

UNITED COMMUNITY BANKS INC
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the Transition Period from _____ to _____

Commission file number 001-35095

UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia
(State of Incorporation)

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

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

30512
(Zip Code)

(706) 781-2265
(Telephone Number)

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

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files).

YES ☒ NO ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller Reporting Company ☐

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

YES ☐ NO ☒

Common stock, par value \$1 per share 43,071,080 shares voting and 14,703,636 shares non-voting outstanding as of April 30, 2013.

INDEX

PART I - Financial Information

Item 1.	Financial Statements.	
	Consolidated Statement of Income (unaudited) for the Three Months Ended March 31, 2013 and 2012	3
	Consolidated Statement of Comprehensive Income (unaudited) for the Three Months Ended March 31, 2013 and 2012	4
	Consolidated Balance Sheet at March 31, 2013 (unaudited), December 31, 2012 (audited) and March 31, 2012 (unaudited)	5
	Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Three Months Ended March 31, 2013 and 2012	6
	Consolidated Statement of Cash Flows (unaudited) for the Three Months Ended March 31, 2013 and 2012	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	54
Item 4.	Controls and Procedures.	54

PART II - Other Information

Item 1.	Legal Proceedings.	55
Item 1A.	Risk Factors.	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	55
Item 3.	Defaults Upon Senior Securities.	55
Item 4.	Mine Safety Disclosures.	55
Item 5.	Other Information.	55
Item 6.	Exhibits.	56

Part I – Financial Information

Item 1 – Financial Statements

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Income (Unaudited)

	Three Months Ended March 31,	
(in thousands, except per share data)	2013	2012
Interest revenue:		
Loans, including fees	\$50,934	\$55,759
Investment securities, including tax exempt of \$212 and \$250	9,965	13,004
Deposits in banks and short-term investments	870	1,012
Total interest revenue	61,769	69,775
Interest expense:		
Deposits:		
NOW	454	637
Money market	562	641
Savings	36	37
Time	3,226	6,159
Total deposit interest expense	4,278	7,474
Short-term borrowings	516	1,045
Federal Home Loan Bank advances	19	466
Long-term debt	2,662	2,372
Total interest expense	7,475	11,357
Net interest revenue	54,294	58,418
Provision for loan losses	11,000	15,000
Net interest revenue after provision for loan losses	43,294	43,418
Fee revenue:		
Service charges and fees	7,403	7,783
Mortgage loan and other related fees	2,655	2,099
Brokerage fees	767	813
Securities gains, net	116	557
Loss from prepayment of debt	-	(482)
Other	1,885	4,609
Total fee revenue	12,826	15,379
Total revenue	56,120	58,797
Operating expenses:		
Salaries and employee benefits	23,592	25,225
Communications and equipment	3,046	3,155
Occupancy	3,367	3,771
Advertising and public relations	938	846
Postage, printing and supplies	863	979
Professional fees	2,366	1,975
Foreclosed property	2,333	3,825
FDIC assessments and other regulatory charges	2,505	2,510
Amortization of intangibles	705	732
Other	4,055	3,937
Total operating expenses	43,770	46,955

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Net income before income taxes	12,350	11,842
Income tax expense	585	314
Net income	11,765	11,528
Preferred stock dividends and discount accretion	3,052	3,030
Net income available to common shareholders	\$8,713	\$8,498
Earnings per common share - basic / diluted	\$.15	\$.15
Weighted average common shares outstanding - basic / diluted	58,081	57,764

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Comprehensive Income (Unaudited)

(in thousands)	Three Months Ended March 31, 2013			2012		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	12,350	(585)	11,765	\$ 11,842	\$ (314)	\$ 11,528
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	1,641	(621)	1,020	(3,340)	1,299	(2,041)
Reclassification adjustment for gains included in net income	(116)	45	(71)	(557)	217	(340)
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities	—	576	576	—	(1,516)	(1,516)
Net unrealized gains (losses)	1,525	—	1,525	(3,897)	—	(3,897)
Amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity	(319)	124	(195)	(413)	160	(253)
Valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity	—	(124)	(124)	—	(160)	(160)
Net unrealized losses	(319)	—	(319)	(413)	—	(413)
Amortization of gains included in net income on terminated derivative	(538)	209	(329)	(1,600)	622	(978)

financial instruments that
were previously
accounted for as cash
flow hedges

Unrealized losses on derivative financial instruments accounted for as cash flow hedges	430	(167)	263	—	—	—
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges	—	(42)	(42)	—	(622)	(622)
Net unrealized losses	(108)	—	(108)	(1,600)	—	(1,600)
Net actuarial loss on defined benefit pension plan	(415)	161	(254)	—	—	—
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	132	(51)	81	154	(60)	94
Valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses	—	(110)	(110)		60	60
Net defined benefit pension plan activity	(283)	—	(283)	154	—	154
Total other comprehensive income (loss)	815	—	815	(5,756)	—	(5,756)
Comprehensive income	13,165	(585)	12,580	\$ 6,086	\$ (314)	\$ 5,772

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet (Unaudited)

(in thousands, except share and per share data)	March 31, 2013	December 31, 2012	March 31, 2012
ASSETS			
Cash and due from banks	\$ 57,638	\$ 66,536	\$ 53,147
Interest-bearing deposits in banks	107,390	124,613	139,439
Short-term investments	82,000	60,000	235,000
Cash and cash equivalents	247,028	251,149	427,586
Securities available-for-sale	1,909,426	1,834,593	1,898,815
Securities held-to-maturity (fair value \$247,087, \$261,131 and \$318,490)	231,087	244,184	303,636
Mortgage loans held for sale	18,290	28,821	24,809
Loans, net of unearned income	4,193,560	4,175,008	4,127,566
Less allowance for loan losses	(105,753)	(107,137)	(113,601)
Loans, net	4,087,807	4,067,871	4,013,965
Assets covered by loss sharing agreements with the FDIC	42,096	47,467	72,854
Premises and equipment, net	168,036	168,920	174,419
Bank owned life insurance	82,114	81,867	80,956
Accrued interest receivable	18,302	18,659	20,292
Goodwill and other intangible assets	4,805	5,510	7,695
Foreclosed property	16,734	18,264	31,887
Unsettled securities sales	—	5,763	43,527
Other assets	23,643	29,191	73,252
Total assets	\$ 6,849,368	\$ 6,802,259	\$ 7,173,693
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$ 1,298,425	\$ 1,252,605	\$ 1,101,757
NOW	1,281,454	1,316,453	1,389,016
Money market	1,165,836	1,149,912	1,123,734
Savings	243,347	227,308	214,150
Time:			
Less than \$100,000	1,019,396	1,055,271	1,207,479
Greater than \$100,000	685,174	705,558	796,882
Brokered	332,220	245,033	167,521
Total deposits	6,025,852	5,952,140	6,000,539
Short-term borrowings	51,999	52,574	101,925
Federal Home Loan Bank advances	125	40,125	215,125
Long-term debt	124,825	124,805	120,245
Unsettled securities purchases	—	—	119,565
Accrued expenses and other liabilities	54,349	51,210	36,755
Total liabilities	6,257,150	6,220,854	6,594,154
Commitments and contingencies			

Shareholders' equity:

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

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Series A; \$10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; \$1,000 stated value; 180,000 shares issued and outstanding	178,937	178,557	177,451
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613	16,613	16,613
Common stock, \$1 par value; 100,000,000 shares authorized; 43,063,761, 42,423,870 and 41,688,647 shares issued and outstanding	43,064	42,424	41,689
Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 14,703,636, 15,316,794 and 15,914,209 shares issued and outstanding	14,704	15,317	15,914
Common stock issuable; 133,469, 133,238 and 90,126 shares	2,726	3,119	2,948
Capital surplus	1,059,222	1,057,951	1,056,135
Accumulated deficit	(700,440)	(709,153)	(722,363)
Accumulated other comprehensive loss	(22,825)	(23,640)	(9,065)
Total shareholders' equity	592,218	581,405	579,539
Total liabilities and shareholders' equity	\$ 6,849,368	\$ 6,802,259	\$ 7,173,693

