UNITED COMMUNITY BANKS INC
Form 10-Q
August 09, 2011

Table of Contents

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 June 30, 2011
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 001-39095
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.)**
125 Highway 515 East 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO o

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

Large accelerated filer o	**Accelerated filer þ**	**Non-accelerated filer o** (Do not check if a smaller reporting company)	**Smaller Reporting Company 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 41,568,707 shares voting and 15,914,209 shares non-voting outstanding as of July 31, 2011

INDEX

Table of Contents

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

(in thousands, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest revenue:				
Loans, including fees	$ 60,958	$ 70,611	$ 122,065	$ 142,826
Investment securities, including tax exempt of $251, $295, $510 and $606	14,792	15,829	28,396	32,032
Federal funds sold, commercial paper and deposits in banks	752	759	1,571	1,697
Total interest revenue	76,502	87,199	152,032	176,555
Interest expense:				
Deposits:				
NOW	1,036	1,745	2,360	3,599
Money market	1,499	1,829	3,527	3,586
Savings	64	83	141	167
Time	10,995	17,718	22,727	37,916
Total deposit interest expense	13,594	21,375	28,755	45,268
Federal funds purchased, repurchase agreements and other short-term borrowings	1,074	1,056	2,116	2,094
Federal Home Loan Bank advances	570	974	1,160	1,951
Long-term debt	2,747	2,667	5,527	5,329
Total interest expense	17,985	26,072	37,558	54,642
Net interest revenue	58,517	61,127	114,474	121,913
Provision for loan losses	11,000	61,500	201,000	136,500
Net interest revenue after provision for loan losses	47,517	(373)	(86,526)	(14,587)
Fee revenue:				
Service charges and fees	7,608	7,993	14,328	15,440
Mortgage loan and other related fees	952	1,601	2,446	3,080
Brokerage fees	691	586	1,368	1,153
Securities gains, net	783		838	61
Loss from prepayment of debt	(791)		(791)	
Other	4,662	1,399	7,554	3,511
Total fee revenue	13,905	11,579	25,743	23,245
Total revenue	61,422	11,206	(60,783)	8,658

Operating expenses:				
Salaries and employee benefits	26,436	23,590	51,360	47,950
Communications and equipment	3,378	3,511	6,722	6,784
Occupancy	3,805	3,836	7,879	7,650
Advertising and public relations	1,317	1,352	2,295	2,395
Postage, printing and supplies	1,085	765	2,203	1,990
Professional fees	2,350	2,178	5,680	4,121
Foreclosed property	1,891	14,540	66,790	25,353
FDIC assessments and other regulatory charges	3,644	3,566	9,057	7,192
Amortization of intangibles	760	794	1,522	1,596
Other	4,062	4,176	10,491	8,097
Loss on sale of nonperforming assets		45,349		45,349
Total operating expenses	48,728	103,657	163,999	158,477
Income (loss) from continuing operations before income taxes	12,694	(92,451)	(224,782)	(149,819)
Income tax expense (benefit)	5,077	(32,919)	(89,913)	(55,829)
Net income (loss) from continuing operations	7,617	(59,532)	(134,869)	(93,990)
Loss from discontinued operations, net of income taxes				(101)
Gain from sale of subsidiary, net of income taxes and selling costs				1,266
Net income (loss)	7,617	(59,532)	(134,869)	(92,825)
Preferred stock dividends and discount accretion	3,016	2,577	5,794	5,149
Net income (loss) available to common shareholders	$ 4,601	$ (62,109)	$ (140,663)	$ (97,974)
Earnings (loss) from continuing operations per common share Basic	$ .18	$ (3.29)	$ (6.40)	$ (5.25)
Earnings (loss) from continuing operations per common share Diluted	.08	(3.29)	(6.40)	(5.25)
Earnings (loss) per common share Basic	.18	(3.29)	(6.40)	(5.19)
Earnings (loss) per common share Diluted	.08	(3.29)	(6.40)	(5.19)
Weighted average common shares outstanding Basic	25,427	18,905	21,965	18,891
Weighted average common shares outstanding Diluted	57,543	18,905	21,965	18,891

See accompanying notes to consolidated financial statements.

Table of Contents

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet

(in thousands, except share and per share data)	June 30, 2011 (unaudited)	December 31, 2010 (audited)	June 30, 2010 (unaudited)
ASSETS			
Cash and due from banks	$ 163,331	$ 95,994	$ 115,088
Interest-bearing deposits in banks	41,863	111,901	105,183
Federal funds sold, commercial paper and short-term investments	174,996	441,562	148,227
Cash and cash equivalents	380,190	649,457	368,498
Securities available for sale	1,816,613	1,224,417	1,165,776
Securities held to maturity (fair value $379,231, 267,988 and $327,497)	371,578	265,807	322,148
Mortgage loans held for sale	19,406	35,908	22,705
Loans, net of unearned income	4,163,447	4,604,126	4,873,030
Less allowance for loan losses	127,638	174,695	174,111
Loans, net	4,035,809	4,429,431	4,698,919
Assets covered by loss sharing agreements with the FDIC	95,726	131,887	156,611
Premises and equipment, net	178,208	178,239	180,125
Accrued interest receivable	21,291	24,299	29,650
Goodwill and other intangible assets	9,922	11,446	223,600
Foreclosed property	47,584	142,208	123,910
Net deferred tax asset	261,268	166,937	111,485
Other assets	172,074	183,160	249,057
Total assets	$ 7,409,669	$ 7,443,196	$ 7,652,484
LIABILITIES AND SHAREHOLDERS EQUITY			
Liabilities:			
Deposits:			
Demand	$ 899,017	$ 793,414	$ 779,934
NOW	1,306,109	1,424,781	1,326,861
Money market	989,600	891,252	756,370
Savings	197,927	183,894	185,176
Time:			
Less than $100,000	1,508,444	1,496,700	1,575,211
Greater than $100,000	981,154	1,002,359	1,093,975
Brokered	300,964	676,772	611,985
Total deposits	6,183,215	6,469,172	6,329,512
Federal funds purchased, repurchase agreements, and other short-term borrowings	103,666	101,067	104,127
Federal Home Loan Bank advances	40,625	55,125	104,138
Long-term debt	150,186	150,146	150,106
Unsettled securities purchases	35,634		20,941
Accrued expenses and other liabilities	36,368	32,171	39,243

Total liabilities	6,549,694	6,807,681	6,748,067
Shareholders equity:			
Preferred stock, $1 par value; 10,000,000 shares authorized;			
Series A; $10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; $1,000 stated value; 180,000 shares issued and outstanding	176,392	175,711	175,050
Series D; $1,000 stated value; 16,613 shares issued and outstanding	16,613		
Common stock, $1 par value; 100,000,000 shares authorized; 41,554,874, 18,937,001 and 18,856,185 shares issued and outstanding	41,555	18,937	18,856
Common stock, non-voting, $1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding	15,914		
Common stock issuable; 83,575, 67,287 and 56,954 shares	3,574	3,894	3,898
Capital surplus	1,051,607	741,244	739,261
Accumulated deficit	(476,230)	(335,567)	(77,590)
Accumulated other comprehensive income	30,333	31,079	44,725
Total shareholders equity	859,975	635,515	904,417
Total liabilities and shareholders equity	$ 7,409,669	$ 7,443,196	$ 7,652,484

See accompanying notes to consolidated financial statements.

Table of Contents

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

are and per share data)	Series A	Series B	Preferred Stock Series D	Series F	Series G	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	(Accumulat Deficit) Retained Earnings	Co
, 2009	$ 217	$ 174,408	$	$	$	$ 18,809	$	$ 3,597	$ 697,271	$ 20,384	
:											
										(92,825)	
ss:											
s on available for sale											
ed tax expense and											
ent											
rivative financial											
s cash flow hedges, net											
										(92,825)	
uments in private equity											
									39,813		
o dividend Reinvestment											
efit plans (41,818 shares)						42			898		
ption and restricted stock									1,428		
ck (2,112 shares issued,											
						2		607	(609)		
plan, net, including											
								162			
rred compensation plan											
						3		(468)	460		
preferred stock										(7)	
preferred stock		642								(5,142)	
)	$ 217	$ 175,050	$	$	$	$ 18,856	$	$ 3,898	$ 739,261	$ (77,590)	
, 2010	$ 217	$ 175,711	$	$	$	$ 18,937	$	$ 3,894	$ 741,244	$ (335,567)	
										(134,869)	
ss:											
s on available for sale											
ed tax expense and											
ent											
rivative financial											
s cash flow hedges, net											

										(134,869
omplete private equity xpense									2,375	
quity exchange related to n plan (1,551,126			16,613			(1,551)			(15,062)	
and Series G Preferred g and 15,914,209 ares)				(195,872)	(151,185)	20,618	15,914		310,525	
o dividend reinvestment efit plans (78,584 shares)						79			665	
stock issued (3,467,699				195,872	151,185	3,468			11,035	
ptions and restricted									758	
ck (1,417 shares issued,						1		54	(55)	
plan, net, including								127		
rred compensation plan						3		(501)	498	
and restricted stock									(376)	
preferred stock										(7
preferred stock		681								(5,200
preferred stock										(587
.	$ 217	$ 176,392	$ 16,613	$	$	$ 41,555	$ 15,914	$ 3,574	$ 1,051,607	$ (476,230

Comprehensive income (loss) for the second quarters of 2011 and 2010 was $10,454,000 and $(60,133,000), respectively.

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

(in thousands)	Six Months Ended June 30, 2011	2010
Operating activities:		
Net loss	$ (134,869)	$ (92,825)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	9,374	7,747
Provision for loan losses	201,000	136,500
Stock based compensation	758	1,428
Securities gains, net	(838)	(61)
Losses and write downs on sales of other real estate owned	60,505	19,289
Gain from sale of subsidiary		(2,110)
Loss on sale of nonperforming assets		45,349
Loss on prepayment of borrowings	791	
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(49,255)	(55,249)
Accrued expenses and other liabilities	1,078	(6,888)
Mortgage loans held for sale	16,502	7,521
Net cash provided by operating activities	105,046	60,701
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls	34,742	12,059
Purchases	(141,862)	(19,617)
Investment securities available for sale:		
Proceeds from sales	106,603	40,817
Proceeds from maturities and calls	220,018	432,436
Purchases	(875,250)	(398,877)
Net decrease in loans	64,778	50,600
Proceeds from loan sales	99,298	22,331
Proceeds from sales of premises and equipment	534	39
Purchases of premises and equipment	(5,276)	(3,601)
Net cash received from sale of subsidiary		290
Net cash received from sale of nonperforming assets		20,618
Proceeds from sale of other real estate	60,310	80,898
Net cash (used in) provided by investing activities	(436,105)	237,993
Financing activities:		
Net change in deposits	(285,957)	(295,729)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	2,599	2,738
Repayments of FHLB advances	(15,291)	(10,000)

Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	744	935
Proceeds from issuance of common and preferred stock, net of offering costs	361,560	
Proceeds from penalty on incomplete private equity transaction	3,250	
Cash dividends on preferred stock	(5,113)	(4,507)
Net cash provided by (used in) financing activities	61,792	(306,563)
Net change in cash and cash equivalents	(269,267)	(7,869)
Cash and cash equivalents at beginning of period	649,457	376,367
Cash and cash equivalents at end of period	$ 380,190	$ 368,498
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 36,703	$ 60,083
Income taxes	1,527	819
Unsettled securities purchases	35,634	20,941

See accompanying notes to consolidated financial statements.

5

Table of Contents

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

Note 1 Accounting Policies

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

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

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

Note 2 Accounting Standards Updates

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU No. 2011-04). ASU No. 2011-04 primarily represents clarification to existing guidance. It does change the concepts of the valuation premise and highest and best use, stating that they are only relevant for nonfinancial assets. The guidance also changes the application of premiums and discounts and includes new disclosures. ASU No. 2011-04 is effective for United in the first quarter of 2012. Although evaluation of the impact is not complete, it is not expected to have a material impact on United s results of operations, financial position, or disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU No. 2011-05). ASU No. 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The guidance is effective for United for the first quarter of 2012, and will not have a material impact on United s results of operations or financial position. It will result in a change of disclosure, as United currently presents other comprehensive income in the statement of changes in shareholders equity. United will apply these disclosure changes retrospectively as required by the standard.

