nonperforming assets to total assets was 49 basis points. The level of charge-offs increased this quarter as management deliberately pursued a strategy of aggressive liquidation to move credits off our balance sheet. Management believes this is an appropriate strategy for handling nonperforming assets.

Fee revenue rose 29% reflecting increases in every category compared to the third quarter of 2006. For the first nine months of 2007, fee revenue increased 30% compared with 2006. Operating expenses were up 16% from the third quarter of 2006 and up 18% for the first nine months of 2007 as compared with the same periods a year ago. The increase in operating expenses reflects the added operating expenses of recently acquired banks and the significant de novo expansion activity over the last 18 months.

Critical Accounting Policies

The accounting and reporting policies of United Community Banks and its subsidiaries are in accordance with accounting principles generally accepted in the United States 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. In particular, United s accounting policies relating to the allowance for loan losses 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.

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Non-GAAP Earnings Measures

The presentation of United s financial results herein highlight net operating income, which is a measure of performance determined by methods other than accounting principles generally accepted in the United States of America, or GAAP. Management included non-GAAP net operating income because it believes it is useful for evaluating United s operations and performance over periods of time, and uses net operating income in managing and evaluating United s business and intends to use it in discussions about United s operations and performance.

Net operating income excludes the pre-tax effect of the special $15 million fraud related provision for loan losses recorded in the second quarter of 2007 involving lot loans near Spruce Pine, North Carolina because management believes that the circumstances leading to the special provision were isolated, non-recurring events and do not reflect overall trends in United s earnings. Management believes this non-GAAP net operating income provides users of United s financial information with a meaningful measure for assessing United s financial results and credit trends and comparing financial results to prior periods.

A reconciliation of operating earnings measures to reported earnings measures using GAAP is presented below:

Table 1 Operating Earnings to GAAP Earnings Reconciliation

(in thousands, except per share data)

	Second Quarter 2007	Nine Months Ended September 30, 2007
Special provision for fraud related loan losses	$ 15,000	$ 15,000
Income tax effect of special provision	5,835	5,835
After-tax effect of special provision	$ 9,165	$ 9,165
Net Income Reconciliation		
Operating net income	$ 21,076	$ 62,957
After-tax effect of special provision	(9,165)	(9,165)
Net income (GAAP)	$ 11,911	$ 53,792
Basic Earnings Per Share Reconciliation		
Basic operating earnings per share	$ .47	$ 1.38
Per share effect of special provision	(.21)	(.20)
Basic earnings per share (GAAP)	$ .26	$ 1.18
Diluted Earnings Per Share Reconciliation		
Diluted operating earnings per share	$ .46	$ 1.36
Per share effect of special provision	(.20)	(.20)
Diluted earnings per share (GAAP)	$ .26	$ 1.16

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Table 2 Financial Highlights
Selected Financial Information

ands, except per share able equivalent)	2007 Third Quarter	2007 Second Quarter	2007 First Quarter	2006 Fourth Quarter	2006 Third Quarter	Third Quarter 2007-2006 Change	For the Nine Months Ended 2007	For the Nine Months Ended 2006
E SUMMARY								
evenue	$ 144,884	$ 136,237	$ 129,028	$ 123,463	$ 116,304		$ 410,150	$ 323,232
xpense	73,203	68,270	63,923	60,912	55,431		205,396	147,903
est revenue	71,681	67,967	65,105	62,551	60,873	18%	204,754	175,329
for loan losses (1)	3,700	3,700	3,700	3,700	3,700		11,100	10,900
ue	15,615	16,554	14,382	13,215	12,146	29	46,551	35,880
erating revenue	83,596	80,821	75,787	72,066	69,319	21	240,205	200,309
g expenses	48,182	47,702	44,841	42,521	41,441	16	140,725	119,549
efore taxes	35,414	33,119	30,946	29,545	27,878	27	99,480	80,760
axes	12,878	12,043	11,601	11,111	10,465		36,523	30,379
ating income	22,536	21,076	19,345	18,434	17,413	29	62,957	50,381
s provision, net of tax (1)		9,165					9,165	
me	$ 22,536	$ 11,911	$ 19,345	$ 18,434	$ 17,413	29	$ 53,792	$ 50,381
TING PERFORMANCE								
per common share:								
	$ .47	$ .47	$ .45	$ .45	$ .43	9	$ 1.38	$ 1.25
	.46	.46	.44	.44	.42	10	1.36	1.22
n tangible equity (2)(3)(4)	17.54%	17.52%	17.18%	17.49%	17.29%		17.42%	17.54
n assets (4)	1.11	1.12	1.11	1.10	1.09		1.11	1.09
payout ratio	19.15	19.15	20.00	17.78	18.60		19.57	19.20
ERFORMANCE RES								
non share:								
nings	$ .47	$ .26	$ .45	$ .45	$ .43	9	$ 1.18	$ 1.25
arnings	.46	.26	.44	.44	.42	10	1.16	1.22
dends declared	.09	.09	.09	.08	.08	13	.27	.24
ue	17.53	16.98	14.83	14.37	13.07	34	17.53	13.07
book value (3)	10.82	10.44	11.06	10.57	10.16	6	10.82	10.16
ormance ratios:								
n equity (2)(4)	10.66	7.05	12.47	13.26	13.22		10.04	13.29
n assets (4)	1.11	.64	1.11	1.10	1.09		.95	1.09
est margin (4)	3.89	3.94	3.99	3.99	4.07		3.94	4.07
y ratio	55.34	56.59	56.56	55.93	56.19		56.14	56.33