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the Three Months Ended March 31,

(in thousands, except share and per share data)	Preferred Stock			Non-Voting Common				Accumulated Other		
	Series A	Series B	Series D	Common Stock	Common Stock	Stock Issuable	Capital Surplus	Accumulated Deficit	Comprehensive Loss	Total
Balance, December 31, 2011	\$217	\$177,092	\$16,613	\$41,647	\$15,914	\$3,233	\$1,054,940	\$(730,861)	\$(3,309)	\$575,486
Net income								11,528		11,528
Other comprehensive loss									(5,756)	(5,756)
Common stock issued to dividend reinvestment plan and employee benefit plans (35,648 shares)				36			242			278
Amortization of stock options and restricted stock awards							585			585
Vesting of restricted stock (4,397 shares issued, 8,399 shares deferred)				4		(151)	187			40
Deferred compensation plan, net, including dividend equivalents						49				49
Shares issued from deferred compensation plan (1,502 shares)				2		(183)	181			—
Preferred stock dividends:										

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Series A								(3)		(3)
Series B	359							(2,608)		(2,249)
Series D								(419)		(419)
Balance, March 31, 2012	\$217	\$177,451	\$16,613	\$41,689	\$15,914	\$2,948	\$1,056,135	\$(722,363)	\$(9,065)	\$579,539
Balance, December 31, 2012	\$217	\$178,557	\$16,613	\$42,424	\$15,317	\$3,119	\$1,057,951	\$(709,153)	\$(23,640)	\$581,405
Net income								11,765		11,765
Other comprehensive income									815	815
Common stock issued to dividend reinvestment plan and to employee benefit plans (18,170 shares)				18			171			189
Conversion of non-voting common stock to voting (613,158 shares)				613	(613)					—
Amortization of stock options and restricted stock awards							626			626
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (4,042 shares issued, 259 shares deferred)				4			40			44
Deferred compensation plan, net, including dividend equivalents							46			46
Shares issued from deferred compensation plan										

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(4,521 shares)				5			(439)	434			—
Preferred stock dividends:											
Series A							(3)			(3)	
Series B	380						(2,630)			(2,250)	
Series D							(419)			(419)	
Balance, March 31, 2013	\$217	\$178,937	\$16,613	\$43,064	\$14,704	\$2,726	\$1,059,222	\$(700,440)	\$(22,825)	\$592,218	

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended March 31,	
	2013	2012
Operating activities:		
Net income	\$ 11,765	\$ 11,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	7,505	6,803
Provision for loan losses	11,000	15,000
Stock based compensation	626	585
Securities gains, net	(116)	(557)
Losses and write downs on sales of other real estate owned	1,146	2,204
Loss on prepayment of borrowings	—	482
Changes in assets and liabilities:		
Other assets and accrued interest receivable	7,915	(2,612)
Accrued expenses and other liabilities	3,225	646
Mortgage loans held for sale	10,531	(928)
Net cash provided by operating activities	53,597	33,151
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	17,501	25,653
Purchases	(4,993)	—
Investment securities available-for-sale:		
Proceeds from sales	15,751	61,585
Proceeds from maturities and calls	132,211	142,236
Purchases	(219,349)	(253,229)
Net increase in loans	(36,224)	(41,418)
Funds collected from FDIC under loss sharing agreements	2,452	2,568
Proceeds from sales of premises and equipment	550	14
Purchases of premises and equipment	(2,001)	(1,614)
Proceeds from sale of other real estate	5,726	6,696
Net cash used in investing activities	(88,376)	(57,509)
Financing activities:		
Net change in deposits	73,712	(97,444)
Net change in short-term borrowings	(575)	(652)
Proceeds from Federal Home Loan Bank advances	185,000	499,000
Settlement of Federal Home Loan Bank advances	(225,000)	(324,982)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	189	278
Cash dividends on preferred stock	(2,668)	(2,672)
Net cash provided by financing activities	30,658	73,528
Net change in cash and cash equivalents	(4,121)	49,170
Cash and cash equivalents at beginning of period	251,149	378,416
Cash and cash equivalents at end of period	\$ 247,028	\$ 427,586
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		

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Interest	\$ 8,025	\$ 12,252
Income taxes	1,659	1,026
Unsettled securities sales	—	43,527
Unsettled securities purchases	—	119,565
Transfers of loans to foreclosed property	6,288	9,534

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United’s accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2012.

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

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

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. The 2012 reclassifications were not material to the financial statement presentation.

Note 2 – Accounting Standards Updates and Recently Adopted Standards

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

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

There were no Accounting Standards Updates issued by the FASB since the filing of United’s 2012 Annual Report on Form 10-K that were applicable to United.

Note 3 – Offsetting Assets and Liabilities

United enters into reverse repurchase agreements in order to invest short-term funds. In addition, United enters into repurchase agreements and reverse repurchase agreements with the same counterparty in transactions commonly referred to as collateral swaps that are subject to master netting agreements under which the balances are netted in the balance sheet in accordance with ASC 210-20, Offsetting.

United also enters into derivative transactions that are subject to master netting arrangements; however there were no offsetting positions at March 31, 2013, December 31, 2012 or March 31, 2012.

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

The following table presents a summary of amounts outstanding under master netting agreements as of March 31, 2013 and December 31, 2012, and March 31, 2012 (in thousands).

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments Collateral Received			Net Amount
March 31, 2013							
Repurchase agreements / reverse repurchase agreements	\$ 332,000	\$ (250,000)	\$ 82,000	\$ —	\$ —		\$ 82,000
Derivatives	602	—	602	—	—		602
Total	\$ 332,602	\$ (250,000)	\$ 82,602	\$ —	\$ —		\$ 82,602
Weighted average interest rate of reverse repurchase agreements	1.28	%					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments Collateral Pledged			Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 250,000	\$ (250,000)	\$ —	\$ —	\$ —		\$ —
Derivatives	14,556	—	14,556	—	14,585		—
Total	\$ 264,556	\$ (250,000)	\$ 14,556	\$ —	\$ 14,585		\$ —
Weighted average interest rate of repurchase agreements	.37	%					

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments Collateral Received			Net Amount
December 31, 2012							
Repurchase agreements / reverse repurchase agreements	\$ 325,000	\$ (265,000)	\$ 60,000	\$ —	\$ —		\$ 60,000
	50,000	(50,000)	—	—	—		—

Securities lending
transactions

Derivatives	658	—	658	—	—	658
Total	\$ 375,658	\$ (315,000)	\$ 60,658	\$ —	\$ —	\$ 60,658
Weighted average interest rate of reverse repurchase agreements	1.18	%				

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments Collateral Pledged Net Amount		
Repurchase agreements / reverse repurchase agreements	\$ 265,000	\$ (265,000)	\$ —	\$ —	\$ —	\$ —
Securities lending transactions	50,000	(50,000)	—	—	—	—
Derivatives	12,543	—	12,543	—	11,493	1,050
Total	\$ 327,543	\$ (315,000)	\$ 12,543	\$ —	\$ 11,493	\$ 1,050
Weighted average interest rate of repurchase agreements	.43	%				

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments Collateral Received Net Amount		
Repurchase agreements / reverse repurchase agreements	\$ 406,000	\$ (171,000)	\$ 235,000	\$ —	\$ —	\$ 235,000
Derivatives	73	—	73	—	—	73
Total	\$ 406,073	\$ (171,000)	\$ 235,073	\$ —	\$ —	\$ 235,073
Weighted average interest rate of reverse repurchase agreements	1.17	%				

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments Collateral Pledged Net Amount		
Repurchase agreements / reverse repurchase	\$ 171,000	\$ (171,000)	\$ —	\$ —	\$ —	\$ —

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agreements						
Derivatives	2,599	—	2,599	—	2,919	—
Total	\$ 173,599	\$ (171,000)	\$ 2,599	\$ —	\$ 2,919	\$ —
Weighted average interest rate of repurchase agreements	.32	%				

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

Note 4 – Securities

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three month periods ended March 31, 2013 and 2012 (in thousands).