Note 3 Mergers and Acquisitions

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

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

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

Table of Contents

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

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

(in thousands)	Purchased Impaired Loans	Other Purchased Loans	Other	Total
Commercial (secured by real estate)	$	$ 43,179	$	$ 43,179
Commercial (commercial and industrial)		3,133		3,133
Construction and land development	1,729	13,505		15,234
Residential mortgage	186	8,913		9,099
Installment	6	188		194
Total covered loans	1,921	68,918		70,839
Covered forclosed property			8,270	8,270
Estimated loss reimbursement from the FDIC			16,617	16,617
Total covered assets	$ 1,921	$ 68,918	$ 24,887	$ 95,726

Note 4 Securities

During the second quarter of 2010, securities available for sale with a fair value of $315 million were transferred to held to maturity. The securities were transferred at their fair value on the date of transfer. The unrealized gain of $7.1 million on the transferred securities on the date of transfer is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities. Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost.

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at June 30, 2011, December 31, 2010 and June 30, 2010 are as follows *(in thousands)*.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2011				
U.S. Government agencies	$ 5,000	$	$	$ 5,000
State and political subdivisions	49,122	1,823	292	50,653
Mortgage-backed securities (1)	317,456	6,184	62	323,578
Total	$ 371,578	$ 8,007	$ 354	$ 379,231
As of December 31, 2010				
U.S. Government agencies	$ 11,939	$ 79	$	$ 12,018
State and political subdivisions	47,007	416	1,005	46,418
Mortgage-backed securities (1)	206,861	2,700	9	209,552
Total	$ 265,807	$ 3,195	$ 1,014	$ 267,988

As of June 30, 2010				
U.S. Government agencies	$ 70,284	$ 1,076	$	$ 71,360
State and political subdivisions	26,246	252	7	26,491
Mortgage-backed securities [1]	225,618	4,046	18	229,646
Total	$ 322,148	$ 5,374	$ 25	$ 327,497

(1) All are residential type mortgage-backed securities

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2011				
U.S. Government agencies	$ 77,930	$ 61	$ 514	$ 77,477
State and political subdivisions	25,569	1,207	4	26,772
Mortgage-backed securities [(1)]	1,556,910	35,991	283	1,592,618
Other	121,473	100	1,827	119,746
Total	$ 1,781,882	$ 37,359	$ 2,628	$ 1,816,613
As of December 31, 2010				
U.S. Government agencies	$ 99,969	$ 67	$ 1,556	$ 98,480
State and political subdivisions	27,600	878	36	28,442
Mortgage-backed securities [(1)]	963,475	29,204	1,671	991,008
Other	107,811	192	1,516	106,487
Total	$ 1,198,855	$ 30,341	$ 4,779	$ 1,224,417
As of June 30, 2010				
U.S. Government agencies	$ 216,759	$ 936	$	$ 217,695
State and political subdivisions	32,998	1,001	14	33,985
Mortgage-backed securities [(1)]	864,141	37,730	1,103	900,768
Other	13,160	168		13,328
Total	$ 1,127,058	$ 39,835	$ 1,117	$ 1,165,776

(1) All are residential type mortgage-backed securities

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2011						
State and political subdivisions	$ 10,160	$ 292	$	$	$ 10,160	$ 292
Mortgage-backed securities	25,160	60	1,937	2	27,097	62
Total unrealized loss position	$ 35,320	$ 352	$ 1,937	$ 2	$ 37,257	$ 354

As of December 31, 2010						
State and political subdivisions	$ 28,949	$ 1,005	$	$	$ 28,949	$ 1,005
Mortgage-backed securities	1,951	9			1,951	9
Total unrealized loss position	$ 30,900	$ 1,014	$	$	$ 30,900	$ 1,014
As of June 30, 2010						
State and political subdivisions	$ 1,145	$ 7	$	$	$ 1,145	$ 7
Mortgage-backed securities	1,963	18			1,963	18
Total unrealized loss position	$ 3,108	$ 25	$	$	$ 3,108	$ 25

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

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2011						
U.S. Government agencies	$ 54,482	$ 514	$	$	$ 54,482	$ 514
State and political subdivisions	301		10	4	311	4
Mortgage-backed securities	169,907	283			169,907	283
Other	97,145	1,827			97,145	1,827
Total unrealized loss position	$ 321,835	$ 2,624	$ 10	$ 4	$ 321,845	$ 2,628
As of December 31, 2010						
U.S. Government agencies	$ 68,412	$ 1,556	$	$	$ 68,412	$ 1,556
State and political subdivisions	1,082	30	12	6	1,094	36
Mortgage-backed securities	59,505	1,630	2,799	41	62,304	1,671
Other	69,985	1,516			69,985	1,516
Total unrealized loss position	$ 198,984	$ 4,732	$ 2,811	$ 47	$ 201,795	$ 4,779
As of June 30, 2010						
State and political subdivisions	$ 300	$ 2	$ 401	$ 12	$ 701	$ 14
Mortgage-backed securities	19,499	456	25,639	647	45,138	1,103
Total unrealized loss position	$ 19,799	$ 458	$ 26,040	$ 659	$ 45,839	$ 1,117

At June 30, 2011, there were 28 available for sale securities and 13 held to maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2011 were primarily attributable to changes in interest rates.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Proceeds from sales	$ 55,363	$	$ 106,603	$ 40,817
Gross gains on sales	$ 838	$	$ 1,169	$ 1,260
Gross losses on sales	55		331	249
Impairment losses				950
Net gains on sales of securities	$ 783	$	$ 838	$ 61
Income tax expense attributable to sales	$ 305	$	$ 326	$ 24

Table of Contents

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

Securities with a carrying value of $2.11 billion, $1.43 billion, and $1.12 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at June 30, 2011, December 31, 2010 and June 30, 2010.

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

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government agencies:				
5 to 10 years	$ 64,350	$ 64,034	$	$
More than 10 years	13,580	13,443	5,000	5,000
	77,930	77,477	5,000	5,000
State and political subdivisions:				
Within 1 year	4,715	4,781		
1 to 5 years	14,682	15,485	2,025	2,078
5 to 10 years	5,324	5,627	21,273	22,336
More than 10 years	848	879	25,824	26,239
	25,569	26,772	49,122	50,653
Other:				
1 to 5 years	18,475	17,962		
5 to 10 years	99,546	99,033		
More than 10 years	3,452	2,751		
	121,473	119,746		
Total securities other than mortgage-backed securities:				
Within 1 year	4,715	4,781		
1 to 5 years	33,157	33,447	2,025	2,078
5 to 10 years	169,220	168,694	21,273	22,336
More than 10 years	17,880	17,073	30,824	31,239
Mortgage-backed securities	1,556,910	1,592,618	317,456	323,578
	$ 1,781,882	$ 1,816,613	$ 371,578	$ 379,231

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

Table of Contents

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

Note 5 Loans and Allowance for Loan Losses

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

	June 30, 2011	December 31, 2010	June 30, 2010
Commercial (secured by real estate)	$ 1,741,754	$ 1,761,424	$ 1,780,142
Commercial construction	195,190	296,582	342,140
Commercial (commercial and industrial)	428,058	441,518	441,097
Total commercial	2,365,002	2,499,524	2,563,379
Residential construction	501,909	695,166	819,930
Residential mortgage	1,177,226	1,278,780	1,355,582
Consumer installment	119,310	130,656	134,139
Total loans	4,163,447	4,604,126	4,873,030
Less allowance for loan losses	127,638	174,695	174,111
Loans, net	$ 4,035,809	$ 4,429,431	$ 4,698,919

The Bank makes loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.
Changes in the allowance for loan losses for the three and six months ended June 30, 2011 and 2010 are summarized as follows *(in thousands)*.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance beginning of period	$ 133,121	$ 173,934	$ 174,695	$ 155,602
Provision for loan losses	11,000	61,500	201,000	136,500
Charge-offs:				
Commercial (secured by real estate)	3,433	9,791	52,140	12,727
Commercial construction	980	1,460	50,695	3,671
Commercial (commercial and industrial)	604	1,764	4,966	6,318
Residential construction	6,769	41,781	99,024	85,971
Residential mortgage	4,667	6,752	41,343	11,392
Consumer installment	883	1,417	1,979	2,546
Total loans charged-off	17,336	62,965	250,147	122,625
Recoveries:				
Commercial (secured by real estate)	174	34	274	1,006
Commercial construction	111		111	5
Commercial (commercial and industrial)	81	897	403	1,341
Residential construction	140	266	257	1,356

Residential mortgage		78		235		371		324
Consumer installment		269		210		674		602
Total recoveries		853		1,642		2,090		4,634
Net charge-offs		16,483		61,323		248,057		117,991
Balance end of period	$	127,638	$	174,111	$	127,638	$	174,111

Table of Contents

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

At June 30, 2011, December 31, 2010 and June 30, 2010, loans with a carrying value of $991 million, $1.02 billion and $1.50 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

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

	Commercial (Secured by Real Estate)	Commercial Construction	Commercial (Commercial and Industrial)	Residential Construction	Residential Mortgage	Consumer Installment	Unallocated	Total
Six Months Ended June 30, 2011								
Allowance for loan losses:								
Beginning balance	$ 31,191	$ 6,780	$ 7,580	$ 92,571	$ 22,305	$ 3,030	$ 11,238	$ 174,695
Charge-offs	(52,140)	(50,695)	(4,966)	(99,024)	(41,343)	(1,979)		(250,147)
Recoveries	274	111	403	257	371	674		2,090
Provision	42,671	51,256	4,016	55,249	49,063	498	(1,753)	201,000
Ending balance	$ 21,996	$ 7,452	$ 7,033	$ 49,053	$ 30,396	$ 2,223	$ 9,485	$ 127,638
Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 78	$ 450	$	$	$ 639	$	$	$ 1,167
Collectively evaluated for impairment	21,918	7,002	7,033	49,053	29,757	2,223	9,485	126,471
Total ending allowance balance	$ 21,996	$ 7,452	$ 7,033	$ 49,053	$ 30,396	$ 2,223	$ 9,485	$ 127,638
Loans:								
Individually evaluated for impairment	$ 14,780	$ 1,015	$	$ 12,611	$ 7,247	$	$	$ 35,653
Collectively evaluated for impairment	1,726,974	194,175	428,058	489,298	1,169,979	119,310		4,127,794

Total loans	$ 1,741,754	$ 195,190	$ 428,058	$ 501,909	$ 1,177,226	$ 119,310	$	$ 4,163,447
December 31, 2010								
Allowance for loan losses:								
Ending allowance attributable to loans:								
Individually evaluated for impairment	$ 268	$	$	$ 644	$ 137	$	$	$ 1,049
Collectively evaluated for impairment	30,923	6,780	7,580	91,927	22,168	3,030	11,238	173,646
Total ending allowance balance	$ 31,191	$ 6,780	$ 7,580	$ 92,571	$ 22,305	$ 3,030	$ 11,238	$ 174,695
Loans:								
Individually evaluated for impairment	$ 41,818	$ 20,311	$ 5,874	$ 39,505	$ 15,468	$	$	$ 122,976
Collectively evaluated for impairment	1,719,606	276,271	435,644	655,661	1,263,312	130,656		4,481,150
Total loans	$ 1,761,424	$ 296,582	$ 441,518	$ 695,166	$ 1,278,780	$ 130,656	$	$ 4,604,126
Six Months Ended June 30, 2010								
Allowance for loan losses:								
Beginning balance	$ 19,208	$ 5,861	$ 6,892	$ 93,585	$ 17,266	$ 2,545	$ 10,245	$ 155,602
Charge-offs	(12,727)	(3,671)	(6,318)	(85,971)	(11,392)	(2,546)		(122,625)
Recoveries	1,006	5	1,341	1,356	324	602		4,634
Provision	11,726	6,209	7,365	95,794	13,005	2,171	230	136,500
Ending balance	$ 19,213	$ 8,404	$ 9,280	$ 104,764	$ 19,203	$ 2,772	$ 10,475	$ 174,111
Ending allowance attributable to loans:								

Individually evaluated for impairment	$	$ 203	$ 30	$ 685	$ 222	$	$	$ 1,140
Collectively evaluated for impairment	19,213	8,201	9,250	104,079	18,981	2,772	10,475	172,971
Total ending allowance balance	$ 19,213	$ 8,404	$ 9,280	$ 104,764	$ 19,203	$ 2,772	$ 10,475	$ 174,111
Loans:								
Individually evaluated for impairment	$ 48,018	$ 16,917	$ 7,909	$ 65,622	$ 24,106	$	$	$ 162,572
Collectively evaluated for impairment	1,732,124	325,223	433,188	754,308	1,331,476	134,139		4,710,458
Total loans	$ 1,780,142	$ 342,140	$ 441,097	$ 819,930	$ 1,355,582	$ 134,139	$	$ 4,873,030