payout ratio	19.15	34.62	20.00	17.78	18.60		22.88	19.20
assets	10.32	8.94	8.80	8.21	8.04		9.39	8.01
equity to assets (3)	6.65	6.65	6.66	6.46	6.35		6.65	6.27
QUALITY (5)								
e for loan losses	$ 90,935	$ 92,471	$ 68,804	$ 66,566	$ 60,901		$ 90,935	$ 60,901
orming assets	63,337	43,601	14,290	13,654	9,347		63,337	9,347
e-offs	5,235	2,124	1,462	1,930	1,307		8,821	3,594
e for loan losses to loans	1.53%	1.54%	1.27%	1.24%	1.23%		1.53%	1.23
orming assets to total	.77	.54	.20	.19	.14		.77	.14
e-offs to average loans (4)	.35	.15	.11	.15	.11		.21	.10
GE BALANCES								
	$ 5,966,933	$ 5,619,950	$ 5,402,860	$ 5,134,721	$ 4,865,886	23	$ 5,665,314	$ 4,688,512
nt securities	1,308,192	1,242,448	1,153,208	1,059,125	1,029,981	27	1,235,183	1,036,092
ssets	7,332,492	6,915,134	6,599,035	6,225,943	5,942,710	23	6,951,573	5,760,055
ts	8,083,739	7,519,392	7,092,710	6,669,950	6,350,205	27	7,568,910	6,158,147
	6,246,319	5,945,633	5,764,426	5,517,696	5,085,168	23	5,987,225	4,848,848
ders equity	834,094	672,348	624,100	547,419	510,791	63	710,950	493,307
shares basic	48,348	44,949	43,000	41,096	40,223		45,452	40,156
shares diluted	48,977	45,761	43,912	42,311	41,460		46,235	41,327
IOD END								
	$ 5,952,749	$ 5,999,093	$ 5,402,198	$ 5,376,538	$ 4,965,365	20	$ 5,952,749	$ 4,965,365
nt securities	1,296,826	1,213,659	1,150,424	1,107,153	980,273	32	1,296,826	980,273
ts	8,180,600	8,087,667	7,186,602	7,101,249	6,455,290	27	8,180,600	6,455,290
	6,154,308	6,361,269	5,841,687	5,772,886	5,309,219	16	6,154,308	5,309,219
ders equity	833,761	828,731	638,456	616,767	526,734	58	833,761	526,734
shares outstanding	47,542	48,781	43,038	42,891	40,269		47,542	40,269

(1) Excludes effect of special $15 million fraud related provision for loan losses recorded in the second quarter of 2007.

(2) Net income available to common shareholders, which excludes preferred stock dividends, divided by average realized common equity, which excludes accumulated

other comprehensive income (loss).

(3) Excludes effect of acquisition related intangibles and associated amortization.

(4) Annualized.

(5) Asset Quality measures for the third quarter, second quarater and first nine months of 2007 include $23.6 million in nonperforming loans that relate to two real estate developments. Additionally, in the second quarter of 2007, United recorded a $15 million special provision for loan losses for expected losses related to this matter. This fraud-related matter was isolated and considered to be non-recurring. Excluding the non-recurring amounts, the allowance for loan losses would be $75,935 and $77,471, the allowance for

loan losses to loans ratio would be 1.28% and 1.29%, non-performing assets would be $39,749 and $19,968, and the ratio of non-performing assets to total assets would be .49% and .25% at September 30, 2007 and June 30, 2007, respectively.

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 an optimal level of revenue while balancing interest rate, credit and liquidity risks. Net interest revenue for the third quarter 2007 was $71.7 million, up $10.8 million, or 18% over last year. The increase from the third quarter of 2006 was driven by balance sheet growth in the second half of 2006 and acquisitions. Average loans increased $1.1 billion, or 23%, from the third quarter of last year, mostly reflecting acquisitions completed over the last twelve months. Excluding acquired loans at period end, loan growth was 4% from September 30, 2006. The quarter-end loan balances decreased $46.3 million compared with June 30, 2007. Year over year loan growth occurred in all of United s markets with increases of $41.8 million in north Georgia, $81.5 million in western North Carolina, $50.1 million in east Tennessee, $58.9 million in the coastal Georgia markets and $755.1 million in the Atlanta Region (including $800.2 million from acquisitions).

Average interest-earning assets for the third quarter of 2007 increased $1.4 billion, or 23%, over the same period in 2006. The increase reflects moderate organic loan growth and the acquisitions of First Bank of the South during the second quarter of 2007 and of Southern National Bank in the fourth quarter of 2006, as well as an increase in the investment securities portfolio. The majority of the increase in interest-earning assets was funded by interest-bearing sources resulting in increases in average interest-bearing liabilities of approximately $1.302 billion as compared with the quarter ended September 30, 2006.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest rate 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 impact of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest revenue as a percent of average total interest-earning assets and takes into account the positive impact of investing non interest-bearing deposits and capital.

For the three months ended September 30, 2007 and 2006, the net interest spread was 3.34% and 3.49%, respectively, while the net interest margin was 3.89% and 4.07%, respectively. A number of factors contributed to the net interest spread and net interest margin compression from a year ago. Competition for deposits also increased from a year ago, particularly with time deposits. Another factor effecting yields was pricing competition for good quality loans. Additionally, the higher level of nonperforming assets lowered loan yields. The reversal of accrued interest and the discontinuance of further interest accruals decreased the yield on our loan portfolio. For most of 2006, as interest rates were rising, we were able to fund our balance sheet with certificates of deposit that were priced as much as 100 basis points below comparable wholesale borrowings. In late 2006 and into 2007, competition for certificates of deposit pushed pricing above comparable wholesale borrowings. We chose not to compete aggressively and allowed higher priced, single relationship certificates of deposit to leave the bank and replaced those funds with wholesale borrowings.

Also affecting the net interest margin was an investment of $50 million in bank owned life insurance (BOLI) purchased in the second quarter of 2007. Because the earnings on BOLI are recorded as fee revenue but the cost of funding the investment is recorded as interest expense, the investment in BOLI reduces net interest revenue and the net interest margin.

Most of United s loan portfolio accrues interest at a floating rate. At September 30, 2007, United had approximately $3.3 billion in loans indexed to the daily Prime Rate published in the Wall Street Journal compared with $2.8 billion a year ago. At September 30, 2007 and 2006, United had receive-fixed swap contracts with a total notional value of $530 million which are used to reduce United s exposure to changes in interest rates that were accounted for as cash flow hedges of prime-based loans. United also has receive-fixed/pay 1-month LIBOR interest rate swap contracts with an aggregate notional amount of $105 million that are being accounted for as fair value hedges of brokered time deposits and fixed rate Federal Home Loan Bank advances. In addition to the swap contracts, United had purchased interest rate floors having a total notional amount of $500 million for which it paid premiums totaling $13 million that are being accounted for as cash flow hedges of daily repricing, primed-based loans. While the swap contracts hedge our portfolio against the risks of lower interest rates, they will reduce the benefit of interest rate increases in the future.

The use of interest rate derivative contracts is more fully explained in the Interest Rate Sensitivity Management section of this report beginning on page 24.

The average yield on interest-earning assets for the third quarter of 2007 was 7.85%, compared with 7.77% in the third quarter of 2006. The average yield on interest earning assets for the first nine months of 2007 was 7.89%, compared with 7.50% for the first nine months of 2006. Loan yields were up 8 basis points, compared with the third quarter of 2006, due primarily to the effect of the Federal Reserve s rate increases during the first half of 2006 although the full effect was somewhat suppressed by the increase in nonperforming loans described above.