	Three Months Ended March 31,	
	2013	2012
Proceeds from sales	\$ 15,751	\$ 105,111
Gross gains on sales	\$ 116	\$ 557
Gross losses on sales	—	—
Net gains on sales of securities	\$ 116	\$ 557
Income tax expense attributable to sales	\$ 45	\$ 217

Securities with a carrying value of \$1.25 billion, \$1.40 billion, and \$1.38 billion were pledged to secure public deposits and other secured borrowings at March 31, 2013, December 31, 2012 and March 31, 2012, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the FHLB with currently pledged 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 March 31, 2013, December 31, 2012 and March 31, 2012 are as follows (in thousands).

As of March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 51,768	\$ 5,663	\$ —	\$ 57,431
Mortgage-backed securities (1)	179,319	10,388	51	189,656
Total	\$ 231,087	\$ 16,051	\$ 51	\$ 247,087
As of December 31, 2012				
State and political subdivisions	\$ 51,780	\$ 5,486	\$ —	\$ 57,266
Mortgage-backed securities (1)	192,404	11,461	—	203,865

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Total	\$	244,184	\$	16,947	\$	—	\$	261,131
As of March 31, 2012								
State and political subdivisions	\$	51,893	\$	4,413	\$	—	\$	56,306
Mortgage-backed securities (1)		251,743		10,441		—		262,184
Total	\$	303,636	\$	14,854	\$	—	\$	318,490

(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 March 31, 2013, December 31, 2012 and March 31, 2012 are presented below (in thousands).

As of March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 22,711	\$ 1,330	\$ 4	\$ 24,037
Mortgage-backed securities (1)	1,450,645	21,210	3,544	1,468,311
Corporate bonds	190,843	2,035	4,084	188,794
Asset-backed securities	223,827	2,420	377	225,870
Other	2,414	—	—	2,414
Total	\$ 1,890,440	\$ 26,995	\$ 8,009	\$ 1,909,426

As of December 31, 2012

State and political subdivisions	\$ 27,717	\$ 1,354	\$ 19	\$ 29,052
Mortgage-backed securities (1)	1,408,042	22,552	2,092	1,428,502
Corporate bonds	169,783	1,052	7,173	163,662
Asset-backed securities	209,411	1,894	749	210,556
Other	2,821	—	—	2,821
Total	\$ 1,817,774	\$ 26,852	\$ 10,033	\$ 1,834,593

As of March 31, 2012

U.S. Government agencies	\$ 43,593	\$ 286	\$ 90	\$ 43,789
State and political subdivisions	21,490	1,321	3	22,808
Mortgage-backed securities (1)	1,692,446	33,212	590	1,725,068
Corporate bonds	119,154	—	14,568	104,586
Other	2,564	—	—	2,564
Total	\$ 1,879,247	\$ 34,819	\$ 15,251	\$ 1,898,815

(1) All are residential type mortgage-backed securities

The following table summarizes held-to-maturity securities in an unrealized loss position as of March 31, 2013 (thousands). As of December 31, 2012 and March 31, 2012, there were no held-to-maturity securities in an unrealized loss position.

Less than 12 Months	12 Months or More	Total
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As of March 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$4,929	\$51	\$—	\$—	4,929	51
Total unrealized loss position	\$4,929	\$51	\$—	\$—	\$4,929	\$51

11

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 March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

As of March 31, 2013	Less than 12 Months Unrealized		12 Months or More Unrealized		Total Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
State and political subdivisions	\$ 1,185	\$ 2	\$ 10	\$ 2	\$ 1,195	\$ 4
Mortgage-backed securities	399,263	3,544	—	—	399,263	3,544
Corporate bonds	21,323	145	77,007	3,939	98,330	4,084
Asset-backed securities	72,064	377	—	—	72,064	377
Total unrealized loss position	\$ 493,835	\$ 4,068	\$ 77,017	\$ 3,941	\$ 570,852	\$ 8,009
As of December 31, 2012						
State and political subdivisions	\$ 3,674	\$ 17	\$ 10	\$ 2	\$ 3,684	\$ 19
Mortgage-backed securities	326,485	2,092	—	—	326,485	2,092
Corporate bonds	21,248	136	93,903	7,037	115,151	7,173
Asset-backed securities	82,188	749	—	—	82,188	749
Total unrealized loss position	\$ 433,595	\$ 2,994	\$ 93,913	\$ 7,039	\$ 527,508	\$ 10,033
As of March 31, 2012						
U.S. Government agencies	\$ 9,905	\$ 90	\$ —	\$ —	\$ 9,905	\$ 90
State and political subdivisions	—	—	11	3	11	3
Mortgage-backed securities	405,039	574	21,067	16	426,106	590
Corporate bonds	35,306	2,872	69,230	11,696	104,536	14,568
Total unrealized loss position	\$ 450,250	\$ 3,536	\$ 90,308	\$ 11,715	\$ 540,558	\$ 15,251

At March 31, 2013, there were 68 available-for-sale securities and three 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 March 31, 2013, December 31, 2012 and March 31, 2012 were primarily attributable to changes in interest rates, however the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings since the time of acquisition. The bonds remain above investment grade and United does not consider them to be impaired.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. No impairment charges were recognized during the three months ended March 31, 2013 or 2012.

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

The amortized cost and fair value of held-to-maturity and available-for-sale securities at March 31, 2013, by contractual maturity, are presented in the following table (in thousands).

	Available-for-Sale Amortized Cost	Fair Value	Held-to-Maturity Amortized Cost	Fair Value
State and political subdivisions:				
Within 1 year	\$ 996	\$ 1,005	\$ —	\$ —
1 to 5 years	14,552	15,453	9,858	10,672
5 to 10 years	6,316	6,658	26,481	29,490
More than 10 years	847	921	15,429	17,269
	22,711	24,037	51,768	57,431
Corporate bonds:				
1 to 5 years	38,123	38,503	—	—
5 to 10 years	141,961	140,119	—	—
More than 10 years	10,759	10,172	—	—
	190,843	188,794	—	—
Asset-backed securities:				
1 to 5 years	32,384	32,405	—	—
5 to 10 years	142,507	143,693	—	—
More than 10 years	48,936	49,772	—	—
	223,827	225,870	—	—
Other:				
More than 10 years	2,414	2,414	—	—
	2,414	2,414	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	996	1,005	—	—
1 to 5 years	85,059	86,361	9,858	10,672
5 to 10 years	290,784	290,470	26,481	29,490
More than 10 years	62,956	63,279	15,429	17,269
Mortgage-backed securities	1,450,645	1,468,311	179,319	189,656
	\$ 1,890,440	\$ 1,909,426	\$ 231,087	\$ 247,087

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

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

Note 5 – Loans and Allowance for Loan Losses

Major classifications of loans as of March 31, 2013, December 31, 2012 and March 31, 2012, are summarized as follows (in thousands).

	March 31, 2013	December 31, 2012	March 31, 2012
Commercial (secured by real estate)	\$ 1,804,030	\$ 1,813,365	\$ 1,843,207
Commercial & industrial	453,764	458,246	439,496
Commercial construction	152,410	154,769	167,122
Total commercial	2,410,204	2,426,380	2,449,825
Residential mortgage	1,245,975	1,214,203	1,131,248
Residential construction	371,733	381,677	435,375
Consumer installment	165,648	152,748	111,118
Total loans	4,193,560	4,175,008	4,127,566
Less allowance for loan losses	(105,753)	(107,137)	(113,601)
Loans, net	\$ 4,087,807	\$ 4,067,871	\$ 4,013,965

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

United considers all loans that are on nonaccrual with a balance of \$500,000 or greater and all troubled debt restructurings (“TDRs”) to be impaired. In addition, United reviews all accruing substandard loans greater than \$2 million to determine if the loan is impaired. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. All TDRs are considered impaired regardless of accrual status. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. A specific reserve is established for impaired loans for the amount of calculated impairment. Interest payments received on impaired nonaccrual loans are applied as a reduction of the outstanding principal balance. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Impairment amounts are recorded quarterly and specific reserves are recorded in the allowance for loan losses.