United reviews all loans that are on nonaccrual with a balance of $500,000 or greater for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan s effective interest rate, at the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

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

Table of Contents

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

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

	June 30, 2011	December 31, 2010	June 30, 2010
Period-end loans with no allocated allowance for loan losses	$ 32,791	$ 115,338	$ 150,083
Period-end loans with allocated allowance for loan losses	2,862	7,638	12,489
Total	$ 35,653	$ 122,976	$ 162,572
Amount of allowance for loan losses allocated	$ 1,167	$ 1,049	$ 1,140

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Average balance of individually evaluated impaired loans during period	$ 42,099	$ 171,469	$ 68,631	$ 191,161
Interest income recognized during impairment				
Cash-basis interest income recognized				

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

	June 30, 2011			December 31, 2010			June 30, 2010		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:									
Commercial (secured by real estate)	$ 19,653	$ 13,572	$	$ 60,238	$ 39,588	$	$ 63,663	$ 48,018	$
Commercial construction				33,898	20,311		21,563	11,810	
Commercial (commercial and industrial)				10,115	5,874		9,212	7,172	
	19,653	13,572		104,251	65,773		94,438	67,000	

Total commercial									
Residential construction	27,441	12,611		59,502	34,597		128,082	62,595	
Residential mortgage	10,006	6,608		21,528	14,968		28,026	20,488	
Consumer installment									
Total with no related allowance recorded	57,100	32,791		185,281	115,338		250,546	150,083	
With an allowance recorded:									
Commercial (secured by real estate)	1,398	1,208	78	2,230	2,230	268			
Commercial construction	1,441	1,015	450				5,146	5,107	203
Commercial (commercial and industrial)							737	737	30
Total commercial	2,839	2,223	528	2,230	2,230	268	5,883	5,844	233
Residential construction				14,480	4,908	644	3,197	3,027	685
Residential mortgage	639	639	639	500	500	137	3,618	3,618	222
Consumer installment									
Total with an allowance recorded	3,478	2,862	1,167	17,210	7,638	1,049	12,698	12,489	1,140
Total	$ 60,578	$ 35,653	$ 1,167	$ 202,491	$ 122,976	$ 1,049	$ 263,244	$ 162,572	$ 1,140

There were no loans more than 90 days past due and still accruing interest at June 30, 2011, December 31, 2010 or June 30, 2010. Nonaccrual loans at June 30, 2011, December 31, 2010 and June 30, 2010 were $71.1 million, $179 million and $224 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

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

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

	Nonaccrual Loans		
	June 30, 2011	December 31, 2010	June 30, 2010
Commercial (secured by real estate)	$ 17,764	$ 44,927	$ 56,013
Commercial construction	2,782	21,374	17,872
Commercial (commercial and industrial)	1,998	5,611	7,245
Total commercial	22,544	71,912	81,130
Residential construction	22,643	54,505	88,375
Residential mortgage	24,809	51,083	53,175
Consumer installment	1,069	1,594	1,655
Total	$ 71,065	$ 179,094	$ 224,335
Balance as a percentage of unpaid principal	64.5%	67.2%	69.4%

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011, December 31, 2010 and June 30, 2010 by class of loans *(in thousands)*.

As of June 30, 2011	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial (secured by real estate)	$ 6,990	$ 2,001	$ 11,605	$ 20,596	$ 1,721,158	$ 1,741,754
Commercial construction	930	651	1,985	3,566	191,624	195,190
Commercial (commercial and industrial)	1,496	624	809	2,929	425,129	428,058
Total commercial	9,416	3,276	14,399	27,091	2,337,911	2,365,002
Residential construction	2,942	2,242	15,774	20,958	480,951	501,909
Residential mortgage	13,788	3,594	12,678	30,060	1,147,166	1,177,226
Consumer installment	1,234	353	273	1,860	117,450	119,310
Total loans	$ 27,380	$ 9,465	$ 43,124	$ 79,969	$ 4,083,478	$ 4,163,447
As of December 31, 2010						
Commercial (secured by real estate)	$ 10,697	$ 3,672	$ 19,457	$ 33,826	$ 1,727,598	$ 1,761,424

Commercial construction	4,616	2,917	9,189	16,722	279,860	296,582
Commercial (commercial and industrial)	2,016	2,620	3,092	7,728	433,790	441,518
Total commercial	17,329	9,209	31,738	58,276	2,441,248	2,499,524
Residential construction	13,599	5,158	34,673	53,430	641,736	695,166
Residential mortgage	24,375	7,780	38,209	70,364	1,208,416	1,278,780
Consumer installment	2,104	462	808	3,374	127,282	130,656
Total loans	$ 57,407	$ 22,609	$ 105,428	$ 185,444	$ 4,418,682	$ 4,604,126
As of June 30, 2010						
Commercial (secured by real estate)	$ 18,192	$ 8,636	$ 36,010	$ 62,838	$ 1,717,304	$ 1,780,142
Commercial construction	10,563	1,307	10,451	22,321	319,819	342,140
Commercial (commercial and industrial)	4,175	1,668	3,775	9,618	431,479	441,097
Total commercial	32,930	11,611	50,236	94,777	2,468,602	2,563,379
Residential construction	33,499	10,224	48,302	92,025	727,905	819,930
Residential mortgage	28,905	7,707	40,271	76,883	1,278,699	1,355,582
Consumer installment	2,776	618	754	4,148	129,991	134,139
Total loans	$ 98,110	$ 30,160	$ 139,563	$ 267,833	$ 4,605,197	$ 4,873,030

Table of Contents

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

There were no specific reserves established for loans considered to be troubled debt restructurings at June 30, 2011 and June 30, 2010. As of December 31, 2010, $173,000 of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. United committed to lend additional amounts totaling up to $396,000, $1.17 million, and $1.19 million as of June 30, 2011 and December 31, 2010, and June 30, 2010 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment. Also included in the table are the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted *(dollars in thousands)*.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Troubled Debt Restructurings That Have Subsequently Defaulted Number of Contracts	Troubled Debt Restructurings That Have Subsequently Defaulted Recorded Investment
As of June 30, 2011					
Commercial (secured by real estate)	31	$ 24,946	$ 21,998	4	$ 1,580
Commercial construction	5	9,477	9,477		
Commercial (commercial and industrial)	5	156	156		
Total commercial	41	34,579	31,631	4	1,580
Residential construction	46	11,741	10,718	4	763
Residential mortgage	29	3,937	3,784	2	155
Consumer installment	6	111	111		
Total loans	122	$ 50,368	$ 46,244	10	$ 2,498
As of December 31, 2010					
Commercial (secured by real estate)	41	$ 40,649	$ 36,759	3	$ 1,402
Commercial construction	16	37,980	37,067	2	1,083
Commercial (commercial and industrial)	7	645	364	1	7
Total commercial	64	79,274	74,190	6	2,492
Residential construction	63	22,012	20,782	11	2,028
Residential mortgage	43	6,574	6,285	4	324
Consumer installment	7	124	124		
Total loans	177	$ 107,984	$ 101,381	21	$ 4,844

As of June 30, 2010

Commercial (secured by real estate)	44	$	34,629	$	32,986	1	$	103
Commercial construction	8		18,437		18,402			
Commercial (commercial and industrial)	7		265		265			
Total commercial	59		53,331		51,653	1		103
Residential construction	44		20,234		18,758	7		1,478
Residential mortgage	33		6,980		6,518	2		639
Consumer installment	5		987		987			
Total loans	141	$	81,532	$	77,916	10	$	2,220

Risk Ratings

United categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. United uses the following definitions for its risk ratings:

Watch. Weakness exists that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Table of Contents

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

Substandard. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

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

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

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

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

	Pass	Watch	Substandard	Doubtful / Loss	Not Rated	Total
As of June 30, 2011						
Commercial (secured by real estate)	$ 1,508,284	$ 98,175	$ 135,295	$	$	$ 1,741,754
Commercial construction	143,609	17,452	34,129			195,190
Commercial (commercial and industrial)	404,704	3,682	18,647		1,025	428,058
Total commercial	2,056,597	119,309	188,071		1,025	2,365,002
Residential construction	353,769	51,223	96,917			501,909
Residential mortgage	1,046,255	35,775	95,196			1,177,226
Consumer installment	114,718	608	3,984			119,310
Total loans	$ 3,571,339	$ 206,915	$ 384,168	$	$ 1,025	$ 4,163,447
As of December 31, 2010						
Commercial (secured by real estate)	$ 1,476,974	$ 82,762	$ 201,688	$	$	$ 1,761,424
Commercial construction	174,049	10,413	112,120			296,582
Commercial (commercial and industrial)	402,969	15,153	22,379		1,017	441,518
Total commercial	2,053,992	108,328	336,187		1,017	2,499,524
Residential construction	398,926	82,973	213,267			695,166
Residential mortgage	1,103,487	38,378	136,915			1,278,780
Consumer installment	125,134	650	4,872			130,656
Total loans	$ 3,681,539	$ 230,329	$ 691,241	$	$ 1,017	$ 4,604,126

As of June 30, 2010

Commercial (secured by real estate)	$ 1,500,246	$ 83,078	$ 196,818	$	$	$ 1,780,142
Commercial construction	210,471	35,360	96,309			342,140
Commercial (commercial and industrial)	402,795	7,858	29,285		1,159	441,097
Total commercial	2,113,512	126,296	322,412		1,159	2,563,379
Residential construction	485,047	97,208	237,675			819,930
Residential mortgage	1,173,580	49,337	132,665			1,355,582
Consumer installment	127,717	410	6,008	4		134,139
Total loans	$ 3,899,856	$ 273,251	$ 698,760	$ 4	$ 1,159	$ 4,873,030

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

Note 6 Foreclosed Property

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

	June 30, 2011	December 31, 2010	June 30, 2010
Commercial (secured by real estate)	$ 11,944	$ 25,893	$ 14,390
Commercial construction	6,764	17,808	11,699
Total commercial	18,708	43,701	26,089
Residential construction	47,916	91,385	80,327
Residential mortgage	11,346	23,687	26,066
Total foreclosed property	77,970	158,773	132,482
Less valuation allowance	30,386	16,565	8,572
Foreclosed property, net	$ 47,584	$ 142,208	$ 123,910
Balance as a percentage of original loan unpaid principal	32.6%	64.4%	71.9%

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Balance at beginning of year	$ 53,023	$ 9,992	$ 16,565	$ 7,433
Additions charged to expense	3,118	6,094	51,703	10,673
Direct write downs	(25,755)	(7,514)	(37,882)	(9,534)
Balance at end of period	$ 30,386	$ 8,572	$ 30,386	$ 8,572

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net (gain) loss on sales	$ (3,218)	$ 5,098	$ 8,802	$ 8,616
Provision for unrealized losses	3,118	6,094	51,703	10,673
Operating expenses, net of rental income	1,991	3,348	6,285	6,064
Total foreclosed property expense	$ 1,891	$ 14,540	$ 66,790	$ 25,353

Table of Contents

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

Note 7 Earnings Per Share

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Series A	6% fixed	$ 4	$ 4	$ 7	$ 7
Series B	5% fixed until December 6, 2013, 9% thereafter	2,598	2,573	5,200	5,142
Series D	LIBOR plus 9.6875%, resets quarterly	414		587	
Total preferred stock dividends		$ 3,016	$ 2,577	$ 5,794	$ 5,149

All preferred stock dividends are payable quarterly.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss available to common shareholders	$ 4,601	$ (62,109)	$ (140,663)	$ (97,974)
Weighted average shares outstanding:				
Basic	25,427	18,905	21,965	18,891
Effect of dilutive securities				
Convertible securities	32,116			
Stock options				
Warrants				
Diluted	57,543	18,905	21,965	18,891
Loss per common share:				
Basic	$ .18	$ (3.29)	$ (6.40)	$ (5.19)

Diluted	$	.08	$	(3.29)	$	(6.40)	$	(5.19)

At June 30, 2011, United had a number of potentially dilutive securities outstanding including a warrant to purchase 219,909 common shares at $61.40 per share issued to the U.S. Treasury in connection with the issuance of United s Series B preferred stock; 129,670 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of $100 per share; 606,112 shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $96.11; 390,947 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 shares issuable upon exercise of warrants exercisable at $21.25 per share granted to Fletcher International in connection with a 2010 asset purchase and sale agreement; 2,476,191 shares issuable upon conversion of preferred stock if Fletcher International exercises its option to purchase $65 million in convertible preferred stock, convertible at $26.25 per share; 1,162,791 shares issuable upon exercise of warrants, exercisable at $30.10 per share to be granted to Fletcher International upon exercise of its option to acquire preferred stock; and 1,551,126 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at $12.50 per share.