The average cost of interest-bearing liabilities for the third quarter was 4.51%, an increase of 23 basis points from the same period in 2006. For the nine months ended September 30, 2007 the average cost of interest bearing liabilities was 4.51% an increase of 54 basis points. The increase reflects the impact of rising rates on United s floating rate sources of funding and increased deposit pricing in selected products and markets.

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The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2007 and 2006.

Table 3 Average Consolidated Balance Sheets and Net Interest Analysis For the Three Months Ended September 30,

	2007			2006		
(dollars in thousands, taxable equivalent)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
Assets:						
Interest-earning assets:						
Loans, net of unearned income [1][2]	$ 5,966,933	$ 126,992	8.44%	$ 4,865,886	$ 103,061	8.40%
Taxable securities [3]	1,266,609	16,637	5.25	984,189	11,822	4.80
Tax-exempt securities [1] [3]	41,583	704	6.77	45,792	780	6.81
Federal funds sold and other interest-earning assets	57,367	551	3.84	46,843	641	5.47
Total interest-earning assets	7,332,492	144,884	7.85	5,942,710	116,304	7.77
Non-interest-earning assets:						
Allowance for loan losses	(93,832)			(60,606)		
Cash and due from banks	141,536			116,004		
Premises and equipment	173,605			125,423		
Other assets [3]	529,938			226,674		
Total assets	$ 8,083,739			$ 6,350,205		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,431,168	$ 12,046	3.34	$ 1,094,911	$ 8,100	2.94
Money market	496,005	5,002	4.00	216,131	2,155	3.96
Savings	201,031	553	1.09	170,079	226	.53
Time less than $100,000	1,624,698	20,151	4.92	1,446,388	16,503	4.53
Time greater than $100,000	1,391,139	18,192	5.19	1,162,207	14,382	4.91
Brokered	358,614	4,519	5.00	340,301	3,809	4.44
Total interest-bearing deposits	5,502,655	60,463	4.36	4,430,017	45,175	4.05
Federal funds purchased and other borrowings	348,472	4,738	5.39	162,372	2,254	5.51
Federal Home Loan Bank advances	474,555	5,902	4.93	438,875	5,828	5.27
Long-term debt	119,596	2,100	6.97	111,869	2,174	7.71
Total borrowed funds	942,623	12,740	5.36	713,116	10,256	5.71

Total interest-bearing liabilities	6,445,278	73,203	4.51	5,143,133	55,431	4.28
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	743,664			655,151		
Other liabilities	60,703			41,130		
Total liabilities	7,249,645			5,839,414		
Shareholders equity	834,094			510,791		
Total liabilities and shareholders equity	$ 8,083,739			$ 6,350,205		
Net interest revenue		$ 71,681			$ 60,873	
Net interest-rate spread			3.34%			3.49%
Net interest margin [4]			3.89%			4.07%

(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.

(3) Securities available for sale are shown

at amortized cost. Pretax unrealized losses of $13.3 million in 2007 and $21.6 million in 2006 are

included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest bearing liabilities for the nine months ended September 30, 2007 and 2006.

Table 4 Average Consolidated Balance Sheets and Net Interest Analysis

For the Nine Months Ended September 30,

	2007			2006		
(dollars in thousands, taxable equivalent)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
Assets:						
Interest-earning assets:						
Loans, net of unearned income (1)(2)	$ 5,665,314	$ 360,430	8.51%	$ 4,688,512	$ 284,683	8.12%
Taxable securities (3)	1,192,815	46,081	5.15	988,504	34,661	4.68
Tax-exempt securities (1) (3)	42,368	2,160	6.80	47,588	2,463	6.90
Federal funds sold and other interest-earning assets	51,076	1,479	3.86	35,451	1,425	5.36
Total interest-earning assets	6,951,573	410,150	7.89	5,760,055	323,232	7.50
Non-interest-earning assets:						
Allowance for loan losses	(78,541)			(57,716)		
Cash and due from banks	130,816			122,603		
Premises and equipment	159,674			120,664		
Other assets (3)	405,388			212,541		
Total assets	$ 7,568,910			$ 6,158,147		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,378,200	$ 34,143	3.31	$ 1,093,145	$ 21,429	2.62
Money market	371,716	11,082	3.99	186,957	4,969	3.55
Savings	187,693	1,236	.88	173,448	680	.52
Time less than $100,000	1,631,243	59,925	4.91	1,354,421	42,604	4.21
Time greater than $100,000	1,383,004	54,000	5.22	1,068,376	36,938	4.62
Brokered	342,162	12,541	4.90	327,877	10,137	4.13
Total interest-bearing deposits	5,294,018	172,927	4.37	4,204,224	116,757	3.71
Federal funds purchased and other borrowings	255,115	10,226	5.36	152,303	5,814	5.10
Federal Home Loan Bank advances	430,151	15,738	4.89	510,168	18,837	4.94
Long-term debt	115,390	6,505	7.54	111,868	6,495	7.76
Total borrowed funds	800,656	32,469	5.42	774,339	31,146	5.38

Total interest-bearing liabilities	6,094,674	205,396	4.51	4,978,563	147,903	3.97
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	693,207			644,626		
Other liabilities	70,079			41,652		
Total liabilities	6,857,960			5,664,841		
Shareholders equity	710,950			493,307		
Total liabilities and shareholders equity	$ 7,568,910			$ 6,158,148		
Net interest revenue		$ 204,754			$ 175,329	
Net interest-rate spread			3.38%			3.53%
Net interest margin (4)			3.94%			4.07%

(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.

(3)

Securities available for sale are shown at amortized cost. Pretax unrealized losses of $10.4 million in 2007 and $19.1 million in 2006 are included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relative impact on net interest revenue for changes in the average outstanding balances (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 5 Change in Interest Revenue and Expense on a Taxable Equivalent Basis
(in thousands)

	Three Months Ended September 30, 2007 Compared to 2006 Increase (decrease) Due to Changes in			**Nine Months Ended September 30, 2007 Compared to 2006 Increase (decrease) Due to Changes in**		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest-earning assets:						
Loans	$ 23,431	$ 500	$ 23,931	$ 61,616	$ 14,131	$ 75,747
Taxable securities	3,632	1,183	4,815	7,652	3,768	11,420
Tax-exempt securities	(71)	(5)	(76)	(267)	(36)	(303)
Federal funds sold and other interest-earning assets	126	(216)	(90)	683	(629)	54
Total interest-earning assets	27,118	1,462	28,580	69,684	17,234	86,918
Interest-bearing liabilities:						
NOW accounts	2,724	1,222	3,946	6,321	6,393	12,714
Money market accounts	2,822	25	2,847	5,443	670	6,113
Savings deposits	48	279	327	60	496	556
Time deposits less than $100,000	2,138	1,510	3,648	9,510	7,811	17,321
Time deposits greater than $100,000	2,958	852	3,810	11,855	5,207	17,062
Brokered deposits	213	497	710	457	1,947	2,404
Total interest-bearing deposits	10,903	4,385	15,288	33,646	22,524	56,170
Federal funds purchased & other borrowings	2,531	(47)	2,484	4,108	304	4,412
Federal Home Loan Bank advances	457	(383)	74	(2,929)	(170)	(3,099)
Long-term debt	144	(218)	(74)	201	(191)	10
Total borrowed funds	3,132	(648)	2,484	1,380	(57)	1,323
Total interest-bearing liabilities	14,035	3,737	17,772	35,026	22,467	57,493