Each quarter, United’s management prepares an analysis of the allowance for loan losses to determine the appropriate balance that measures and quantifies the amount of loss inherent in the loan portfolio. The allowance is comprised of specific reserves which are determined as described above, general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions and an unallocated portion. United uses eight quarters of historical loss experience weighted toward the most recent quarters to determine the loss factors to be used. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to normalize for nonrecurring and unusual activity that might otherwise influence a shorter time period. The weighted average is calculated by multiplying each quarter’s annualized historical net charge-off rate by 1 through 8, with 8 representing the most recent quarter and 1 representing the oldest

quarter. United uses annualized charge-off rates under the broad assumption that losses inherent in the loan portfolio will generally be resolved within twelve months. Problem loans that are not resolved within twelve months are generally larger loans that are more complex in nature requiring more time to either rehabilitate or work out of the bank. These credits are subject to impairment testing and specific reserves.

The weighted loss factor results for each quarter are added together and divided by 36 (the sum of 1, 2, 3, 4, 5, 6, 7 and 8) to arrive at the weighted average historical loss factor for each category of loans. United calculates loss factors for each major category of loans (commercial real estate, commercial & industrial, commercial construction, residential construction and consumer installment) except residential real estate loans which are further divided into home equity first lien, home equity junior lien and all other residential real estate loans and a loss factor is calculated for each category.

Management carefully reviews the resulting loss factors for each category of the loan portfolio and evaluates whether qualitative adjustments are necessary to take into consideration recent credit trends such as increases or decreases in past due, nonaccrual, criticized and classified loans, acceleration or delays in timing of recognition of losses that may render the use of annualized charge-off rates to be inappropriate, and other macro environmental factors such as changes in unemployment rates, lease vacancy rates and trends in property values and absorption rates.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

To validate the results, management closely monitors the loan portfolio to determine the range of potential losses based upon probability of default and losses upon default for each major loan category. The potential range of losses resulting from this analysis is compared to the resulting loss factors for each major loan category to validate the loss factors and determine if qualitative adjustments are necessary. United's management believes that its method of determining the balance of the allowance for loan losses provides a reasonable and reliable basis for measuring and reporting losses that are inherent in the loan portfolio as of the reporting date.

The following table presents the balance and activity in the allowance for loan losses by portfolio segment and the recorded investment in loans by portfolio segment based on the impairment method as of March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

	Commercial (Secured by Real Estate)	Commercial & Industrial	Commercial Construction	Commercial Mortgage	Residential Construction	Residential Installment	Consumer Unallocated	Other
Three Months Ended March 31, 2013								
Allowance for loan losses:								
Beginning balance	\$27,847	\$5,537	\$8,389	\$26,642	\$26,662	\$2,747	\$9,313	\$1,000
Charge-offs	(5,454)	(1,823)	(45)	(2,356)	(2,982)	(707)	—	(1,000)
Recoveries	211	322	49	209	9	183	—	9
Provision	7,804	1,590	(285)	2,433	(363)	(131)	(48)	1,000
Ending balance	\$30,408	\$5,626	\$8,108	\$26,928	\$23,326	\$2,092	\$9,265	\$1,000
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$5,089	\$1,026	\$2,093	\$1,804	\$1,945	\$14	\$—	\$1,000
Collectively evaluated for impairment	25,319	4,600	6,015	25,124	21,381	2,078	9,265	9
Total ending allowance balance	\$30,408	\$5,626	\$8,108	\$26,928	\$23,326	\$2,092	\$9,265	\$1,000
Loans:								
Individually evaluated for impairment	\$86,978	\$50,347	\$38,970	\$22,156	\$31,936	\$407	\$—	\$2,000
Collectively evaluated for impairment	1,717,052	403,417	113,440	1,223,819	339,797	165,241	—	3,000
Total loans	\$1,804,030	\$453,764	\$152,410	\$1,245,975	\$371,733	\$165,648	\$—	\$4,000
Year Ended December 31, 2012								
Allowance for loan losses:								
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$6,106	\$490	\$2,239	\$2,165	\$625	\$19	\$—	\$1,000
Collectively evaluated for impairment	21,741	5,047	6,150	24,477	26,037	2,728	9,313	9
Total ending allowance balance	\$27,847	\$5,537	\$8,389	\$26,642	\$26,662	\$2,747	\$9,313	\$1,000
Loans:								
Individually evaluated for impairment	\$104,409	\$51,501	\$40,168	\$22,247	\$34,055	\$430	\$—	\$2,000
Collectively evaluated for impairment	1,708,956	406,745	114,601	1,191,956	347,622	152,318	—	3,000
Total loans	\$1,813,365	\$458,246	\$154,769	\$1,214,203	\$381,677	\$152,748	\$—	\$4,000
Three Months Ended March 31, 2012								
Beginning balance	\$31,644	\$5,681	\$6,097	\$29,076	\$30,379	\$2,124	\$9,467	\$1,000
Charge-offs	(3,928)	(756)	(364)	(5,767)	(5,629)	(753)	—	(1,000)
Recoveries	231	87	30	392	315	275	—	1,000
Provision	2,667	460	3,820	3,655	4,408	252	(262)	1,000

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Ending balance	\$30,614	\$5,472	\$9,583	\$27,356	\$29,473	\$1,898	\$9,205	\$1
Ending allowance attributable to loans:								
Individually evaluated for impairment	\$7,654	\$1,122	\$1,920	\$2,254	\$3,236	\$63	\$—	\$1
Collectively evaluated for impairment	22,960	4,350	7,663	25,102	26,237	1,835	9,205	9
Total ending allowance balance	\$30,614	\$5,472	\$9,583	\$27,356	\$29,473	\$1,898	\$9,205	\$1
Loans:								
Individually evaluated for impairment	\$117,999	\$60,568	\$46,549	\$21,525	\$47,048	\$331	\$—	\$2
Collectively evaluated for impairment	1,725,208	378,928	120,573	1,109,723	388,327	110,787	—	3
Total loans	\$1,843,207	\$439,496	\$167,122	\$1,131,248	\$435,375	\$111,118	\$—	\$4

When a loan officer determines that a loan is uncollectible, he or she is responsible for recommending to the local bank president that the loan be charged off. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department and the Foreclosure / OREO department. Nonaccrual loans that are collateral dependent are generally charged down to 80% of the appraised value of the underlying collateral at the time they are placed on nonaccrual status.

A committee consisting of the Chief Risk Officer, Senior Risk Officer and the Senior Credit Officers meets monthly to review charge-offs that have occurred during the previous month. The 10 largest charge-offs are reported quarterly to the Board of Directors.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Generally, closed-end retail loans (installment and residential mortgage loans) past due 120 cumulative days are charged-off unless the loan is well secured and in process of collection (within the next 90 days). Open-end (revolving) retail loans which are past due 180 cumulative days from their contractual due date are generally charged-off.

At March 31, 2013, December 31, 2012 and March 31, 2012, loans with a carrying value of \$1.94 billion, \$1.90 billion and \$1.58 billion, respectively, were pledged as collateral to secure FHLB advances and other contingent funding sources.

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three months ended March 31, 2013 and 2012 (in thousands).