Table of Contents

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

Note 8 Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

The table below presents the fair value of United s derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2011, December 31, 2010 and June 30, 2010.

Derivatives designated as hedging instruments under ASC 815 *Hedge Accounting (in thousands).*

		Fair Value		
Interest Rate Products	**Balance Sheet Location**	**June 30, 2011**	**December 31, 2010**	**June 30, 2010**
Asset derivatives	Other assets	$	$	$ 1,167

As of June 30, 2011, December 31, 2010 and June 30, 2010, United did not have any derivatives in a net liability position.

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated, and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2010, such derivatives were used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2011, $2.81 million and $4.11 million, respectively, in hedge ineffectiveness was recognized in other fee revenue. During the three and six months ended June 30, 2010, $120,000 and $642,000, respectively, in hedge ineffectiveness was recognized in other fee revenue.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United s prime-based, variable-rate loans. At June 30, 2011, the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three and six months ended June 30, 2011, United accelerated the reclassification of $2.81 million and

$4.11 million, respectively, in gains from terminated positions as a result of forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that an additional $7.24 million of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

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

Table of Contents

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

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2011 and 2010, United recognized net gains of $119,000 and $207,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of $1.38 million for the three months ended June 30, 2010 related to United s fair value hedges, which includes net settlements on the derivatives. For the six months ended June 30, 2010, United recognized a net reduction of interest expense of $3.16 million, related to United s fair value hedges. There were no active fair value hedges during the first six months of 2011.

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

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

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

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative 2011	Amount of Gain (Loss) Recognized in Income on Derivative 2010	Amount of Gain (Loss) Recognized in Income on Hedged Item 2011	Amount of Gain (Loss) Recognized in Income on Hedged Item 2010
Three Months Ended June 30,				
Other fee revenue	$	$ (1,397)	$	$ 1,516
Six Months Ended June 30,				
Other fee revenue	$	$ (2,592)	$	$ 2,799

Derivatives in Cash Flow Hedging Relationships *(in thousands).*

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) 2011	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion) 2010	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) Location	2011	2010
Three Months Ended June 30,					
			Interest revenue	$ 2,589	$ 4,922
			Other income	2,809	120
Interest rate products	$	$ 840	Total	$ 5,398	$ 5,042
Six Months Ended June 30,					
				$ 5,512	$ 10,934

			Interest revenue				
			Other income		4,112		643
Interest rate products	$	$ 2,314	Total	$	9,624	$	11,577

Credit-risk-related Contingent Features

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

Table of Contents

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

Note 9 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 June 30, 2011, 336,700 additional awards could be granted under the plan, subject to shareholder approval of a 400,000 increase in shares available under the plan. Through June 30, 2011, incentive stock options, nonqualified stock options, restricted stock awards and units and base salary stock grants had been granted under the plan.

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

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2010	678,313	$ 92.99		
Forfeited	(6,527)	42.59		
Expired	(65,674)	69.26		
Outstanding at June 30, 2011	606,112	96.11	4.4	$
Exercisable at June 30, 2011	548,453	100.77	4.0	

No options were granted during the first six months of 2011. The fair value of each option is estimated on the date of grant using the Black-Scholes model. Because United s option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the SEC in Staff Accounting Bulletin (SAB) No. 107 to determine the expected life of options.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Expected volatility	NA	55.00%
Expected dividend yield	NA	0.00%
Expected life (in years)	NA	6.14
Risk-free rate	NA	3.19%

For 2010, expected volatility was determined using United s historical monthly volatility for over a period of 25 quarters ending December 31, 2009. Compensation expense relating to stock options of $465,000 and $1.1 million was included in earnings for the six months ended June 30, 2011 and 2010, respectively. Deferred tax benefits of $181,000 and $430,000, respectively, were included in the determination of income tax benefit for the six month periods ended June 30, 2011 and 2010. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that are expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first six months of 2011 or 2010.

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

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

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2010	23,214	$ 59.67
Granted	375,532	10.25
Vested	(7,799)	51.86
Outstanding at June 30, 2011	390,947	12.35

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United s common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the six months ended June 30, 2011 and 2010, compensation expense of $293,000 and $325,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was $4.12 million at June 30, 2011.

As of June 30, 2011, there was $5.18 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.51 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2011, was $1.99 million.

Note 10 Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan (DRIP) that allows participants who already own United s common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. 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 six months ended June 30, 2011 and 2010, United issued 78,584 and 41,818 shares, respectively, and increased capital by $744,000 and $940,000, respectively, through these programs. The DRIP program has been suspended until 2012 when United expects to regain its S-3 filing status.

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 June 30, 2011 and 2010, 83,575 and 56,954 shares, respectively, were issuable under the deferred compensation plan.

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

During the first quarter of 2011, United entered into investment agreements (the Investment Agreements) with Corsair Georgia, L.P. (Corsair) and a group of institutional investors (the Additional Investors). United issued 3,467,699 of the Company s common stock for $9.50 per share, 195,872 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the Series F Preferred Stock), and 151,185 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the Series G Preferred Stock). Under the terms of the

Investment Agreements and following receipt of required shareholder approvals which were received on June 16, 2011, at United s annual shareholders meeting, the Series F Preferred Stock converted into 20,618,090 shares of voting common stock and the Series G Preferred Stock converted into 15,914,209 shares of non-voting common stock. This private placement transaction resulted in an increase to shareholders equity of $362 million, net of $18.4 million in issuance costs. Following conversion of the convertible preferred stock, Corsair owned approximately 22.5% of United s total outstanding common stock. The Additional Investors owned approximately 47.2% of United s outstanding common stock.

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

Note 11 Reclassifications and Reverse Stock Split

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

Note 12 Discontinued Operations

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

Note 13 Transaction with Fletcher International

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

As part of the agreement, Fletcher received a warrant to acquire 1,411,765 shares of United s common stock at a price of $21.25 per share. The warrant has a nine year term and expires on May 26, 2019. To date, the warrant has not been exercised. In accordance with the terms of the securities purchase agreement, Fletcher has the right during the next two years to purchase up to $65 million in United s Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock pays a dividend equal to the lesser of 8% or LIBOR plus 4%. The Series C Convertible Preferred Stock is convertible by Fletcher into common stock at $26.25 per share (2,476,191 shares). If Fletcher had not purchased all of the Series C Convertible Preferred Stock by May 31, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of the commitment amount not purchased by May 31, 2012. Fletcher has paid United $3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 31, 2011. The payment was recorded directly in shareholders equity, net of applicable income tax effects. Fletcher will receive an additional warrant to purchase $35 million in common stock at $30.10 per share (1,162,791 shares) when it purchases the last $35 million of Series C Convertible Preferred Stock. All of the warrants settle on a cashless exercise basis and the net shares to be delivered upon cashless exercise will be less than what would have been issuable if the warrant had been exercised for cash.

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

Note 14 Assets and Liabilities Measured at Fair Value

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 77,477	$	$ 77,477
State and political subdivisions		26,772		26,772
Mortgage-backed securities		1,588,489	4,129	1,592,618
Other		119,396	350	119,746
Deferred compensation plan assets	3,025			3,025
Total	$ 3,025	$ 1,812,134	$ 4,479	$ 1,819,638
Liabilities				
Deferred compensation plan liability	$ 3,025	$	$	$ 3,025
Total liabilities	$ 3,025	$	$	$ 3,025

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 98,480	$	$ 98,480
State and political subdivisions		28,442		28,442
Mortgage-backed securities		986,074	4,934	991,008
Other		106,137	350	106,487
Deferred compensation plan assets	3,252			3,252
Total	$ 3,252	$ 1,219,133	$ 5,284	$ 1,227,669
Liabilities				
Deferred compensation plan liability	$ 3,252	$	$	$ 3,252
Total liabilities	$ 3,252	$	$	$ 3,252

June 30, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Securities available for sale:				
U.S. Government agencies	$	$ 179,172	$ 38,523	$ 217,695
State and political subdivisions		33,985		33,985

Mortgage-backed securities				884,514		16,254		900,768
Other				12,278		1,050		13,328
Deferred compensation plan assets		2,701						2,701
Derivative financial instruments				1,167				1,167
Total	$	2,701	$	1,111,116	$	55,827	$	1,169,644
Liabilities								
Deferred compensation plan liability	$	2,701	$		$		$	2,701
Total liabilities	$	2,701	$		$		$	2,701

Table of Contents

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

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

	Securities Available for Sale
Balance at December 31, 2010	$ 5,284
Amounts included in earnings	(13)
Paydowns	(792)
Balance at June 30, 2011	$ 4,479

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

	Level 1	**Level 2**	**Level 3**	**Total**
June 30, 2011				
Assets				
Loans	$	$	$ 27,810	$ 27,810
Foreclosed properties			41,922	41,922
Total	$	$	$ 69,732	$ 69,732
December 31, 2010				
Assets				
Loans	$	$	$ 106,904	$ 106,904
Foreclosed properties			85,072	85,072
Total	$	$	$ 191,976	$ 191,976
June 30, 2010				
Assets				
Loans	$	$	$ 140,807	$ 140,807
Foreclosed properties			70,686	70,686
Total	$	$	$ 211,493	$ 211,493

Assets and Liabilities Not Measured at Fair Value

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

The short maturity of United s assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet value. As of June 30, 2010 the fair value of interest rate contracts used for balance sheet management was an asset of approximately $1.17 million. United did not have any active derivative contracts outstanding at June 30, 2011 or December 31, 2010.

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

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

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

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

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

	June 30, 2011		**December 31, 2010**		**June 30, 2010**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:						
Securities held to maturity	$ 371,578	$ 379,231	$ 265,807	$ 267,988	$ 322,148	$ 327,497
Loans, net	4,035,809	3,889,669	4,429,431	4,196,142	4,698,919	4,407,376
Liabilities:						
Deposits	6,183,215	6,174,117	6,469,172	6,481,867	6,329,512	6,350,449
Federal Home Loan Bank advances	40,625	43,763	55,125	59,498	104,138	110,964
Long-term debt	150,186	140,771	150,146	93,536	150,106	122,949

Note 15 Bulk Sale of Loans

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

Table of Contents

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

Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as believes , expects , may , will , could , should , projects , plans , goal , targets , p forma , seeks , intends , or anticipates or the negative thereof or comparable terminology. Forward-looking statemen include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carryforwards;
- the condition of the banking system and financial markets;
- the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy was to continue to deteriorate;
- our ability to raise capital as may be necessary;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- the accounting and reporting policies of United;
- if our allowance for loan losses is not sufficient to cover actual loan losses;
- we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- competition from financial institutions and other financial service providers;
- the United States Department of Treasury may change the terms of our Series B Preferred Stock;
- risks with respect to future expansion and acquisitions;
- conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the Federal Deposit Insurance Corporation (FDIC) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings; and
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that occur, or any such proceedings or enforcement actions that is more severe than we anticipate.

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

Overview

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

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At June 30, 2011 United had total consolidated assets of $7.41 billion, total loans of $4.16 billion, excluding the loans acquired from Southern Community Bank (SCB) that are covered by loss sharing agreements and therefore have a different risk profile. United also had total deposits of $6.18 billion and stockholders equity of $860 million.

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

On March 31, 2010, United sold Brintech, Inc., (Brintech) a consulting services firm for the financial services industry, resulting in a pre-tax gain of $2.1 million, net of selling costs. The income statements for all periods presented reflect Brintech as a discontinued operation with revenue, expenses and income taxes related to Brintech removed from revenue, expenses, income taxes and loss from continuing operations. The balance sheet and cash flow statement have not been adjusted to reflect Brintech as a discontinued operation as Brintech s assets and contribution to cash flows were not material.