Increase in net interest revenue	$ 13,083	$ (2,275)	$ 10,808	$ 34,658	$ (5,233)	$ 29,425

Provision for Loan Losses

The provision for loan losses was $3.7 million for the third quarter of 2007, compared with $3.7 million for the same period in 2006. For the first nine months of 2007, the provision for loan losses was $26.1 million compared with $10.9 million for the first nine months of 2006. The provision for loan losses for the first nine months of 2007 included a special $15 million provision for fraud related loan losses in two real estate developments located near Spruce Pine, North Carolina. In June 2007, the North Carolina Attorney General obtained a receiver to take custody of the developers assets citing possible fraud on the part of the developers. United has loans outstanding to 83 individual borrowers that total $23.6 million secured by undeveloped lots in these developments. United was one of twelve banks that had loaned money to borrowers to finance the purchase of lots. The loans were made to appropriately qualified borrowers in accordance with our standard underwriting procedures. At the time the loans were made, we were not aware that most of the borrowers were simultaneously obtaining loans for additional lots at other banks and thereby taking on debt possibly beyond their repayment ability. We were also unaware that the borrowers down payments were not paid in cash as indicated on the closing statements, but were financed by a second mortgage from the developer and that the developer agreed to service the borrowers debts. We have also subsequently learned that the appraisals relied upon in the underwriting process had been inflated by using comparable sales that were not at arms length to persons related to the developer and that many of the lots were subdivided into parcels that are too small to be used for their intended purpose. Based on our findings and our internal estimate of expected losses, we recorded a $15 million special provision for loan losses in the second quarter and these loans were placed on non-accrual status and included in nonperforming assets. We are working with the receiver, the other banks involved, the borrowers and our insurance carrier in order to minimize our losses. None of the loans had been charged off as of September 30, 2007.

Net loan charge-offs as an annualized percentage of average outstanding loans for the three months ended September 30, 2007 was .35%, as compared with .11% for the third quarter of 2006. For the first nine months of 2007 net loan charge offs as an annualized percentage of average outstanding loans was .21% versus .10% for 2006. Net loan charge-offs exceeded and are likely to continue exceeding the Company s historical six-year range of .11% to .25% and likely could exceed this range for the next few quarters due to the challenging housing market, and the Company s strategy of aggressive liquidation of nonperforming assets.

The provision for loan losses is based on management s evaluation of losses inherent in the loan portfolio and the corresponding analysis of the allowance for loan losses at quarter-end. It is expected that for the next few quarters, net loan charge-offs could exceed the additional provisioning of loan losses. This is reflective of the losses inherent in the loan portfolio, and in

management s opinion does not reflect an increase in losses in the loan portfolio beyond what is already included in the allowance for loan losses. Additional discussion on loan quality and the allowance for loan losses is included in the Asset Quality section of this report.

Fee Revenue

Fee revenue for the third quarter of 2007 totaled $15.6 million, an increase of $3.5 million, or 29% from 2006. Fee revenue accounted for approximately 19% of total revenue for the third quarters of 2007 and 2006. During the first nine months of 2007, fee revenue totaled $46.6 million compared with $35.9 million for 2006, an increase of 30%. This strong growth is the result of United s continued focus on increasing fee revenue through new products and services. The following table presents the components of fee revenue for the third quarter of 2007 and 2006.

Table 6 Fee Revenue

For the Three and Nine Months Ended September 30,

(dollars in thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	Change	2007	2006	Change
Service charges and fees	$ 7,855	$ 6,914	14%	$ 23,083	$ 20,095	15%
Mortgage loan and other related fees	2,118	1,928	10	6,817	5,149	32
Consulting fees	2,381	2,040	17	6,369	5,196	23
Brokerage fees	895	784	14	3,031	2,430	25
Securities gains (losses), net	225	(382)		1,818	(385)	
Loss on prepayments of borrowings		(346)		(1,164)	(636)	
Other	2,141	1,208	77	6,597	4,031	64
Total	$ 15,615	$ 12,146	29	$ 46,551	$ 35,880	30

Service charges and fees for the third quarter of 2007 increased $941,000, or 14%, from 2006. This increase was primarily due to growth in transactions and new accounts resulting from core deposit programs, increased usage, growth in overdraft products, and the cross-selling of other products and services. Also included in service charges and fees were ATM and debit card usage fees which rose $337,000 from a year ago, primarily the result of a larger customer base added through acquisitions, de novo growth and core deposit programs.

Mortgage loans and related fees of $2.1 million for the quarter were up $190,000, or 10%, from 2006. The increase is due to improved pricing. In the third quarter of 2007, United originated 549 loans totaling $101 million compared with 574 loans totaling $99 million in the third quarter of 2006. Substantially all originated residential mortgages were sold into the secondary market, including the right to service these loans.

Consulting fees of $2.4 million were up $341,000, a 17% increase from the third quarter of 2006. The increase was primarily due to new business growth in the advisory services practice.

Brokerage fees of $895,000 were up $111,000, or 14%, from the third quarter of 2006. This increase was due primarily to an increase in trading activity resulting from a strong market.

Other fee revenue of $2.1 million increased $933,000, or 77% from 2006. This increase is primarily due to purchase of additional bank owned life insurance that added $720,000 of fee revenue for third quarter 2007 related to earnings recognized on these assets.

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Operating Expenses

For the three months ended September 30, 2007, total operating expenses were $48.2 million, an increase of 16%, compared with $41.4 million in 2006. Operating expenses from First Bank of the South, acquired on June 1, 2007 and Southern National Bank, acquired on December 1, 2006, accounted for approximately $3.2 million of the $6.7 million increase. The following table presents the components of operating expenses for the three and nine months ended September 30, 2007 and 2006.