	Three Months Ended March 31, 2013			2012		
	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Commercial (secured by real estate)	\$91,631	\$ 946	\$ 1,000	\$ 117,551	\$ 1,251	\$ 1,341
Commercial & industrial	43,694	156	629	43,249	118	610
Commercial construction	39,208	151	232	40,759	267	457
Total commercial	174,533	1,253	1,861	201,559	1,636	2,408
Residential mortgage	20,414	241	223	24,262	225	261
Residential construction	40,592	326	428	54,467	401	518
Consumer installment	276	6	6	338	5	5
Total	\$235,815	\$ 1,826	\$2,518	\$280,626	\$2,267	\$3,192

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

	March 31, 2013			December 31, 2012			March 31, 2012		
	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	
With no related allowance recorded:									
Commercial (secured by real estate)	\$50,386	\$37,202	\$—	\$74,066	\$62,609	\$—	\$91,399	\$82,500	
Commercial & industrial	73,196	46,895	—	74,572	49,572	—	81,896	56,800	
Commercial construction	23,486	16,703	—	23,938	17,305	—	30,188	27,200	
Total commercial	147,068	100,800	—	172,576	129,486	—	203,483	166,500	
Residential mortgage	7,762	6,306	—	10,336	8,383	—	15,375	13,000	
Residential construction	19,026	15,223	—	35,439	19,093	—	44,018	28,400	
Consumer installment	—	—	—	—	—	—	—	—	

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Total with no related allowance recorded	173,856	122,329	—	218,351	156,962	—	262,876	208,351
With an allowance recorded:								
Commercial (secured by real estate)	52,363	49,777	5,089	44,395	41,800	6,106	36,536	35,400
Commercial & industrial	3,562	3,451	1,026	2,170	1,929	490	3,672	3,672
Commercial construction	23,150	22,267	2,093	23,746	22,863	2,239	20,056	19,200
Total commercial	79,075	75,495	8,208	70,311	66,592	8,835	60,264	58,272
Residential mortgage	16,104	15,850	1,804	14,267	13,864	2,165	9,255	8,480
Residential construction	17,244	16,713	1,945	15,412	14,962	625	19,235	18,500
Consumer installment	420	407	14	441	430	19	340	331
Total with an allowance recorded	112,843	108,465	11,971	100,431	95,848	11,644	89,094	85,783
Total	\$286,699	\$230,794	\$11,971	\$318,782	\$252,810	\$11,644	\$351,970	\$294,134

There were no loans more than 90 days past due and still accruing interest at March 31, 2013, December 31, 2012 or March 31, 2012. Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans. United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

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 March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

	Nonaccrual Loans		
	March 31, 2013	December 31, 2012	March 31, 2012
Commercial (secured by real estate)	\$ 17,304	\$ 22,148	\$ 26,081
Commercial & industrial	29,545	31,817	36,314
Commercial construction	22,359	23,843	23,319
Total commercial	69,208	77,808	85,714
Residential mortgage	11,817	12,589	18,741
Residential construction	14,592	18,702	24,341
Consumer installment	389	795	908
Total	\$ 96,006	\$ 109,894	\$ 129,704
Balance as a percentage of unpaid principal	66.3 %	69.5 %	70.6 %

The following table presents the aging of the recorded investment in past due loans as of March 31, 2013, December 31, 2012 and March 31, 2012 by class of loans (in thousands).

As of March 31, 2013	Loans Past Due			Total	Loans Not Past Due		Total
	30 - 59 Days	60 - 89 Days	> 90 Days		Past Due	Total	
Commercial (secured by real estate)	\$ 7,402	\$ 2,304	\$ 5,750	\$ 15,456	\$ 1,788,574	\$ 1,804,030	
Commercial & industrial	1,485	419	219	2,123	451,641	453,764	
Commercial construction	856	—	5,530	6,386	146,024	152,410	
Total commercial	9,743	2,723	11,499	23,965	2,386,239	2,410,204	
Residential mortgage	11,899	2,667	4,159	18,725	1,227,250	1,245,975	
Residential construction	2,310	2,371	2,373	7,054	364,679	371,733	
Consumer installment	682	152	109	943	164,705	165,648	
Total loans	\$ 24,634	\$ 7,913	\$ 18,140	\$ 50,687	\$ 4,142,873	\$ 4,193,560	
As of December 31, 2012							
Commercial (secured by real estate)	\$ 8,106	\$ 3,232	\$ 7,476	\$ 18,814	\$ 1,794,551	\$ 1,813,365	
Commercial & industrial	1,565	429	867	2,861	455,385	458,246	
Commercial construction	2,216	—	4,490	6,706	148,063	154,769	
Total commercial	11,887	3,661	12,833	28,381	2,397,999	2,426,380	
Residential mortgage	12,292	2,426	4,848	19,566	1,194,637	1,214,203	
Residential construction	2,233	1,934	5,159	9,326	372,351	381,677	

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Consumer installment	1,320	245	289	1,854	150,894	152,748
Total loans	\$ 27,732	\$ 8,266	\$ 23,129	\$ 59,127	\$ 4,115,881	\$ 4,175,008
As of March 31, 2012						
Commercial (secured by real estate)	\$ 6,777	\$ 3,219	\$ 14,461	\$ 24,457	\$ 1,818,750	\$ 1,843,207
Commercial & industrial	1,930	244	2,905	5,079	434,417	439,496
Commercial construction	256	55	8,620	8,931	158,191	167,122
Total commercial	8,963	3,518	25,986	38,467	2,411,358	2,449,825
Residential mortgage	14,540	5,223	9,103	28,866	1,102,382	1,131,248
Residential construction	7,462	1,584	11,201	20,247	415,128	435,375
Consumer installment	961	248	346	1,555	109,563	111,118
Total loans	\$ 31,926	\$ 10,573	\$ 46,636	\$ 89,135	\$ 4,038,431	\$ 4,127,566

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2013, December 31, 2012, and March 31, 2012, \$8.12 million, \$9.50 million and \$12.2 million of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to \$613,000, \$689,000, and \$891,000 as of March 31, 2013, December 31, 2012 and March 31, 2012, respectively, to customers with outstanding loans that are classified as TDRs.

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

The following table presents additional information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment as of March 31, 2013, December 31, 2012 and March 31, 2012 (dollars in thousands).

	March 31, 2013			December 31, 2012			March 31, 2012		
	Pre-Modification Number of Contracts	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment	Pre-Modification Number of Contracts	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment	Pre-Modification Number of Contracts	Post-Modification Outstanding Recorded Investment	Outstanding Recorded Investment
Commercial (sec by RE)	97	\$ 80,618	\$ 74,675	96	\$ 80,261	\$ 75,340	92	\$ 83,230	\$ 79,844
Commercial & industrial	41	8,944	8,834	32	7,492	7,250	26	3,487	3,487
Commercial construction	25	36,491	32,614	25	37,537	33,809	16	35,184	34,066
Total commercial	163	126,053	116,123	153	125,290	116,399	134	121,901	117,397
Residential mortgage	120	19,901	19,023	117	20,323	19,296	99	15,718	14,832
Residential construction	71	25,651	23,345	67	25,822	23,786	63	27,128	25,948
Consumer installment	46	282	269	51	1,292	1,282	40	340	330
Total loans	400	\$ 171,887	\$ 158,760	388	\$ 172,727	\$ 160,763	336	\$ 165,087	\$ 158,507

Loans modified under the terms of a TDR during the three months ended March 31, 2013 and 2012 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that became 90 days or more delinquent during the three months ended March 31, 2013 and 2012 that were initially restructured within one year prior to the three months ended March 31, 2013 and 2012 (dollars in thousands).

New Troubled Debt Restructurings for the Three Months Ended March 31, 2013	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Troubled Debt Restructurings Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended March 31, 2013	
				Number of Contracts	Recorded Investment

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Commercial (secured by real estate)	8	\$ 3,568	\$ 3,568	\$1	\$432
Commercial & industrial	9	815	709	1	35
Commercial construction	—	—	—	2	1,454
Total commercial	17	4,383	4,277	4	1,921
Residential mortgage	11	2,115	2,115	1	68
Residential construction	5	784	655	2	117
Consumer installment	4	21	21	3	20
Total loans	37	\$ 7,303	\$ 7,068	10	\$2,126

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New Troubled Debt Restructurings for the Three Months Ended March 31, 2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Troubled Debt Restructurings Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended March 31, 2012	
				Number of Contracts	Recorded Investment
Commercial (secured by real estate)	24	\$ 15,099	\$ 13,741	\$—	\$—
Commercial & industrial	10	2,724	2,724	1	43
Commercial construction	7	20,781	20,781	2	4,174
Total commercial	41	38,604	37,246	3	4,217
Residential mortgage	24	5,279	5,273	3	373
Residential construction	14	3,751	3,189	3	1,476
Consumer installment	7	60	55	—	—
Total loans	86	\$ 47,694	\$ 45,763	9	\$6,066

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

Risk Ratings

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

Watch. Loans in this category are presently protected from apparent loss; however, weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Substandard. These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. There is the distinct possibility that United will sustain some loss if deficiencies are not corrected. If possible, immediate corrective action is taken.