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

Operating income (loss) from continuing operations and operating income (loss) from continuing operations per diluted share are non-GAAP performance measures. United s management believes that operating performance is useful in analyzing United s financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 35.

United reported net operating income from continuing operations of $7.62 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of $59.5 million for the second quarter of 2010. Diluted operating income from continuing operations per common share was $.08 for the second quarter of 2011, compared to a diluted operating loss from continuing operations per common share of $3.29 for the second quarter of 2010. The loss on sale of nonperforming assets to Fletcher added approximately $1.59 per share to the diluted operating loss from continuing operations for the second quarter of 2010.

For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of $135 million. This compared to a net operating loss from continuing operations of $94.0 million for the first six months of 2010, which included the $30.0 million after-tax loss from the Fletcher transaction. Net loss for the six months ended June 30, 2010, which includes discontinued operations, totaled $92.8 million. Diluted operating loss from continuing operations per common share was $6.40 for the six months ended June 30, 2011, compared with diluted operating loss from continuing operations per common share of $5.25 for the same period in 2010.

United s operating provision for loan losses was $11.0 million for the three months ended June 30, 2011, compared to $61.5 million for the same period in 2010. Net charge-offs for the second quarter of 2011 were $16.5 million, compared to $61.3 million for the second quarter of 2010. For the six months ended June 30, 2011, United s operating provision for loan losses was $201 million, compared to $137 million for the same period of 2010. Net charge-offs for the first six months of 2011 were $248 million, compared to $118 million for the first six months of 2010. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of $166 million and nonperforming loans with a pre-charge down carrying amount of $101 million were collectively written down to the expected sales proceeds of $80.6 million, in conjunction with a bulk transaction (the Bulk Loan Sale). United recognized net charge-offs of $186 million related to the transfer of loans to the held for sale classification in the first quarter. The Bulk Loan Sale was completed on April 18, 2011. Proceeds from the sale were greater than originally estimated, resulting in a reduction of second quarter charge-offs of $7.27 million. As of June 30, 2011, United s allowance for loan losses was $128 million, or 3.07% of loans, compared to $174 million, or 3.57% of loans, at

June 30, 2010. Nonperforming assets of $119 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC, decreased to 1.60% of total assets at June 30, 2011, compared to 4.32% as of December 31, 2010 and 4.55% as of June 30, 2010. The decrease in this ratio was due to the execution of a plan to sell approximately $293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately $142 million in foreclosed properties (the Problem Asset Disposition Plan) as well as a general improving trend in credit quality indicators.

Taxable equivalent net interest revenue was $58.9 million for the second quarter of 2011, compared to $61.6 million for the same period of 2010. The decrease in net interest revenue was primarily the result of a 19 basis point decrease in the net interest margin offset by a $69.3 million increase in average interest earning assets. Average loans for the quarter declined $745 million from the second quarter of 2010. Net interest margin decreased from 3.60% for the three months ended June 30, 2010 to 3.41% for the same period in 2011. For the six months ended June 30, 2011, taxable equivalent net interest revenue was $115 million, compared to $123 million for the same period of 2010. Net interest margin decreased from 3.55% for the six months ended June 30, 2010 to 3.36% for the same period in 2011. Interest reversals on performing loans that were moved to held for sale accounted for 6 basis points of the 19 basis points decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in the first six months of 2011 and lowered the margin by approximately 49 basis points in the first quarter and 76 basis points in the second quarter. In order to reduce the amount of excess liquidity, United has called its callable brokered deposits and does not plan to replace any maturing brokered deposits. Additionally, United has lowered rates on retail certificates of deposit and other deposit products which is expected to result in some balance attrition.

Operating fee revenue increased $2.33 million, or 20%, and $2.50 million, or 11% from the second quarter and first six months of 2010, respectively. The increase was primarily attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges. This helped to offset a decline in service charges and fees, which were down $385,000 and $1.11 million, respectively, for the three and six month periods, due to regulatory changes.

For the second quarter of 2011, operating expenses of $48.7 million were down $54.9 million from the second quarter of 2010. The loss on sale of nonperforming assets in 2010 represented $45.3 million of the decrease. Lower foreclosed property costs accounted for $12.6 million of the decrease. For the six months ended June 30, 2011, operating expenses of $164 million were up $5.52 million from the same period of 2010. The increase was primarily due to an increase in foreclosed property costs, in anticipation of the Bulk Loan Sale and other accelerated asset dispositions. Foreclosed property costs were up $41.4 million from the first six months of 2010.

Recent Developments

On June 16, 2011 shareholders approved the conversion of $195.9 million of Series F and $151.2 million of Series G Mandatorily Convertible Perpetual Preferred Stock into 20,618,090 shares of United s common stock and 15,914,209 shares of United s non-voting common stock, respectively. The conversion occurred as of the close of business on June 20, 2011 pursuant to the March 30, 2011 private placement agreements with a group of institutional investors.

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

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

Critical Accounting Policies

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

GAAP Reconciliation and Explanation

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

Table of Contents

Discontinued Operations

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

Transaction with Fletcher International

Description of Transaction

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

The loans made to the LLCs in connection with their respective purchases are the same for all six loans. The loans have an initial term of five years and principal and interest payments are based on a 20-year amortization schedule. The assets in the LLCs are all cross-pledged as collateral on all six loans. Correspondingly, prepayments on the loans are required as properties are sold in order for the collateral to be released upon sale. The interest rate during the loan term is fixed at 3.50% for all loans and, accordingly, each loan was recorded at a discount as the interest rate was considered below market. At the time the LLCs were formed, they were capitalized with sufficient cash to make the required 20% down payment on the purchase and 17.5% of the purchase price in cash and securities to cover the first three years of required cash flows. According to the terms of the agreements, at least one year of estimated cash flow requirements must be held in cash. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher Inc. without United s consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties. Cash flow from expected sales of underlying assets (loans/foreclosed real estate) is expected to provide sufficient cash flow to service the loans beyond the first three years and through the remainder of the loan terms. While recent news articles and other sources have questioned the financial health of Fletcher and its affiliates, the loans to the LCCs have performed according to their contractual terms since inception and there have been no delinquencies to date. As a result, even though these loans represent our largest loan relationship, we consider these loans performing and have not established specific reserves related to them. Should our assessment of this loan relationship change, we would then take appropriate action.

Also on April 1, 2010, United and Fletcher International Ltd (Fletcher Ltd , together with Fletcher Inc. and their affiliates, Fletcher), entered into a securities purchase agreement (the Securities Purchase Agreement) pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United s Series C convertible preferred stock, par value $1.00 per share (the Convertible Preferred Stock), at a purchase price of $1,000 per share, for an aggregate purchase price of $65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd. s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. had not purchased all of the Convertible Preferred Stock by May 31, 2011, it was required to pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of any commitment amount not purchased by May 31, 2012. Fletcher has paid United $3.25 million as it had not purchased the Series C Convertible Preferred Stock as of May 31, 2011. As such penalty payment is associated with Fletcher s option to purchase preferred stock and is therefore considered an equity transaction, it was recorded as an increase to capital surplus in shareholders equity.

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

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

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

Accounting Treatment

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

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

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

Table of Contents

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

	Valuation Approach	Fair Value Heirarchy		Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:				
Warrant to purchase $30 million in common stock at $21.25 per share	Black-Scholes	Level 3	$	17,577(1)
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3		22,236(2)
Fair value of equity instruments recognized in capital surplus				39,813
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2		33,434(3)
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2		69,655(3)
Total nonperforming assets transferred				103,089
Total value of assets and equity instruments transferred				142,902
Cash and Notes Receivable Received in Exchange at Fair Value:				
Cash down payment received from asset sale	NA	NA		20,618
Notes receivable (par value $82,471, net of $4,531 discount)	Discounted Cash Flows	Level 3		77,940(4)
Total value of cash and notes receivable received				98,558
Fair value of assets and equity instruments transferred in excess of cash and notes received				44,344
Transaction fees				1,005
Loss recognized on Fletcher transaction				45,349
Tax benefit				(15,367)
After tax loss			$	29,982

Notes

(1) The $17.6 million value of the $30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield 0%; risk-free interest rate 3.89%; current stock price $23.85; term 9 years; and volatility 33%. Although most of the modeling

assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

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

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

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

Table 1 Financial Highlights
Selected Financial Information

usands, except per share axable equivalent)	2011 Second Quarter	2011 First Quarter	2010 Fourth Quarter	2010 Third Quarter	2010 Second Quarter	Second Quarter 2011-2010 Change	For the Six Months Ended 2011	For the Six Months Ended 2010	Y 2011 Ch
ME SUMMARY									
t revenue	$ 76,931	$ 75,965	$ 81,215	$ 84,360	$ 87,699		$ 152,896	$ 177,548	
t expense	17,985	19,573	21,083	24,346	26,072		37,558	54,642	
terest revenue	58,946	56,392	60,132	60,014	61,627	(4)%	115,338	122,906	
ting provision for loan (1)	11,000	190,000	47,750	50,500	61,500		201,000	136,500	
venue (2)	13,905	11,838	12,442	12,861	11,579	20	25,743	23,245	
operating revenue (1)(2)	61,851	(121,770)	24,824	22,375	11,706		(59,919)	9,651	
ting expenses (3)	48,728	115,271	64,918	64,906	58,308	(16)	163,999	113,128	
n sale of nonperforming					45,349			45,349	
ting income (loss) from uing operations before e taxes	13,123	(237,041)	(40,094)	(42,531)	(91,951)		(223,918)	(148,826)	
ting income tax expense it)	5,506	(94,555)	(16,520)	(16,706)	(32,419)		(89,049)	(54,836)	
erating income from continuing tions (1)(2)(3)	7,617	(142,486)	(23,574)	(25,825)	(59,532)		(134,869)	(93,990)	
sh goodwill impairment s				(210,590)					
reversal of fraud loss ion, net of income tax			7,179						
rom discontinued ions, net of income tax								(101)	
rom sale of subsidiary, ome tax								1,266	
come (loss)	7,617	(142,486)	(16,395)	(236,415)	(59,532)		(134,869)	(92,825)	
red dividends and nt accretion	3,016	2,778	2,586	2,581	2,577		5,794	5,149	
come (loss) available to on shareholders	$ 4,601	$ (145,264)	$ (18,981)	$ (238,996)	$ (62,109)		$ (140,663)	$ (97,974)	

ORMANCE SURES

mmon share:								
d operating income from continuing ions [1][2][3]	$ .08	$ (7.87)	$ (1.38)	$ (1.50)	$ (3.29)		$ (6.40)	$ (5.25)
d income (loss) from uing operations	.08	(7.87)	(1.00)	(12.62)	(3.29)		(6.40)	(5.25)
d income (loss)	.08	(7.87)	(1.00)	(12.62)	(3.29)		(6.40)	(5.19)
value	11.59	14.78	24.18	25.70	38.55	(70)	11.59	38.55
ble book value [5]	11.47	14.44	23.78	25.26	26.95	(57)	11.47	26.95
erformance ratios:								
on equity [4][6]	5.34%	(147.11)%	(17.16)%	(148.04)%	(35.89)%		(76.07)%	(27.87)%
on assets [6]	.40	(7.61)	(.89)	(12.47)	(3.10)		(3.57)	(2.39)
terest margin [6]	3.41	3.30	3.58	3.57	3.60		3.36	3.55
ting efficiency ratio from uing operations [2][3]	66.88	169.08	89.45	89.38	141.60		116.28	108.48
to assets	11.21	8.82	8.85	11.37	11.84		10.02	11.87
ble equity to assets [5]	11.13	8.73	8.75	9.19	9.26		9.94	9.32
ble common equity to [5]	4.79	5.51	6.35	6.78	6.91		5.15	7.02
ble common equity to eighted assets [5]	14.26	6.40	9.05	9.60	9.97		14.26	9.97
T QUALITY *								
erforming loans	$ 71,065	$ 83,769	$ 179,094	$ 217,766	$ 224,335		$ 71,065	$ 224,335
osed properties	47,584	54,378	142,208	129,964	123,910		47,584	123,910
non-performing assets)	118,649	138,147	321,302	347,730	348,245		118,649	348,245
ance for loan losses	127,638	133,121	174,695	174,613	174,111		127,638	174,111
ting net charge-offs [1]	16,483	231,574	47,668	49,998	61,323		248,057	117,991
ance for loan losses to	3.07%	3.17%	3.79%	3.67%	3.57%		3.07%	3.57%
ting net charge-offs to e loans [1][6]	1.58	20.71	4.03	4.12	4.98		11.46	4.75
to loans and foreclosed ties	2.82	3.25	6.77	7.11	6.97		2.82	6.97
to total assets	1.60	1.73	4.32	4.96	4.55		1.60	4.55
RAGE BALANCES *($ in ns)*								
	$ 4,266	$ 4,599	$ 4,768	$ 4,896	$ 5,011	(15)	$ 4,432	$ 5,091
ment securities	2,074	1,625	1,354	1,411	1,532	35	1,851	1,525
g assets	6,924	6,902	6,680	6,676	6,854	1	6,913	6,969
ssets	7,624	7,595	7,338	7,522	7,704	(1)	7,609	7,825
its	6,372	6,560	6,294	6,257	6,375		6,465	6,472
olders equity	854	670	649	855	912	(6)	763	929
on shares basic *ands)*	25,427	18,466	18,984	18,936	18,905		21,965	18,891
on shares diluted *ands)*	57,543	18,466	18,984	18,936	18,905		21,965	18,891

ERIOD END *($ in* *ns)*								
*	$ 4,163	$ 4,194	$ 4,604	$ 4,760	$ 4,873	(15)	$ 4,163	$ 4,873
ment securities	2,188	1,884	1,490	1,310	1,488	47	2,188	1,488
assets	7,410	7,974	7,443	7,013	7,652	(3)	7,410	7,652
its	6,183	6,598	6,469	5,999	6,330	(2)	6,183	6,330
olders equity	860	850	636	662	904	(5)	860	904
on shares outstanding *ands)*	57,469	20,903	18,937	18,887	18,856		57,469	18,856

(1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of $11.8 million, net of tax expense of $4.6 million in the fourth quarter of 2010. Operating charge-offs also exclude the $11.8 million related partial recovery of the previously charged off amount.