Table 7 Operating Expenses

For the Three and Nine Months Ended September 30,

(dollars in thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	Change	2007	2006	Change
Salaries and employee benefits	$ 29,698	$ 26,087	14%	$ 88,037	$ 74,440	18%
Communications and equipment	3,936	3,863	2	11,593	10,970	6
Occupancy	3,617	2,945	23	10,124	8,793	15
Advertising and public relations	1,537	1,882	(18)	5,651	5,718	(1)
Postage, printing and supplies	1,479	1,379	7	4,819	4,184	15
Professional fees	1,920	938	105	5,409	3,168	71
Amortization of intangibles	771	503	53	1,968	1,509	30
Other	5,224	3,844	36	13,124	10,767	22
Total	$ 48,182	$ 41,441	16	$ 140,725	$ 119,549	18

Salaries and employee benefits for the third quarter of 2007 totaled $29.7 million, an increase of $3.6 million, or 14%, over the same period in 2006. Acquisitions accounted for approximately $1.5 million of the increase, with the remainder primarily due to the cost of staffing de novo locations and business growth. At September 30, 2007, total staff was 2,012, an increase of 169 employees from the third quarter of 2006. Of this increase, 44 staff members, representing 26% of the increase in staff, were added for de novo expansion and 113 staff members, representing 67% of the increase in staff, were added through acquisitions.

Communication and equipment expense for the third quarter of 2007 was up $73,000, or 2%, from 2006. This increase is the result of acquisitions offset by lower depreciation and maintenance charges.

Occupancy expense for the third quarter of 2007 was up $672,000, or 23%, from 2006. The majority of this increase was the result of higher facilities costs and maintenance expenses resulting from additional banking offices added through acquisitions and de novo expansion.

Advertising and public relations expense for the third quarter of 2007 was down $345,000, or 18%, from 2006, due to efforts to control discretionary spending and expense growth.

Postage, printing and supplies expense for the third quarter of 2007 was up $100,000, or 7%, from 2006. The increase is primarily from higher cost of postage and courier costs resulting from the growing number of offices, both through acquisitions and de novo expansion.

Professional fees increased $982,000 from 2006. Increasing legal costs associated with the loan workouts and other corporate initiatives, along with the higher cost of outsourced services contributed to this increase.

Other expense increased $1.4 million, or 36%, from 2006. More than half of the increase was the result of the new FDIC insurance assessment initiated by the FDIC. Although the new FDIC insurance assessment was effective January 1, 2007, United had credits that completely offset the cost during the first two quarters of 2007. The

remainder of this increase was the result of higher costs associated with the growth in ATM transactions and internet banking activities.

The efficiency ratio measures total operating expenses as a percentage of total revenue, excluding the provision for loan losses, gains or losses from prepayment of borrowings, and net securities gains or losses. United s efficiency ratio for the third quarter was 55.34% compared with 56.19% for the third quarter of 2006. United s efficiency ratio was under its long-term efficiency goal of 56% 58%, which reflected management s focus on controlling expense growth in light of a slower pace of loan growth in 2007.

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Income Taxes

Income tax expense was $12.4 million for the third quarter, as compared with $10.0 million for the third quarter of 2006, representing a 35.5% and 36.5% effective tax rate, respectively. For the first nine months of 2007 and 2006, income tax expense was $29.3 million and $29.0 million, respectively. The effective tax rate for the same periods was 35.3% and 36.6%, respectively. The effective tax rates were lower than the statutory tax rates primarily due to interest and revenue on certain investment securities and loans that are exempt from income taxes, tax exempt fee revenue and tax credits received on affordable housing investments. The tax rates for 2007 are lower than 2006 primarily as a result of an additional $50 million investment in bank owned life insurance in the second quarter of 2007. Additional information regarding income taxes can be found in Note 14 to the consolidated financial statements filed with United s 2006 Form 10-K.

Balance Sheet Review

Total assets at September 30, 2007 were $8.2 billion, compared with $6.5 billion at September 30, 2006. Average total assets for the third quarter of 2007 were $8.1 billion, up $1.7 billion from average assets in the third quarter of 2006. A significant portion of the growth in assets was the result of the acquisitions of First Bank of the South on June 1, 2007 with total assets of $809 million, including intangible assets, and Southern National Bank on December 1, 2006 with total assets of $416 million in assets, including intangible assets. Loan growth was strong in 2006, but slowed in early 2007 primarily due to a slowdown in residential construction activities related to the surplus of housing and finished lot inventory within United s markets. Many developers were delaying development projects until housing and finished lot inventories return to more normal levels. Also, because of the longer expected marketing times and concern for a price correction, many loan opportunities did not meet United s own internal underwriting standards.

Loans

The following table presents a summary of the loan portfolio.

Table 8 Loans Outstanding

(dollars in thousands)

	September 30, 2007	December 31, 2006	September 30, 2006
By Loan Type			
Commercial (commercial and industrial)	$ 408,466	$ 295,698	$ 271,802
Commercial (secured by real estate)	1,441,192	1,229,910	1,157,561
Total commercial	1,849,658	1,525,608	1,429,363
Construction and land development	2,465,504	2,333,585	2,064,756
Residential mortgage	1,459,023	1,337,728	1,299,512
Installment	178,564	179,617	171,734
Total loans	$ 5,952,749	$ 5,376,538	$ 4,965,365
As a percentage of total loans:			
Commercial (commercial and industrial)	7%	6%	5%
Commercial (secured by real estate)	24	23	24
Total commercial	31	29	29
Construction and land development	41	43	42
Residential mortgage	25	25	26
Installment	3	3	3

Total	100%	100%	100%
By Geographic Location			
Atlanta Region	$ 2,450,907	$ 2,005,024	$ 1,695,808
North Georgia	2,025,619	2,033,553	1,983,822
North Carolina	833,524	773,302	752,038
Coastal Georgia	401,940	357,659	342,992
Tennessee	240,759	207,000	190,705
Total loans	$ 5,952,749	$ 5,376,538	$ 4,965,365

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At September 30, 2007, total loans were $6.0 billion, an increase of $1.0 billion, or 20%, from September 30, 2006. During 2006, United experienced strong loan growth in all markets, with particular strength in construction and land development loans. In the third quarter of 2007, construction loans decreased from second quarter levels due to the slowdown in the housing market, especially in the Atlanta region. With the acquisition of First Bank of the South, United gained additional expertise in commercial lending that United plans to leverage to better diversify the loan portfolio and boost overall loan growth. The addition of First Bank of the South increased commercial loans to 31% of the loan portfolio at September 30, 2007 from 29% at December 31, 2006.