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2013, December 31, 2012 and March 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands).

			Substandard		Doubtful /	Not Rated	Total
As of March 31, 2013	Pass	Watch	Performing	Nonaccrual	Loss		
Commercial (secured by real estate)	\$1,593,193	\$65,413	\$128,120	\$17,304	\$—	\$—	\$1,804,030
Commercial & industrial	396,363	6,775	20,320	29,545	—	761	453,764
Commercial construction	104,413	7,176	18,462	22,359	—	—	152,410
Total commercial	2,093,969	79,364	166,902	69,208	—	761	2,410,204
Residential mortgage	1,139,249	30,806	64,103	11,817	—	—	1,245,975
Residential construction	296,029	23,230	37,882	14,592	—	—	371,733
Consumer installment	161,577	888	2,794	389	—	—	165,648
Total loans	\$3,690,824	\$134,288	\$271,681	\$96,006	\$—	\$761	\$4,193,560
As of December 31, 2012							
Commercial (secured by real estate)	\$1,592,677	\$80,997	\$117,543	\$22,148	\$—	\$—	\$1,813,365
Commercial & industrial	401,606	5,404	18,477	31,817	—	942	458,246
Commercial construction	104,296	7,345	19,285	23,843	—	—	154,769
Total commercial	2,098,579	93,746	155,305	77,808	—	942	2,426,380
Residential mortgage	1,102,746	33,689	65,179	12,589	—	—	1,214,203
Residential construction	292,264	32,907	37,804	18,702	—	—	381,677
Consumer installment	147,214	1,086	3,653	795	—	—	152,748
Total loans	\$3,640,803	\$161,428	\$261,941	\$109,894	\$—	\$942	\$4,175,008
As of March 31, 2012							
Commercial (secured by real estate)	\$1,586,934	\$96,352	\$133,840	\$26,081	\$—	\$—	\$1,843,207
Commercial & industrial	381,098	4,126	17,217	36,314	—	741	439,496
Commercial construction	99,825	20,722	23,256	23,319	—	—	167,122
Total commercial	2,067,857	121,200	174,313	85,714	—	741	2,449,825
Residential mortgage	995,981	40,790	75,736	18,741	—	—	1,131,248
Residential construction	298,592	48,168	64,274	24,341	—	—	435,375
Consumer installment	106,124	1,476	2,610	908	—	—	111,118
Total loans	\$3,468,554	\$211,634	\$316,933	\$129,704	\$—	\$741	\$4,127,566

Note 6 – Foreclosed Property

Major classifications of foreclosed properties at March 31, 2013, December 31, 2012 and March 31, 2012 are summarized as follows (in thousands).

	March 31, 2013	December 31, 2012	March 31, 2012
Commercial real estate	\$ 6,658	\$ 6,368	\$ 11,463
Commercial construction	3,027	2,204	3,266
Total commercial	9,685	8,572	14,729
Residential mortgage	3,768	5,192	6,757

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Residential construction	8,260	11,454	28,147
Total foreclosed property	21,713	25,218	49,633
Less valuation allowance	(4,979)	(6,954)	(17,746)
Foreclosed property, net	\$ 16,734	\$ 18,264	\$ 31,887
Balance as a percentage of original loan unpaid principal	45.0 %	39.7 %	36.1 %

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Activity in the valuation allowance for foreclosed property for the three months ended March 31, 2013 and 2012 is presented in the following table (in thousands).

	Three Months Ended March 31,	
	2013	2012
Balance at beginning of year	\$ 6,954	\$ 18,982
Additions charged to expense	1,041	2,111
Disposals	(3,016)	(3,347)
Balance at end of period	\$ 4,979	\$ 17,746

Expenses related to foreclosed assets for the three months ended March 31, 2013 and 2012 is presented in the following table (in thousands).

	Three Months Ended March 31,	
	2013	2012
Net loss on sales	\$ 105	\$ 93
Provision for unrealized losses	1,041	2,111
Operating expenses	1,187	1,621
Total foreclosed property expense	\$ 2,333	\$ 3,825

Note 7 – Reclassifications Out of Accumulated Other Comprehensive Income

The following table presents the details regarding amounts reclassified out of accumulated other comprehensive income for the three months ended March 31, 2013 and 2012 (in thousands).

	For the Three Months Ended March 31, 2013		
	Amounts	Reclassified from	
	Accumulated	Other	
Details about Accumulated Other Comprehensive	Comprehensive		Affected Line Item in the Statement Where Net Income is Presented
Income Components	Income		
Unrealized (losses) gains on available-for-sale securities:			
	\$	(116)	Securities gains, net
Amortization of gains included in net income on available-for-sale securities transferred to held to maturity:			Investment Securities
	\$	(319)	Interest Revenue
Gains included in net income on derivative financial instruments accounted for as cash flow hedges:			
			Loan Interest
Interest Rate Contracts	\$	(537)	Revenue
Interest Rate Contracts		(1)	Other Fee Revenue
	\$	(538)	

Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan

Prior Service Cost	\$	90	Salaries and Employee Benefits Expense
Net gain/loss		42	Salaries and Employee Benefits Expense
	\$	132	

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 8 – Earnings Per Share

United is required to report on the face of the consolidated statement of income, earnings 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 months ended March 31, 2013 and 2012, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (in thousands).

	Three Months Ended March 31,	
	2013	2012
Series A - 6% fixed	\$ 3	\$ 3
Series B - 5% fixed until December 6, 2013, 9% thereafter	2,630	2,608
Series D - LIBOR plus 9.6875%, resets quarterly	419	419
Total preferred stock dividends	\$ 3,052	\$ 3,030

All preferred stock dividends are payable quarterly.

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

The preferred stock dividends were subtracted from net income in order to arrive at net income available to common shareholders. There were no dilutive securities outstanding for the three months ended March 31, 2013 and 2012.

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 (in thousands, except per share data).

	Three Months Ended March 31,	
	2013	2012
Net loss available to common shareholders	\$ 8,713	\$ 8,498
Weighted average shares outstanding:		
Basic	58,081	57,764
Effect of dilutive securities		
Convertible securities	—	—
Stock options	—	—
Warrants	—	—
Diluted	58,081	57,764
Loss per common share:		
Basic	\$.15	\$.15
Diluted	\$.15	\$.15

At March 31, 2013, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at \$61.40 per share issued to the U.S. Treasury in conjunction with the issuance of United's fixed rate cumulative preferred perpetual stock, Series B; 129,670 common shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of \$100 per share; 476,311 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$97.85; 497,800 shares issuable upon completion of vesting of restricted stock awards; 1,411,765 common shares issuable upon exercise of warrants exercisable at a price equivalent to \$21.25 per share granted to Fletcher International Ltd. ("Fletcher") in connection with a 2010 asset purchase and sale agreement; and 1,551,126 common shares issuable upon exercise of warrants granted in connection with United's tax benefits preservation plan, exercisable at \$12.50 per share.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 9 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

In conjunction with the FASB's fair value measurement guidance, United made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

The table below presents the fair value of United's derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of March 31, 2013, December 31, 2012 and March 31, 2012 (in thousands).