(2) Excludes revenue generated by discontinued operations in the first quarter of 2010.

(3) Excludes the goodwill impairment charge of $211 million in the third quarter of 2010 and expenses relating to discontinued operations in the first quarter of 2010.

(4) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss).

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

(6) Annualized.

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

Table of Contents

Table 1 Continued Operating Earnings to GAAP Earnings Reconciliation
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2011 Second Quarter	2011 First Quarter	2010 Fourth Quarter	2010 Third Quarter	2010 Second Quarter	For the Six Months Ended 2011	For the Six Months Ended 2010
Interest revenue reconciliation							
Interest revenue taxable equivalent	$ 76,931	$ 75,965	$ 81,215	$ 84,360	$ 87,699	$ 152,896	$ 177,548
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Interest revenue (GAAP)	$ 76,502	$ 75,530	$ 80,718	$ 83,849	$ 87,199	$ 152,032	$ 176,555
Net interest revenue reconciliation							
Net interest revenue taxable equivalent	$ 58,946	$ 56,392	$ 60,132	$ 60,014	$ 61,627	$ 115,338	$ 122,906
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Net interest revenue (GAAP)	$ 58,517	$ 55,957	$ 59,635	$ 59,503	$ 61,127	$ 114,474	$ 121,913
Provision for loan losses reconciliation							
Operating provision for loan losses	$ 11,000	$ 190,000	$ 47,750	$ 50,500	$ 61,500	$ 201,000	$ 136,500
Partial reversal of special fraud-related provision for loan loss			(11,750)				
Provision for loan losses (GAAP)	$ 11,000	$ 190,000	$ 36,000	$ 50,500	$ 61,500	$ 201,000	$ 136,500
Total revenue reconciliation							
Total operating revenue	$ 61,851	$ (121,770)	$ 24,824	$ 22,375	$ 11,706	$ (59,919)	$ 9,651
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Partial reversal of special fraud-related provision for loan loss			11,750				
Total revenue (GAAP)	$ 61,422	$ (122,205)	$ 36,077	$ 21,864	$ 11,206	$ (60,783)	$ 8,658
Expense reconciliation							

Operating expense	$ 48,728	$ 115,271	$ 64,918	$ 64,906	$ 103,657	$ 163,999	$ 158,477
Noncash goodwill impairment charge				210,590			
Operating expense (GAAP)	$ 48,728	$ 115,271	$ 64,918	$ 275,496	$ 103,657	$ 163,999	$ 158,477
Income (loss) from continuing operations before taxes reconciliation							
Operating income (loss) from continuing operations before taxes	$ 13,123	$ (237,041)	$ (40,094)	$ (42,531)	$ (91,951)	$ (223,918)	$ (148,826)
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Noncash goodwill impairment charge				(210,590)			
Partial reversal of special fraud-related provision for loan loss			11,750				
Income (loss) from continuing operations before taxes (GAAP)	$ 12,694	$ (237,476)	$ (28,841)	$ (253,632)	$ (92,451)	$ (224,782)	$ (149,819)
Income tax expense (benefit) reconciliation							
Operating income tax expense (benefit)	$ 5,506	$ (94,555)	$ (16,520)	$ (16,706)	$ (32,419)	$ (89,049)	$ (54,836)
Taxable equivalent adjustment	(429)	(435)	(497)	(511)	(500)	(864)	(993)
Partial reversal of special fraud-related provision for loan loss			4,571				
Income tax expense (benefit) (GAAP)	$ 5,077	$ (94,990)	$ (12,446)	$ (17,217)	$ (32,919)	$ (89,913)	$ (55,829)
Diluted earnings (loss) from continuing operations per common share reconciliation							
Diluted operating earnings (loss) from continuing operations per common share	$ .08	$ (7.87)	$ (1.38)	$ (1.50)	$ (3.29)	$ (6.40)	$ (5.25)
Noncash goodwill impairment charge				(11.12)			
Partial reversal of special fraud-related provision for loan loss			.38				
Diluted earnings (loss) from continuing operations per	$ .08	$ (7.87)	$ (1.00)	$ (12.62)	$ (3.29)	$ (6.40)	$ (5.25)

common share (GAAP)							
Book value per common share reconciliation							
Tangible book value per common share	$ 11.47	$ 14.44	$ 23.78	$ 25.26	$ 26.95	$ 11.47	$ 26.95
Effect of goodwill and other intangibles	.12	.34	.40	.44	11.60	.12	11.60
Book value per common share (GAAP)	$ 11.59	$ 14.78	$ 24.18	$ 25.70	$ 38.55	$ 11.59	$ 38.55
Efficiency ratio from continuing operations reconciliation							
Operating efficiency ratio from continuing operations	66.88%	169.08%	89.45%	89.38%	141.60%	116.28%	108.48%
Noncash goodwill impairment charge				290.00			
Efficiency ratio from continuing operations (GAAP)	66.88%	169.08%	89.45%	379.38%	141.60%	116.28%	108.48%
Average equity to assets reconciliation							
Tangible common equity to assets	4.79%	5.51%	6.35%	6.78%	6.91%	5.15%	7.02%
Effect of preferred equity	6.34	3.22	2.40	2.41	2.35	4.79	2.30
Tangible equity to assets	11.13	8.73	8.75	9.19	9.26	9.94	9.32
Effect of goodwill and other intangibles	.08	.09	.10	2.18	2.58	.08	2.55
Equity to assets (GAAP)	11.21%	8.82%	8.85%	11.37%	11.84%	10.02%	11.87%
Actual tangible common equity to risk-weighted assets reconciliation							
Tangible common equity to risk-weighted assets	14.26%	6.40%	9.05%	9.60%	9.97%	14.26%	9.97%
Effect of other comprehensive income	(.65)	(.58)	(.62)	(.81)	(.87)	(.65)	(.87)
Effect of deferred tax limitation	(5.04)	(5.10)	(3.34)	(2.94)	(2.47)	(5.04)	(2.47)
Effect of trust preferred	1.14	1.12	1.06	1.06	1.03	1.14	1.03
Effect of preferred equity	4.17	5.97	3.52	3.51	3.41	4.17	3.41
Tier I capital ratio (Regulatory)	13.88%	7.81%	9.67%	10.42%	11.07%	13.88%	11.07%

Net charge-offs reconciliation							
Operating net charge-offs	$ 16,483	$ 231,574	$ 47,668	$ 49,998	$ 61,323	$ 248,057	$ 117,991
Subsequent partial recovery of fraud-related charge-off			(11,750)				
Net charge-offs (GAAP)	$ 16,483	$ 231,574	$ 35,918	$ 49,998	$ 61,323	$ 248,057	$ 117,991
Net charge-offs to average loans reconciliation							
Operating net charge-offs to average loans	1.58%	20.71%	4.03%	4.12%	4.98%	11.46%	4.75%
Subsequent partial recovery of fraud-related charge-off			(1.00)				
Net charge-offs to average loans (GAAP)	1.58%	20.71%	3.03%	4.12%	4.98%	11.46%	4.75%

Table of Contents

Results of Operations

United reported net operating income from continuing operations of $7.62 million for the second quarter of 2011. This compared to a net operating loss from continuing operations of $59.5 million for the same period in 2010, which included an after-tax loss of $30.0 million resulting from the sale of nonperforming assets to a private equity firm. For the second quarter of 2011, diluted operating income from continuing operations per share was $.08. This compared to diluted operating loss from continuing operations per share of $3.29 for the second quarter of 2010, which included $1.59 in loss per share related to the sale of nonperforming assets. For the six months ended June 30, 2011, United reported a net operating loss from continuing operations of $135 million compared to a net operating loss from continuing operations of $94.0 million for the same period in 2010. The operating loss for the six months ended June 30, 2011 reflects the Board of Director s decision in the first quarter to adopt the Problem Asset Disposition Plan to quickly dispose of problem assets following United s successful Private Placement at the end of the first quarter.

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Taxable equivalent net interest revenue for the three months ended June 30, 2011 was $58.9 million, down $2.68 million, or 4%, from the second quarter of 2010. The decrease in net interest revenue for the second quarter of 2011 compared to the second quarter of 2010 was mostly due to lower average loan balances. United continues its intense focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

Average loans decreased $745 million, or 15%, from the second quarter of last year. The decrease in the loan portfolio was a result of the weak economy as well as the Bulk Loan Sale completed in April 2011. Loan charge-offs, foreclosure activity and management s efforts to rebalance the loan portfolio by reducing the concentration of residential construction loans have all contributed to declining loan balances. While loan balances have declined, United continues to make new loans. During the second quarter of 2011, United funded $105 million in new loans, primarily commercial and small business loans in north Georgia, the Atlanta MSA and coastal Georgia.

Average interest-earning assets for the second quarter of 2011 increased $69.3 million, or 1%, from the same period in 2010. The decrease of $745 million in average loans was offset by increases of $542 million in the investment securities portfolio and $272 million in other interest-earning assets which is mostly made up of short-term commercial paper. Loan demand has been weak due to the poor economy and management s efforts to reduce United s exposure to residential construction loans. The increase in the securities portfolio and other interest-earning assets was due to purchases of floating rate mortgage-backed securities and short-term commercial paper in an effort to temporarily invest excess liquidity, including the proceeds from the new capital raised at the end of the first quarter of 2011. Average interest-bearing liabilities decreased $183 million, or 3%, from the second quarter of 2010 due to the rolling off of higher-cost brokered deposits and certificates of deposit as funding needs decreased. The average yield on interest earning assets for the three months ended June, 2011, was 4.45%, down 68 basis points from 5.13% for the same period of 2010. A significant contributing factor to the decrease in the yield on interest earning assets was due to the build-up of excess liquidity resulting in a shift in earning asset mix from loans, which generally yield a higher rate than other asset classes, to temporary investments which have relatively low yields. The change in mix more than offset an 8 basis point increase in the average loan yield from the second quarter of 2010. In light of the weak economic environment, United maintained above normal levels of liquidity by entering into brokered deposit arrangements and temporarily investing the proceeds in short-term commercial paper and floating rate mortgage-backed securities at a slightly negative spread. Following the first quarter capital transaction, management has sought to reduce liquidity levels and will continue to do so.

The average cost of interest-bearing liabilities for the second quarter of 2011 was 1.24% compared to 1.75% for the same period of 2010, reflecting the effect of falling rates on United s floating rate liabilities and United s ability to reduce deposit pricing. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United s shrinking balance sheet also permitted the reduction of more expensive wholesale borrowings.