Asset Quality and Risk Elements

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

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

Reviews of non-performing loans, past due loans and larger credits, designed to identify potential charges to the allowance for loan losses, as well as determine the adequacy of the allowance, are conducted on a regular basis during the quarter. These reviews are performed by the senior lending officers, credit administration and management, as well as a separate loan review department, and consider such factors as the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors. United also uses external loan review to supplement the activities of the loan review department and to ensure the independence of the loan review process.

The following table presents a summary of the changes in the allowance for loan losses for the three-month and nine-month periods ended September 30, 2007 and 2006.

Table 9 Summary of Loan Loss Experience

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Balance beginning of period	$ 92,471	$ 58,508	$ 66,566	$ 53,595
Allowance from acquisitions			7,091	
Loans charged-off	(5,764)	(1,578)	(10,480)	(4,991)
Recoveries	528	271	1,658	1,397
Net charge-offs	(5,236)	(1,307)	(8,822)	(3,594)
Provision for loan losses	3,700	3,700	26,100	10,900
Balance end of period	$ 90,935	$ 60,901	$ 90,935	$ 60,901
Total loans:				
At period end	$ 5,952,749	$ 4,965,365	$ 5,952,749	$ 4,965,365

Average	5,966,933	4,865,886	5,665,314	4,688,512
As a percentage of average loans (annualized):				
Net charge-offs	.35%	.11%	.21%	.10%
Provision for loan losses	.25	.30	.61	.31
Allowance as a percentage of period end loans	1.53	1.23	1.53	1.23
Allowance as a percentage of period end non-performing loans	194	732	194	732

Management believes that the allowance for loan losses at September 30, 2007 is appropriate to absorb losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the appropriateness of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part

of their periodic examination of the Banks, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions.

Non-performing Assets

The table below summarizes non-performing assets.

Table 10 Non-Performing Assets

(dollars in thousands)

	September 30, 2007	December 31, 2006	September 30, 2006
Non-accrual loans	$ 23,208	$ 12,458	$ 8,324
Non-accrual loans Spruce Pine, NC lot loans	23,575		
Loans past due 90 days or more and still accruing			
Total non-performing loans	46,783	12,458	8,324
Other real estate owned	16,554	1,196	1,023
Total non-performing assets	$ 63,337	$ 13,654	$ 9,347
Non-performing loans as a percentage of total loans	.79%	.23%	.17
Excluding Spruce Pine, NC lot loans	.39	.23	.17
Non-performing assets as a percentage of total assets	.77	.19	.14
Excluding Spruce Pine, NC lot loans	.49	.19	.14

Non-performing loans totaled $23.2 million at September 30, 2007, excluding the Spruce Pine, North Carolina lot loans, compared with $12.5 million at December 31, 2006 and $8.3 million at September 30, 2006. The increase in non-performing loans at September 30, 2007 is primarily due to the deterioration in the housing market. The largest concentration of non-performing assets, excluding the Spruce Pine, North Carolina lot loans, was in the Atlanta region, representing about 65% of the total. Residential construction was the largest category of non-performing assets, representing about 40% of the total. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled $63.3 million at September 30, 2007, compared with $13.7 million at December 31, 2006 and $9.3 million at September 30, 2006.

United s policy is to place loans on non-accrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is placed on non-accrual status, interest previously accrued, but not collected, is reversed against current interest revenue. Depending on management s evaluation of the borrower and loan collateral, interest revenue on a non-accrual loan may be recognized on a cash basis as payments are received. There were no commitments to lend additional funds to customers whose loans were on non-accrual status at September 30, 2007.

Investment Securities

The composition of the investment securities portfolio reflects United s investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits.

Total investment securities available for sale at quarter-end increased $316.6 million from a year ago. The growth in the investment securities portfolio slightly exceeded growth in the rest of the balance sheet. At September 30, 2007, the securities portfolio was 16% of total assets, compared with 15% a year ago.

The investment securities portfolio primarily consists of U.S. Government agency securities, U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, and municipal securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because loans underlying the securities may prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs. Prepayments tend to slow and the weighted average life extends. This is referred to as extension risk which can lead to lower levels of liquidity due to the delay of timing of cash receipts and can result in the holding of a below market yielding asset for a longer time period.

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Deposits

Total deposits at September 30, 2007 were $6.2 billion, an increase of $845.1 million, or 16%, from September 30, 2006. Total non-interest-bearing demand deposit accounts of $737 million increased $70 million, or 11%, NOW accounts of $1.5 billion increased $360 million, or 33%, money market accounts of $495 million increased $259 million, or 109%, and savings accounts of $195 million increased $28 million, or 16% reflecting the acquisitions of First Bank of the South and Southern National Bank and the ongoing success of United s initiatives to raise core deposits. Excluding acquisitions, demand, NOW, money market and savings accounts increased $193 million, or 9%, from September 30, 2006.

Total time deposits as of September 30, 2007 were $3.3 billion, an increase of $128 million, or 4%, from the third quarter of 2006. Time deposits less than $100,000 totaled $1.6 billion, compared with $1.5 billion a year ago, an increase of 5%. Time deposits of $100,000 and greater totaled $1.4 billion compared with $1.2 billion at September 30, 2006, an increase of 9%. Although much of the increase was the result of the acquisitions, in 2006 time deposit rates lagged the rise in rates on comparable wholesale borrowings allowing us to aggressively fund our balance sheet with certificates of deposits at rates as much as 100 basis points below wholesale borrowing rates. In late 2006 and into early 2007, competition for time deposits drove rates above wholesale borrowings leading us to allow non-relationship time deposits to leave the bank in favor of lower priced wholesale funding sources. Despite the shift in funding toward wholesale borrowings, our loan to deposit ratio remains below 100%.

United utilizes brokered time deposits, issued in certificates of less than $100,000, as an alternative source of cost-effective funding. Brokered time deposits outstanding at September 30, 2007 were $308 million compared with $361 million at September 30, 2006, a decrease of 15%.

Wholesale Funding

At September 30, 2007, both of the Banks were shareholders in a Federal Home Loan Bank (FHLB). Through this affiliation, FHLB secured advances totaled $519 million and $413 million at September 30, 2007 and 2006, respectively. United anticipates continued utilization of this short and long-term source of funds. FHLB advances outstanding at September 30, 2007 had both fixed and floating interest rates ranging from 2.85% to 6.59%. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 10 to the consolidated financial statements included in United s 2006 Form 10-K.