Derivatives accounted for as hedges under ASC 815

	Balance Sheet Location	Fair Value		
		March 31, 2013	December 31, 2012	March 31, 2012
Interest Rate Products				
Asset derivatives	Other assets	\$ 21	\$ 23	\$ —
	Other			
Liability derivatives	liabilities	\$ 13,964	\$ 11,900	\$ 2,526

Derivatives not accounted for as hedges under ASC 815

	Balance Sheet Location	Fair Value		
		March 31, 2013	December 31, 2012	March 31, 2012
Interest Rate Products				
Asset derivatives	Other assets	\$ 581	\$ 635	\$ 73
	Other			
Liability derivatives	liabilities	\$ 592	\$ 643	\$ 73

Derivative contracts that are not accounted for as hedges under ASC 815, Derivatives and Hedging are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap program.

Cash Flow Hedges of Interest Rate Risk

United's objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United primarily uses interest rate swaps as part of its interest rate risk management strategy. At March 31, 2013, United's interest rate swaps designated as cash flow hedges involve the payment of fixed-rate amounts to a counterparty in exchange for United receiving variable-rate payments over the life of the agreements without exchange of the underlying notional amount. United's current cash flow hedges are for the purpose of converting variable rate deposits and wholesale borrowings to a fixed rate to protect United in a rising rate environment. The swaps are forward starting and do not become effective until 2014. United had five swap contracts outstanding with a total notional amount of \$400 million that were designated as cash flow hedges of brokered deposits at March 31, 2013 and December 31, 2012. United had no active derivative contracts outstanding at March 31, 2012, that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated as, and that qualify as, cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense when the swaps become effective in 2014 as interest payments are made on United's LIBOR based variable-rate wholesale borrowings and indexed deposit accounts. At March 31, 2013, a portion of the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three months ended March 31, 2013 and 2012, United accelerated the reclassification of \$1,000 and \$81,000, respectively, in gains from terminated positions as a result of the forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that the remaining \$365,000 of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to loan interest revenue. In addition, United's forward starting active cash flow hedges of floating rate liabilities will begin to become effective over the next twelve months. United expects that \$83,000 will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate or variable rate amounts from a counterparty in exchange for United making variable rate or fixed rate payments over the life of the agreements without the exchange of the underlying notional amount. At March 31, 2013, United had 18 interest rate swaps with an aggregate notional amount of \$220 million that were designated as fair value hedges of interest rate risk. Two of the interest rate swaps outstanding at March 31, 2013 with an aggregate notional amount of \$21 million were receive-variable / pay-fixed swaps that were used for the purpose of hedging changes in the fair value of fixed rate corporate bonds resulting from changes in interest rates. The other 16 were pay-variable / receive-fixed swaps hedging changes in fair value of fixed rate brokered time deposits resulting from changes in interest rates. As of March 31, 2012, United had four interest rate swaps with an aggregate notional amount of \$64.5 million that were designated as fair value hedges.

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 months ended March 31, 2013 and 2012, United recognized net losses of \$86,000 and net gains of \$34,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$1.06 million and \$278,000 for the three months ended March 31, 2013 and 2012, respectively, related to United's fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized a \$12,000 reduction of interest revenue on securities during the first quarter of 2013 related to United's fair value hedges of corporate bonds.

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 months ended March 31, 2013 and 2012.

Derivatives in Fair Value Hedging Relationships (in thousands).

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Hedged Item	
	2013	2012	2013	2012
Three Months Ended March 31,				

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Other fee revenue \$ (2,076) \$ (1,264) \$ 1,990 \$ 1,298

Derivatives in Cash Flow Hedging Relationships (in thousands).

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)		
	2013	2012	Location	2013	2012
Three Months Ended March 31,					
			Interest revenue	\$538	\$1,519
			Other income	1	81
Interest rate products	\$430	\$—	Total	\$539	\$1,600

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

Other Derivatives Not Accounted for as Hedges (in thousands).

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Customer Derivatives 2013	2012
Three Months Ended March 31, Other fee revenue	\$ 252	\$ 69

Credit-risk-related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bilateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. As of March 31, 2013, collateral totaling \$14.6 million was pledged toward derivatives in a liability position.

United's agreements with each of its derivative counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that contain a provision where if United fails to maintain its status as a well-capitalized institution or is subject to a prompt corrective action directive, the counterparty could terminate the derivative positions and United would be required to settle its obligations under the agreements.

Change in Valuation Methodology

As of January 1, 2013, United changed its valuation methodology for over-the-counter derivatives to discount cash flows based on Overnight Index Swap ("OIS") rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (i.e. LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. United changed its methodology to better align its inputs, assumptions and pricing methodologies with those used in its principal market by most dealers and major market participants. The changes in valuation methodology are applied prospectively as a change in accounting estimate and are not material to United's financial position or results of operations.

Note 10 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards (also referred to as "nonvested stock" awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the

plan). As of March 31, 2013, 1,194,000 additional awards could be granted under the plan. Through March 31, 2013, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards have been granted under the plan.

The following table shows stock option activity for the first three months of 2013.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2012	482,528	\$ 97.73		
Forfeited	(859)	30.11		
Expired	(5,358)	98.55		
Outstanding at March 31, 2013	476,311	97.85	3.1	\$ 1
Exercisable at March 31, 2013	456,514	101.07	2.9	—

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

The fair value of each option is estimated on the date of grant using the Black-Scholes model. No stock options were granted during the three month period ended March 31, 2013. Recent decreases in United's stock price have rendered most of its outstanding options severely out of the money and potentially worthless to the grantee. Therefore, historical exercise patterns do not provide a reasonable basis for determining the expected life of new option grants. United therefore uses the formula provided by the SEC in Staff Accounting Bulletin No. 107 to determine the expected life of options. No options were granted during the three months ended March 31, 2013 and 2012.

Compensation expense relating to stock options of \$64,000 and \$180,000 was included in earnings for the three months ended March 31, 2013 and 2012, respectively. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that 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 three months of 2013 or 2012.

The table below presents the activity in restricted stock and restricted stock unit awards for the first three months of 2013.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2012	485,584	\$ 10.72
Granted	21,517	10.26
Exercised	(4,301)	14.03
Cancelled	(5,000)	10.25
Outstanding at March 31, 2013	497,800	10.68
Vested at March 31, 2013	43,100	21.98

Compensation expense for restricted stock and restricted stock units is based on the fair value of restricted stock and restricted stock unit awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock and restricted stock unit grants that are expected to vest is amortized into expense over the vesting period. For the three months ended March 31, 2013 and 2012, compensation expense of \$445,000 and \$405,000, respectively, was recognized related to restricted stock and restricted stock unit awards. In addition, for the three months ended March 31, 2013, \$17,000 was recognized in other operating expense for restricted stock units granted to members of United's board of directors. The total intrinsic value of restricted stock and restricted stock units was \$5.65 million at March 31, 2013.

As of March 31, 2013, there was \$2.85 million of unrecognized compensation cost related to non-vested stock options and restricted stock and restricted stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 1.76 years. The aggregate grant date fair value of options and restricted stock and restricted stock unit awards that vested during the three months ended March 31, 2013, was \$461,000.

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

United sponsors a Dividend Reinvestment and Share Purchase Plan (“DRIP”) that allows participants who already own United’s common stock to purchase additional shares directly from the Company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. The DRIP is currently suspended.

United’s 401(k) retirement plan regularly purchases shares of United’s common stock directly from United. In addition, United has an Employee Stock Purchase Program (“ESPP”) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the three months ended March 31, 2013 and 2012, United issued 18,170 and 35,648 shares, respectively, and increased capital by \$189,000 and \$278,000, respectively, through these programs.

United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. The deferred compensation plan does not allow for diversification once an election is made to invest in United stock and settlement must be accomplished in shares at the time the deferral period is completed. At March 31, 2013 and 2012, 133,469 and 90,126 shares, respectively, were issuable under the deferred compensation plan.

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

Note 12 – Assets and Liabilities Measured at Fair Value

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

Fair Value Hierarchy

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that United has the ability to access.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. United's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Deferred Compensation Plan Assets and Liabilities

Included in other assets in the Consolidated Balance Sheet are assets related to employee deferred compensation plans. The assets associated with these plans are invested in mutual funds and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which mirrors the fair value of the invested assets and is included in other liabilities in the consolidated balance sheet.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. Generally, book value approximates fair value.