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

For the three months ended June 30, 2011 and 2010, the net interest spread was 3.21% and 3.38%, respectively, while the net interest margin was 3.41% and 3.60%, respectively. The reduction in average loan balances and build-up of excess liquidity negatively impacted the margin.

Table of Contents

For the first six months of 2011, net interest revenue was $115 million, a decrease of $7.57 million, or 6%, from the first six months of 2010. Average earning assets decreased $56.3 million, or 1%, during the first six months of 2011 compared to the same period a year earlier. The yield on earning assets decreased 68 basis points from 5.13% for the six months ended June 30, 2010 to 4.45% for the six months ended June 30, 2011 due to declining average loan balances, an increase in excess liquidity invested in short-term low rate assets, and interest reversals on performing loans classified as held for sale as part of the Bulk Loan Sale. The transfer reduced net interest margin by 6 basis points in the first six months of 2011. The cost of interest bearing liabilities over the same period decreased 53 basis points. The combined effect of the lower yield on interest-earning assets, partially offset by the lower cost of interest-bearing liabilities resulted in the net interest margin decreasing 19 basis points from the six months ended June 30, 2010 to the six months ended June 30, 2011.

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

Table 2 Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended June 30,

	2011			**2010**		
(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)	$ 4,266,211	$ 60,958	5.73%	$ 5,010,937	$ 70,640	5.65%
Taxable securities (3)	2,048,683	14,541	2.84	1,503,162	15,534	4.13
Tax-exempt securities (1)(3)	25,044	411	6.56	28,920	482	6.67
Federal funds sold and other interest-earning assets	583,832	1,021	.70	311,475	1,043	1.34
Total interest-earning assets	6,923,770	76,931	4.45	6,854,494	87,699	5.13
Non-interest-earning assets:						
Allowance for loan losses	(139,744)			(193,998)		
Cash and due from banks	119,801			100,931		
Premises and equipment	178,949			181,064		
Other assets (3)	540,943			761,803		
Total assets	$ 7,623,719			$ 7,704,294		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,310,441	1,036	.32	$ 1,325,099	1,745	.53
Money market	979,432	1,499	.61	746,039	1,829	.98
Savings	195,946	64	.13	186,628	83	.18
Time less than $100,000	1,541,909	4,990	1.30	1,605,308	7,887	1.97
Time greater than $100,000	988,810	3,873	1.57	1,110,010	6,102	2.20
Brokered	473,161	2,132	1.81	642,954	3,729	2.33
Total interest-bearing deposits	5,489,699	13,594	.99	5,616,038	21,375	1.53

Federal funds purchased and other borrowings	103,156	1,074	4.18	104,637	1,056	4.05
Federal Home Loan Bank advances	52,735	570	4.34	107,948	974	3.62
Long-term debt	150,178	2,747	7.34	150,097	2,667	7.13
Total borrowed funds	306,069	4,391	5.75	362,682	4,697	5.19
Total interest-bearing liabilities	5,795,768	17,985	1.24	5,978,720	26,072	1.75
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	882,151			758,558		
Other liabilities	91,353			54,931		
Total liabilities	6,769,272			6,792,209		
Shareholders equity	854,447			912,085		
Total liabilities and shareholders equity	$ 7,623,719			$ 7,704,294		
Net interest revenue		$ 58,946			$ 61,627	
Net interest-rate spread			3.21%			3.38%
Net interest margin (4)			3.41%			3.60%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $32.2 million in 2011 and $43.6 million in 2010 are included in other assets for purposes of this presentation.

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

Table of Contents

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

Table 3 Average Consolidated Balance Sheets and Net Interest Analysis

For the Six Months Ended June 30,

	2011			2010		
(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)]	$ 4,431,617	$ 122,028	5.55%	$ 5,091,445	$ 142,859	5.66%
Taxable securities [(3)]	1,825,322	27,886	3.06	1,495,447	31,426	4.20
Tax-exempt securities [(1)(3)]	25,434	835	6.57	29,482	991	6.72
Federal funds sold and other interest-earning assets	630,384	2,147	.68	352,683	2,272	1.29
Total interest-earning assets	6,912,757	152,896	4.45	6,969,057	177,548	5.13
Non-interest-earning assets:						
Allowance for loan losses	(154,347)			(190,662)		
Cash and due from banks	127,031			102,728		
Premises and equipment	179,150			181,493		
Other assets [(3)]	544,625			762,014		
Total assets	$ 7,609,216			$ 7,824,630		
Liabilities and Shareholders Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	$ 1,341,618	2,360	.35	$ 1,343,297	3,599	.54
Money market	954,128	3,527	.75	734,817	3,586	.98
Savings	191,708	141	.15	183,555	167	.18
Time less than $100,000	1,541,130	10,441	1.37	1,648,739	16,778	2.05
Time greater than $100,000	989,840	8,024	1.63	1,132,767	12,872	2.29
Brokered	585,103	4,262	1.47	689,717	8,266	2.42
Total interest-bearing deposits	5,603,527	28,755	1.03	5,732,892	45,268	1.59
Federal funds purchased and other borrowings	102,132	2,116	4.18	103,355	2,094	4.09
Federal Home Loan Bank advances	53,923	1,160	4.34	111,150	1,951	3.54
Long-term debt	150,169	5,527	7.42	150,088	5,329	7.16
Total borrowed funds	306,224	8,803	5.80	364,593	9,374	5.18

Total interest-bearing liabilities	5,909,751	37,558	1.28	6,097,485	54,642	1.81
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	861,864			738,876		
Other liabilities	75,083			59,605		
Total liabilities	6,846,698			6,895,966		
Shareholders equity	762,518			928,664		
Total liabilities and shareholders equity	$ 7,609,216			$ 7,824,630		
Net interest revenue		$ 115,338			$ 122,906	
Net interest-rate spread			3.17%			3.32%
Net interest margin (4)			3.36%			3.55%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $29.7 million in 2011 and $43.4 million in 2010 are included in other assets for purposes of this presentation.

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

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

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

	Three Months Ended June 30, 2011 Compared to 2010 Increase (decrease) Due to Changes in			Six Months Ended June 30, 2011 Compared to 2010 Increase (decrease) Due to Changes in		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest-earning assets:						
Loans	$ (10,629)	$ 947	$ (9,682)	$ (18,212)	$ (2,619)	$ (20,831)
Taxable securities	4,690	(5,683)	(993)	6,086	(9,626)	(3,540)
Tax-exempt securities	(64)	(7)	(71)	(133)	(23)	(156)
Federal funds sold and other interest-earning assets	630	(652)	(22)	1,262	(1,387)	(125)
Total interest-earning assets	(5,373)	(5,395)	(10,768)	(10,997)	(13,655)	(24,652)
Interest-bearing liabilities:						
NOW accounts	(19)	(690)	(709)	(4)	(1,235)	(1,239)
Money market accounts	474	(804)	(330)	927	(986)	(59)
Savings deposits	4	(23)	(19)	7	(33)	(26)
Time deposits less than $100,000	(300)	(2,597)	(2,897)	(1,035)	(5,302)	(6,337)
Time deposits greater than $100,000	(613)	(1,616)	(2,229)	(1,482)	(3,366)	(4,848)
Brokered deposits	(866)	(731)	(1,597)	(1,117)	(2,887)	(4,004)
Total interest-bearing deposits	(1,320)	(6,461)	(7,781)	(2,704)	(13,809)	(16,513)
Federal funds purchased & other borrowings	(15)	33	18	(25)	47	22
Federal Home Loan Bank advances	(569)	165	(404)	(1,162)	371	(791)
Long-term debt	1	79	80	3	195	198
Total borrowed funds	(583)	277	(306)	(1,184)	613	(571)
Total interest-bearing liabilities	(1,903)	(6,184)	(8,087)	(3,888)	(13,196)	(17,084)
Increase in net interest revenue	$ (3,470)	$ 789	$ (2,681)	$ (7,109)	$ (459)	$ (7,568)

Provision for Loan Losses

The provision for loan losses is based on management s evaluation of losses inherent in the loan portfolio and corresponding analysis of the allowance for loan losses at quarter-end. The provision for loan losses was $11.0 million and $201 million for the second quarter and the first six months of 2011, respectively, compared to $61.5 million and $137 million for the same period in 2010. The amount of provision recorded in the second quarter was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover inherent losses in the loan portfolio. For the six months ended June 30, 2011, the increase in the provision for loan losses compared to a year ago was primarily due to the increased level of charge-offs in the first quarter of 2011 recorded in conjunction with the Problem Asset Disposition Plan and transfer of loans to the held for sale category in anticipation of the Bulk Loan Sale. This also had the impact of lowering the second quarter provision for loan losses due to the lower level of nonperforming loans and net charge-offs. For the three and six months ended June 30, 2011, net loan charge-offs as an annualized percentage of average outstanding loans were 1.58% and 11.46%, compared to 4.98% and 4.75%, respectively, for the same periods in 2010. When charge-offs specifically related to loans transferred to the held for sale classification are excluded, the charge-off rate for the first six months of 2011 was 3.20%.

As the residential construction and housing markets have struggled, it has been difficult for many builders and developers to obtain cash flow from selling lots and houses needed to service debt. This deterioration of the residential construction and housing market was the primary factor that resulted in higher credit losses and increases in non-performing assets over the last three years. Although a majority of the charge-offs have been within the residential construction and development portion of the portfolio, credit quality deterioration has migrated to other loan categories as unemployment levels have remained high throughout United s markets. Additional discussion on credit quality and the allowance for loan losses is included in the Asset Quality and Risk Elements section of this report on page 44.

Table of Contents

Fee Revenue

Operating fee revenue for the three and six months ended June 30, 2011 was $13.9 million and $25.7 million, respectively, an increase of $2.33 million, or 20%, and $2.50 million, or 11%, from the same period of 2010. Fee revenue from continuing operations excludes consulting fees earned by United s Brintech subsidiary which was sold on March 31, 2010. All periods are presented on a continuing operations basis.

The following table presents the components of fee revenue for the second quarters and first six months of 2011 and 2010.

Table 5 Fee Revenue

(dollars in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Overdraft fees	$ 3,657	$ 4,652	(21)%	$ 7,168	$ 8,969	(20)%
ATM and debit card fees	3,279	2,595	26	5,809	4,948	17
Other service charges and fees	672	746	(10)	1,351	1,523	(11)
Service charges and fees	7,608	7,993	(5)	14,328	15,440	(7)
Mortgage loan and related fees	952	1,601	(41)	2,446	3,080	(21)
Brokerage fees	691	586	18	1,368	1,153	19
Securities gains, net	783			838	61	
Losses from prepayment of borrowings	(791)			(791)		
Hedge ineffectiveness	2,809	239		4,112	850	
Other	1,853	1,160	60	3,442	2,661	29
Total fee revenue	$ 13,905	$ 11,579	20	$ 25,743	$ 23,245	11

Service charges and fees of $7.61 million were down $385,000, or 5%, from the second quarter of 2010. For the first six months of 2011, service charges and fees of $14.3 million were down $1.11 million, or 7%, from the same period in 2010. The decrease was primarily due to lower overdraft fees resulting from decreased utilization of our courtesy overdraft services with the changes to Regulation E in 2010 requiring customers to opt in to such services. The decrease in overdraft fees was partially offset by higher ATM and debit card interchange revenue.

Mortgage loans and related fees for the second quarter and first six months of 2011 were down $649,000, or 41%, and $634,000, or 21%, respectively, from the same period in 2010. In the second quarter of 2011, United closed 349 loans totaling $50.5 million compared with 475 loans totaling $70.2 million in the second quarter of 2010. Year-to-date mortgage production in 2011 amounted to 830 loans totaling $125 million, compared to 887 loans totaling $135 million for the same period in 2010.

United recognized net securities gains of $783,000 and $838,000, respectively, for the three and six months ended June 30, 2011. There were no securities gains or losses in the second quarter of 2010 and $61,000 for the first six months of 2010. The 2010 net gain included $950,000 in impairment charges on trust preferred securities of a bank whose financial condition had deteriorated. The impairment charge was more than offset by realized gains from securities sales.

In the second quarter of 2011, United recognized $2.81 million in income from hedge ineffectiveness compared with $239,000 in income from hedge ineffectiveness in the second quarter of 2010. For the first six months of 2011, United recognized $4.11 million in income from hedge ineffectiveness compared with $850,000 in income for the same period of 2010. Most of the hedge ineffectiveness in 2010 and all of the hedge ineffectiveness in 2011 relates to terminated cash flow hedges where the gains realized on the terminated positions are being deferred over the original term of the derivative instrument. The ineffectiveness, which is caused by a decrease in qualifying prime-based loans, results in the accelerated recognition of the deferred gains.