Interest Rate Sensitivity Management

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

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

One of the tools management utilizes to estimate the sensitivity of net interest revenue to changes in interest rates is an interest rate simulation model. Such estimates are based upon a number of assumptions for various scenarios, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments. The simulation model measures the potential change in net interest revenue over a twelve-month period under various interest rate scenarios. United s baseline scenario assumes rates remain flat (flat rate scenario) over the next twelve months and is the scenario that all others are compared to in order to measure the change in net interest revenue. United runs ramp scenarios that assume gradual increases and decreases of 200 basis points each over the next twelve months. United s policy for net interest revenue simulation is limited to a change from the flat rate scenario of less than 10% for the up or down 200 basis point ramp scenarios over twelve months. At September 30, 2007, United s simulation model indicated that a 200 basis point increase in rates over the next twelve months would cause an approximate .3% increase in net interest revenue and a 200 basis point decrease in rates over the next twelve months

would cause an approximate .8% decrease in net interest revenue.

In order to manage its interest rate sensitivity, United uses off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost and capital effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. At September 30, 2007, United was a party to interest rate swap contracts under which it pays a variable rate and receives a fixed rate, and interest rate floor contracts in which United pays a premium to a counterparty who agrees to pay United the difference between a variable rate and a strike rate if the variable rate falls below the strike rate.

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The following table presents the derivative contracts outstanding at September 30, 2007.

Table 11 Derivative Financial Instruments
As of September 30, 2007
(dollars in thousands)

Type/Maturity		Notional Amount	Rate Received / Floor Rate	Rate Paid	Fair Value (9)
Fair Value Hedges:					
LIBOR Swaps (Brokered CDs)					
September 29, 2008 [1]		$ 10,000	5.25%	5.12%	$ 49
June 18, 2008 [2]		20,000	5.15	5.34	68
November 3, 2008 [3]		10,000	5.00	5.32	59
April 13, 2017 [4]		15,000	5.20	4.94	(142)
	Total:	55,000	5.15	5.19	34
LIBOR Swaps (FHLB Advances)					
January 5, 2009 [5]		25,000	5.06	5.55	165
March 2, 2009 [6]		25,000	4.90	5.54	168
	Total:	50,000	4.98	5.55	333
	Total Fair Value Hedges	105,000	5.07	5.36	367
Cash Flow Hedges:					
Prime Swaps (Prime Loans) [7]					
November 5, 2007		50,000	8.41	7.75	13
February 1, 2008		50,000	8.40	7.75	75
April 17, 2008		50,000	8.25	7.75	142
April 17, 2008		50,000	8.25	7.75	142
May 1, 2008		50,000	8.33	7.75	188
May 1, 2008		50,000	8.34	7.75	191
August 4, 2008		50,000	8.32	7.75	313
November 4, 2008		100,000	8.32	7.75	891
February 1, 2009		25,000	8.31	7.75	277
May 4, 2009		30,000	8.29	7.75	406
June 11, 2010		25,000	8.26	7.75	603
	Total:	530,000	8.32	7.75	3,241
Prime Floors (Prime Loans) [8]					
February 1, 2009		25,000	8.75		504
May 1, 2009		25,000	8.75		591
August 1, 2009		75,000	8.75		2,030

November 1, 2009		75,000	8.75		2,279
February 4, 2010		100,000	8.75		3,356
May 4, 2010		100,000	8.75		3,650
August 1, 2010		50,000	8.75		1,970
August 4, 2010		50,000	8.75		1,973
	Total:	500,000			16,353
	Total Cash Flow Hedges:	1,030,000			19,594
Total Derivative Contracts		$ 1,135,000		$	19,961

(1) Rate Paid equals 1-Month LIBOR minus .0075

(2) Rate Paid equals 1-Month LIBOR minus .2725

(3) Rate Paid equals 1-Month LIBOR minus .3435

(4) Rate Paid equals 1-Month LIBOR minus .1100

(5) Rate Paid equals 1-Month LIBOR minus .1101

(6) Rate Paid equals 1-Month LIBOR minus .1280.

(7) Rate Paid equals Prime rate as of September 30, 2007

(8) Floor contracts receive cash payments equal to the floor rate

less the prime rate.

(9) Excludes accrued interest

United s derivative financial instruments are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize currently in earnings both the impact of the change in the fair value of the derivative financial instrument and the offsetting impact of the change in fair value of the hedged asset or liability. At September 30, 2007, United had interest rate swap contracts with a total notional amount of $530 million that were designated as cash flow hedges of prime based loans. United had interest rate floor contracts with a total notional of $500 million that were also designated as cash flow hedges of prime based loans. United also has six receive fixed, pay LIBOR swap contracts with a total notional of $105 million that were accounted for as fair value hedges of brokered deposits and fixed rate FHLB advances.

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

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United s ability to meet the daily cash flow requirements of the Banks customers, both depositors and borrowers.

The primary objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities; so that United can also meet the investment requirements of its shareholders as market interest rates change. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities. Mortgage loans held for sale totaled $23.7 million at September 30, 2007, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market.

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

United has available a line of credit and a joint credit agreement at its holding company with other financial institutions totaling $75 million. At September 30, 2007, United had an outstanding balance of $25.0 million on these credit facilities. United had sufficient qualifying collateral to increase FHLB advances by $385 million at September 30, 2007. United s internal policy limits brokered deposits to 25% of total non-brokered deposits. At September 30, 2007, United had the capacity to increase brokered deposits by $1.2 billion and still remain within this limit.

As disclosed in United s consolidated statement of cash flows, net cash provided by operating activities was $86.2 million for the nine months ended September 30, 2007. The major contributors in this category were net income of $53.8 million, provision for loan losses of $26.1 million, a decrease in mortgage loans held for sale of $11.6 million, non cash expenses for depreciation, amortization and accretion of $10.6 million, and stock based compensation of $2.6 million,. Those sources were offset by uses including an increase in other assets and accrued interest receivable of $9.2 million and a decrease in accrued expenses and other liabilities of $8.5 million. Net cash used by investing activities of $280.5 million consisted primarily of purchases of investment securities of $484.2 million, a net increase in loans totaling $81.4 million, the purchase of bank owned life insurance of $50 million, purchases of premises and equipment of $26.8 million, and cash paid for acquisitions of $4.3 million. Net cash provided by financing activities of $261.5 million consisted primarily a net increase in federal funds purchased,

repurchase agreements, and other short-term borrowings of $472.9 million that were offset by a net decrease in deposits of $186.4 million and the use of cash to purchase treasury stock of $31.9 million, and by the use of cash for dividends paid of $11.7 million. In the opinion of management, the liquidity position at September 30, 2007 is sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders equity at September 30, 2007 was $833.8 million, an increase of $307.0 million, or 58%, from September 30, 2006. Accumulated other comprehensive income (loss) is not included in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive income (loss), shareholders equity increased $298 million, or 56%, from September 30, 2006. Dividends of $12.6 million, or $.27 per share, were declared on common stock during the first nine months of 2007, an increase of 30% from the amount declared in the same period in 2006 due to a 13% increase in the dividend rate and an increase in the number of outstanding shares primarily resulting from the acquisitions of First Bank of the South and Southern National Bank. The dividend payout ratio was 19% for the third quarters of 2007 and 2006 based on operating earnings per share. Although, United retains a portion of its earnings in order to provide a cost-effective source of capital for continued growth and expansion, the company recognizes that cash dividends are an important component of shareholder value, and therefore, provides for cash dividends when earnings and capital levels permit.