Loans

United does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the impaired loan as nonrecurring Level 3.

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

Foreclosed Assets

Foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the foreclosed asset as nonrecurring Level 3.

Goodwill and Other Intangible Assets

Goodwill and identified intangible assets are subject to impairment testing. United's approach to testing goodwill for impairment is to compare the business unit's carrying value to the implied fair value based on multiples of earnings and tangible book value for recently completed merger transactions. In the event the fair value is determined to be less than the carrying value, the asset is recorded at fair value as determined by the valuation model. As such, United classifies goodwill and other intangible assets subjected to nonrecurring fair value adjustments as Level 3.

Derivative Financial Instruments

United uses interest rate swaps and interest rate floors to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rate of the floors. The variable interest rates used in the calculation of projected receipts on the floor are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820, United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although United has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2013, United had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, United has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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

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 March 31, 2013, December 31, 2012 and March 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

March 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
State and political subdivisions	\$ —	24,037	\$ —	\$ 24,037
Mortgage-backed securities	—	1,468,311	—	1,468,311
Corporate bonds	—	188,444	350	188,794
Asset-backed securities	—	225,870	—	225,870
Other	—	2,414	—	2,414
Deferred compensation plan assets	3,037	—	—	3,037
Derivative financial instruments	—	602	—	602
Total assets	\$ 3,037	\$ 1,909,678	\$ 350	\$ 1,913,065
Liabilities:				
Deferred compensation plan liability	\$ 3,037	\$ —	\$ —	\$ 3,037
Brokered certificates of deposit	—	194,415	—	194,415
Derivative financial instruments	—	14,556	—	14,556
Total liabilities	\$ 3,037	\$ 208,971	\$ —	\$ 212,008
December 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
State and political subdivisions	\$ —	\$ 29,052	\$ —	\$ 29,052
Mortgage-backed securities	—	1,428,502	—	1,428,502
Corporate bonds	—	163,312	350	163,662
Asset-backed securities	—	210,556	—	210,556
Other	—	2,821	—	2,821
Deferred compensation plan assets	3,101	—	—	3,101
Derivative financial instruments	—	658	—	658
Total assets	\$ 3,101	\$ 1,834,901	\$ 350	\$ 1,838,352
Liabilities:				
Deferred compensation plan liability	\$ 3,101	\$ —	\$ —	\$ 3,101
Brokered certificates of deposit	—	154,641	—	154,641
Derivative financial instruments	—	12,543	—	12,543
Total liabilities	\$ 3,101	\$ 167,184	\$ —	\$ 170,285
March 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Government agencies	\$ —	\$ 43,789	\$ —	\$ 43,789
State and political subdivisions	—	22,808	—	22,808
Mortgage-backed securities	—	1,725,068	—	1,725,068

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Corporate bonds	—	104,236	350	104,586
Other	—	2,564	—	2,564
Deferred compensation plan assets	2,973	—	—	2,973
Derivative financial instruments	—	73	—	73
Total assets	\$ 2,973	\$ 1,898,538	\$ 350	\$ 1,901,861
Liabilities:				
Deferred compensation plan liability	\$ 2,973	\$ —	\$ —	\$ 2,973
Brokered certificates of deposit	—	61,069	—	61,069
Derivative financial instruments	—	2,599	—	2,599
Total liabilities	\$ 2,973	\$ 63,668	\$ —	\$ 66,641

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).

	Three Months Ended March 31,	
	2013	2012
Securities Available for Sale		
Balance at beginning of period	\$ 350	\$ 350
Amounts included in earnings	—	—
Paydowns	—	—
Balance at end of period	\$ 350	\$ 350

United has two securities that have Level 3 valuations. They are trust preferred securities in community banks that have shown deteriorating financial condition during the financial crisis, and both are currently deferring interest payments. Since both investments are not actively traded, there is no recent trade activity upon which to assess value. The values assigned to the investments are based on sales price estimates from brokers. Both investments have a par amount of \$1 million. One was considered impaired in 2010 and was written down to \$50,000 with a \$950,000 impairment charge to earnings. The other is carried at its original cost basis of \$1 million with a \$700,000 negative mark to fair value through other comprehensive income. United does not consider this investment to be other than temporarily impaired, as the community bank was recapitalized by a private equity investment that management believes will result in full payment at maturity.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United's assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2013, December 31, 2012 and March 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

March 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Loans	\$—	\$—	\$170,767	\$170,767
Foreclosed properties	—	—	14,716	14,716
Total	\$—	\$—	\$185,483	\$185,483
December 31, 2012				
Assets				
Loans	\$—	\$—	\$165,751	\$165,751
Foreclosed properties	—	—	14,788	14,788
Total	\$—	\$—	\$180,539	\$180,539
March 31, 2012				
Assets				
Loans	\$—	\$—	\$176,632	\$176,632
Foreclosed properties	—	—	27,675	27,675
Total	\$—	\$—	\$204,307	\$204,307

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

Loans that are reported above as being measured at fair value on a non-recurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows. Foreclosed properties that are included above as measured at fair value on a nonrecurring basis are those properties that resulted from a loan that had been charged down or have been written down subsequent to foreclosure. Foreclosed properties are generally recorded at the lower of 80% of appraised value or 90% of the asking price which considers the estimated cost to sell.

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

The short maturity of United's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale and short-term borrowings. The fair value of securities available-for-sale equals the balance sheet value. Due to the short-term settlement of accrued interest receivable and payable, the carrying amount closely approximates fair value.

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

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

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

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

The carrying amount and fair values for other financial instruments that are not measured at fair value on a recurring basis in United's balance sheet at March 31, 2013, December 31, 2012, and March 31, 2012 are as follows (in thousands).

March 31, 2013	Carrying Amount	Level 1	Level 2	Fair Value Level Level 3	Total
Assets:					
Securities held to maturity	\$ 231,087	\$ —	\$ 247,087	\$ —	\$ 247,087
Loans, net	4,087,807	—	—	3,980,932	3,980,932
Mortgage loans held for sale	18,290	—	18,803	—	—
Liabilities:					
Deposits	6,025,852	—	6,034,103	—	6,034,103
Federal Home Loan Bank advances	125	—	125	—	125
Long-term debt	124,825	—	—	123,402	123,402

December 31, 2012

Assets:					
Securities held to maturity	\$244,184	\$—	\$261,131	\$—	\$261,131
Loans, net	4,067,871	—	—	3,957,669	3,957,669
Mortgage loans held for sale	28,821	—	29,693	—	—
Liabilities:					
Deposits	5,952,140	—	5,988,743	—	5,988,743
Federal Home Loan Bank advances	40,125	—	40,125	—	40,125
Long-term debt	124,805	—	—	118,626	118,626

March 31, 2012

Assets:					
Securities held to maturity	\$303,636	\$—	\$318,490	\$—	\$318,490
Loans, net	4,013,965	—	—	3,825,482	3,825,482
Mortgage loans held for sale	24,809	—	25,288	—	—
Liabilities:					
Deposits	6,000,539	—	5,986,925	—	5,986,925
Federal Home Loan Bank advances	215,125	—	217,033	—	217,033
Long-term debt	120,245	—	—	113,891	113,891

Note 13 – Commitments and Contingencies

United and its wholly-owned subsidiary, United Community Bank, (“the Bank”) are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend

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

The following table summarizes, as of March 31, 2013, December 31, 2012 and March 31, 2012, the contractual amount of off-balance sheet instruments (in thousands):

Financial instruments whose contract amounts represent credit risk:	March 31, 2013	December 31, 2012	March 31, 2012
Commitments to extend credit	\$ 565,685	\$ 313,798	\$ 429,672
Letters of credit	12,818	13,683	16,655

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

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

Forward-looking Statements

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

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experiences may differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experiences to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2012, as well as the following factors:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carry-forwards;
- the condition of the banking system and financial markets;
- 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