Operating Expenses

The following table presents the components of operating expenses for the three and six months ended June 30, 2011 and 2010. The table is presented to reflect Brintech as a discontinued operation, and accordingly, operating expenses associated with Brintech have been excluded from the table for all periods presented.

Table 6 Operating Expenses *(dollars in thousands)*

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Change
Salaries and employee benefits	$ 26,436	$ 23,590	12%	$ 51,360	$ 47,950	7%
Communications and equipment	3,378	3,511	(4)	6,722	6,784	(1)
Occupancy	3,805	3,836	(1)	7,879	7,650	3
Advertising and public relations	1,317	1,352	(3)	2,295	2,395	(4)
Postage, printing and supplies	1,085	765	42	2,203	1,990	11
Professional fees	2,350	2,178	8	5,680	4,121	38
FDIC assessments and other regulatory charges	3,644	3,566	2	9,057	7,192	26
Amortization of intangibles	760	794	(4)	1,522	1,596	(5)
Other	4,062	4,176	(3)	10,491	8,097	30
Total excluding foreclosed property expenses and loss on NPA sale	46,837	43,768	7	97,209	87,775	11
Net (gains) losses on sales of foreclosed properties	(3,218)	5,098		8,802	8,616	
Foreclosed property write downs	3,118	6,094		51,703	10,673	
Foreclosed property maintenance expenses	1,991	3,348	(41)	6,285	6,064	4
Loss on sale of nonperforming assets		45,349			45,349	
Total operating expenses	$ 48,728	$ 103,657	(53)	$ 163,999	$ 158,477	3

Operating expenses for the second quarter of 2011 totaled $48.7 million, down $54.9 million, or 53%, from the second quarter of 2010. For the six months ended June 30, 2011, operating expenses totaled $164 million, up $5.52 million, or 3% from the same period in 2010, mostly reflecting an increase in foreclosed property losses incurred in connection with United s classified asset disposition plans. Excluding foreclosed property costs and the loss on sale of nonperforming assets in the second quarter of 2010, total operating expenses were $46.8 million, and $97.2 million for the three and six months ended June 30, 2011, up $3.07 million, or 7%, and $9.43 million, or 11%, respectively, from a year ago.

Salaries and employee benefits for the second quarter of 2011 were $26.4 million, up $2.85 million, or 12%, from the same period of 2010. For the first six months of 2011, salaries and employee benefits of $51.4 million were up $3.41 million, or 7%, from the first six months of 2010. Severance costs for eliminated staff positions accounted for $1.20 million of the increase in both periods. The increase was also due to higher group medical insurance costs and a lower level of deferred direct loan origination costs. Headcount totaled 1,767 at June 30, 2011, compared to 1,821 at

June 30, 2010.

Occupancy expense of $3.81 million and $7.88 million, respectively, for the second quarter and first six months of 2011 was down $31,000, or 1%, and up $229,000, or 3%, respectively, compared to the same periods of 2010. The increase for the six month period was due to higher costs for utilities, real estate taxes and insurance premiums.

Postage, printing and supplies expense for the second quarter of 2011 totaled $1.09 million, up $320,000, or 42%, from the same period of 2010. For the six months ended June 30, 2011 and 2010, postage, printing and supplies expense totaled $2.20 million and $1.99 million, respectively. The increase was primarily due to higher postage costs and outside courier expenses.

Professional fees for the second quarter of 2011 of $2.35 million were up $172,000, or 8%, from the same period in 2010. For the six months ended June 30, 2011 professional fees of $5.68 million were up $1.56 million, or 38%, primarily due to professional service costs associated with the Private Placement and Bulk Loan Sale.

FDIC assessments and other regulatory charges of $3.64 million and $9.06 million for the second quarter and first six months of 2011, increased $78,000 and $1.87 million, respectively, from the second quarter and first six months of 2010. The increase was due to an increase in United s assessment rate as well as an increase in insured deposits. The assessment rate came down late in the second quarter of 2011, primarily due to the FDIC s new asset based formula.

Other expense of $4.06 million for the second quarter of 2011 decreased $114,000 from the second quarter of 2010. Year-to-date, other expense of $10.5 million increased $2.39 million from the first six months of 2010. The year-to-date increase was primarily due to $2.60 million of property taxes and other loan collateral costs incurred to prepare loans for the Bulk Loan Sale.

Gains on sale of foreclosed property totaled $3.22 million for the second quarter of 2011, compared to losses on sale of $5.10 million for the second quarter of 2010. For the six months ended June 30, 2011, losses on sale were $8.80 million compared to losses on sale of $8.37 million for the same period of the prior year. Foreclosed property write downs for the second quarter and first six months of 2011 were $3.12 million and $51.7 million compared to $6.09 million and $10.9 million a year ago. The year to date increase reflected higher write downs in the first half of 2011 on foreclosed properties to expedite sales under the Problem Asset Disposition Plan. Foreclosed property maintenance expenses include legal fees, property taxes, marketing costs, utility services, maintenance and repair charges that totaled $1.99 million and $6.29 million for the second quarter and first six months of 2011 compared with $3.35 million and $6.06 million a year ago.

Income Taxes

Income tax expense for the second quarter of 2011 was $5.08 million as compared with income tax benefit of $32.9 million for the second quarter of 2010, representing an effective tax rate of approximately 40.0% and 35.6%, respectively. For the first six months of 2011, income tax benefit was $89.9 million as compared with income tax benefit of $55.8 million for the same period in 2010, representing an effective tax rate of 40.0% and 37.3%, respectively. The effective tax rates were different from the statutory tax rates primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes, tax exempt fee revenue, tax credits received on affordable housing investments, and the change in valuation allowance on deferred tax assets as discussed below.

United was profitable during the second quarter of 2011. The change from a pre-tax loss to pre-tax earnings will affect the effective tax rate going forward to the extent profitability continues. Because in aggregate, United s permanent tax differences are generally in United s favor, they tend to reduce the effective tax rate below the blended statutory rate of 38.9% when United has pre-tax earnings and they increase the effective tax rate above the blended statutory rate when United has a pre-tax loss. The effective tax rates can be volatile as earnings or losses approach a break-even point since United would report a tax benefit even if it were to break even as a result of the permanent tax differences. Therefore some volatility in the effective tax rate is expected as United moves from a loss position to positive earnings.

Management determined that it is more likely than not that approximately $5.20 million at June 30, 2011 and $5.16 million at June 30, 2010, net of Federal benefit, in state tax credits will expire unused due to their very short three to five year carry forward period and a valuation allowance has been established for these benefits. At June 30, 2011, United had net deferred tax assets of $261 million, net of the valuation allowance of $5.20 million. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. At June 30, 2011, management believes that it is more likely than not that, with the exception of those state tax credits that are expected to expire unused due to a relatively short carryforward period of only three to five years, it will be able to fully realize its deferred tax benefits through its ability to carry losses forward to future profitable years. Despite recent losses and the challenging economic environment, United has a history of strong earnings, is well-capitalized, continues to grow its core customer deposit base while maintaining very high customer satisfaction scores, and has expectations regarding future taxable income that are in excess of the amount required to utilize United s net operating losses prior to their expiration. The deferred tax assets are analyzed quarterly for changes affecting realizability. United s most recent analysis, which management believes is based on conservative assumptions, indicated that the deferred tax assets will be fully utilized well in advance of the twenty-year carryforward period allowed for net operating losses; however, there can be no guarantee that a valuation allowance will not be necessary in future periods. Inherent in management s assertion that it is more likely than not that United will be able to fully utilize its deferred tax assets is an assumption that United return to profitability within a short period of time following the execution of the Private Placement and the Problem Asset Disposition Plan. The Company experienced a return to profitability in the second quarter of 2011. Also important at arriving at that conclusion is the assumption that an ownership change as defined by Section 382 of the Internal Revenue Code of 1986, as amended, and related Internal Revenue Service pronouncements (Section 382) did not occur as a result of the first quarter Private Placement. Management believes that no such change of control has occurred.

While United s recent losses and informal Memorandum of Understanding (MOU) with the FDIC are considered negative evidence with regard to United s ability to use its deferred tax assets, the losses were primarily the result of the collapse in the housing market and United s concentration of residential construction loans rather than a fundamental problem with its underlying business approach. United has reduced its concentration of residential construction loans from a high of 35% of its portfolio to 12% as of June 30, 2011. With the recent capital transaction and disposition of problem assets, United s credit measures have significantly improved leading management to the expectation that it is at or near a point of sustainable profitability. At June 30, 2011, nonperforming assets represent only 1.60% of total assets, down from a high of 5.32% of total assets at the end of the first quarter of 2010 and the improving trend is expected to continue. During the weak economic cycle, United was able to improve its already high customer satisfaction scores and achieve national recognition from JD Power & Associates for superior customer service. United was also able to increase core customer deposits (non-CD, non-public) by $450 million since December 2009. Perhaps the strongest evidence supporting United s ability to fully utilize its deferred tax asset was its ability to raise $380 million in new capital from private equity investors. These investors performed extensive due diligence prior to investing in United. Their investment in United was made with the expectation, based on their objective analysis, that United would provide an attractive return on their investment. United s management has therefore concluded that it is more likely than not that it will be able to fully utilize its deferred tax assets.

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

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

Table of Contents

Additional information regarding income taxes can be found in Note 15 to the consolidated financial statements filed with United s 2010 Form 10-K.

Balance Sheet Review

Total assets at June 30, 2011, December 31, 2010 and June 30, 2010 were $7.41 billion, $7.44 billion and $7.65 billion, respectively. Average total assets for the second quarter of 2011 were $7.62 billion, down from $7.70 billion in the second quarter of 2010.

Loans

The following table presents a summary of the loan portfolio.

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

(dollars in thousands)

	June 30, 2011	December 31, 2010	June 30, 2010
By Loan Type			
Commercial (secured by real estate)	$ 1,741,754	$ 1,761,424	$ 1,780,142
Commercial construction	195,190	296,582	342,140
Commercial (commercial and industrial)	428,058	441,518	441,097
Total commercial	2,365,002	2,499,524	2,563,379
Residential construction	501,909	695,166	819,930
Residential mortgage	1,177,226	1,278,780	1,355,582
Installment	119,310	130,656	134,139
Total loans	$ 4,163,447	$ 4,604,126	$ 4,873,030
As a percentage of total loans:			
Commercial (secured by real estate)	42%	38%	36%
Commercial construction	5	6	7
Commercial (commercial and industrial)	10	10	9
Total commercial	57	54	52
Residential construction	12	15	17
Residential mortgage	28	28	28
Installment	3	3	3
Total	100%	100%	100%
By Geographic Location			
Atlanta MSA	$ 1,188,262	$ 1,310,222	$ 1,373,631
Gainesville MSA	274,744	312,049	343,351
North Georgia	1,499,687	1,688,586	1,807,704
Western North Carolina	626,230	701,798	737,639
Coastal Georgia	325,650	335,020	355,719
East Tennessee	248,874	256,451	254,986
Total loans	$ 4,163,447	$ 4,604,126	$ 4,873,030

Substantially all of United s loans are to customers (including customers who have a seasonal residence in United s market areas) located in the immediate market areas of its community banks in Georgia, North Carolina, and Tennessee, and more than 85% of the loans are secured by real estate. At June 30, 2011, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were $4.16 billion, a decrease of $710 million, or 15%, from June 30, 2010. The rate of loan growth began to decline in the first quarter of 2007 and the balances have continued to decline. The decrease in the loan portfolio began with deterioration in the residential construction and housing markets. This deterioration resulted in part in an oversupply of lot inventory, houses and land within United s markets, which further slowed construction activities and acquisition and development projects. The resulting recession that began in the housing market led to high rates of unemployment that resulted in stress in the other segments of United s loan portfolio. Despite the weak economy and lack of loan demand, United has continued to pursue lending opportunities which resulted in $105 million in new loans that were funded in the second quarter of 2011.

Table of Contents

Asset Quality and Risk Elements

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

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

Table 8 Performing Substandard Loans

(dollars in thousands)

	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
By Category					
Commercial (sec. by RE)	$ 117,525	$ 119,651	$ 156,765	$ 157,245	$ 140,805