United had in place a Board approved repurchase authorization of 1,000,000 shares of its outstanding common stock that expires on December 31, 2007. At its July 19, 2007 meeting, United s Board of Directors increased the authorization to 2,000,000 shares. In the third quarter, United repurchased 1,304,775 shares of its outstanding common stock at a cost of $31.9 million. At its October 18, 2007 meeting, United s Board further increased the authorization to 3,000,000 shares and extended the expiration date to December 31, 2008.

United s common stock trades on the Nasdaq Global Select Market under the symbol UCBI . Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2007 and 2006.

Table 12 Stock Price Information

	2007				2006			
	High	**Low**	**Close**	**Avg Daily Volume**	**High**	**Low**	**Close**	**Avg Daily Volume**
First quarter	$34.98	$30.81	$32.79	232,269	$29.64	$26.02	$28.15	59,252
Second quarter	33.03	25.80	25.89	266,682	31.26	27.02	30.44	92,937
Third quarter	27.50	22.16	24.52	346,596	33.10	27.51	30.05	86,495
Fourth quarter					33.37	29.03	32.32	87,626

The increase in the average daily trading volume in 2007 resulted from United s inclusion in Standard & Poors SmallCap 600 index on March 9, 2007.

The following table presents the quarterly cash dividends declared in 2007 and 2006 and the respective payout ratios as a percentage of basic operating earnings per share, which excludes the effect of a $15 million special fraud-related loan loss provision in the second quarter of 2007.

Table 13 Dividend Payout Information

	2007		2006	
	Dividend	**Payout %**	**Dividend**	**Payout %**
First quarter	$.09	20	$.08	20
Second quarter	.09	19*	.08	19
Third quarter	.09	19	.08	19
Fourth quarter			.08	18

* Based on basic operating earnings per share which excludes the effect of the

$15 million special fraud-related provision for loan losses. Including the special provision, the dividend payout ratio was 35% for the second quarter of 2007.

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

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A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required for the highest-rated bank holding companies which are not undertaking significant expansion programs, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

The following table shows United s capital ratios, as calculated under regulatory guidelines, at September 30, 2007 and 2006.

Table 14 Capital Ratios

(dollars in thousands)

	2007		2006	
	Actual Amount	**Regulatory Minimum**	**Actual Amount**	**Regulatory Minimum**
Tier I Leverage:				
Amount	$ 551,265	$ 232,942	$ 457,079	$ 187,020
Ratio	7.10%	3.00%	7.33%	3.00%
Tier I Risk-Based:				
Amount	$ 551,265	$ 251,337	$ 457,079	$ 206,290
Ratio	8.77%	4.00%	8.86%	4.00%
Total Risk-Based:				
Amount	$ 696,511	$ 502,674	$ 587,580	$ 412,581
Ratio	11.08%	8.00%	11.39%	8.00%

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

The capital ratios of United and the Banks currently exceed the minimum ratios as defined by federal regulators. United monitors these ratios to ensure that United and the Banks remain above regulatory minimum guidelines.

Impact of Inflation and Changing Prices

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United s quantitative and qualitative disclosures about market risk as of September 30, 2007 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2006. The interest rate sensitivity position at September 30, 2007 is included in management s discussion and analysis on page 24 of this report.

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Item 4. Controls and Procedures

United s management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the company s disclosure controls and procedures as of September 30, 2007. Based on, and as of the date of, that evaluation, United s Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission s rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no changes in United s internal controls over financial reporting that occurred during Unite s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, United s internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in United s Form 10-K for the year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

United had in place a Board approved repurchase authorization of 1,000,000 shares of its outstanding common stock that expires on December 31, 2007. At its July 19, 2007 meeting, United s Board of Directors increased the authorization to 2,000,000 shares. In the third quarter, United repurchased 1,304,775 shares of its outstanding common stock at a cost of $31.9 million. At its October 18, 2007 meeting, United s Board further increased the authorization to 3,000,000 shares and extended the expiration date to December 31, 2008.

The following table sets forth information regarding purchases of our common stock by us or any affiliated purchaser during the three months ended September 30, 2007. Stock repurchases may be made in the open market or in private transactions at time and in amounts that we deem appropriate. However, there is no guarantee as to the exact number of additional shares that may be repurchased, and we may terminate or limit the stock repurchase program at any time. We will hold the repurchased shares as treasury shares.

Table 15 Stock Repurchase Information

Period	Total number of shares purchased[1]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the publicly announced plans or programs
July 2007	62,000	$ 23.91	62,000	2,938,000
August 2007	602,775	24.08	602,775	2,335,225
September 2007	640,000	24.81	640,000	1,695,225
Total third quarter	1,304,775	$ 24.43	1,304,775	

(1) The total number of shares purchased includes an aggregate of 1,755 shares surrendered to us to satisfy tax withholding obligations in connection with the vesting of shares of restricted stock and/or the exercise of stock options.

Item 3. Defaults upon Senior Securities None

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Item 4. Submission of Matters to a Vote of Security Holders None

Item 5. Other Information None

Item 6. Exhibits

3.1	Restated Articles of Incorporation of United Community Banks, Inc., (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-21656, filed with the Commission on August 14, 2001).
3.2	Amendment to the Restated Articles of Incorporation of United Community Banks, Inc. (incorporated herein by reference to Exhibit 3.3 to United Community Banks, Inc. s Registration Statement on Form S-4, File No. 333-118893, filed with the Commission on September 9, 2004).
3.3	Amended and Restated Bylaws of United Community Banks, Inc., dated September 12, 1997 (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc. s Annual Report on Form 10-K, for the year ended December 31, 1997, File No. 0-21656, filed with the Commission on March 27, 1998).
4.1	See Exhibits 3.1, 3.2 and 3.3 for provisions of the Restated Articles of Incorporation, as amended, and Amended and Restated Bylaws, which define the rights of the Shareholders.
31.1	Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

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

UNITED COMMUNITY BANKS, INC.

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

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

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

Date: November 7, 2007

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