UNITED COMMUNITY BANKS INC
Form 10-Q
November 07, 2013

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2013

OR

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

For the Transition Period from ___________ to ___________

Commission file number 001-35095

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 x NO o

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

YES x NO o

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

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

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

YES o NO x

Common stock, par value $1 per share 45,230,240 shares voting and 14,189,006 shares non-voting outstanding as of October 31, 2013.

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Part I – Financial Information

Item 1 – Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2013	2012	2013	2012
Interest revenue:				
Loans, including fees	$50,114	$53,868	$151,776	$163,805
Investment securities, including tax exempt of $202, $225, $624 and $737	9,872	10,706	29,518	34,772
Deposits in banks and short-term investments	1,007	985	2,793	3,093
Total interest revenue	60,993	65,559	184,087	201,670
Interest expense:				
Deposits:				
NOW	413	447	1,286	1,587
Money market	545	599	1,641	1,901
Savings	37	37	109	112
Time	2,486	4,612	8,636	15,844
Total deposit interest expense	3,481	5,695	11,672	19,444
Short-term borrowings	525	514	1,563	2,463
Federal Home Loan Bank advances	16	26	65	882
Long-term debt	3,003	2,372	8,331	7,119
Total interest expense	7,025	8,607	21,631	29,908
Net interest revenue	53,968	56,952	162,456	171,762
Provision for loan losses	3,000	15,500	62,500	48,500
Net interest revenue after provision for loan losses	50,968	41,452	99,956	123,262
Fee revenue:				
Service charges and fees	8,456	7,696	23,831	23,295
Mortgage loan and other related fees	2,554	2,800	8,212	7,221
Brokerage fees	1,274	709	3,104	2,331
Securities gains, net	-	-	116	7,047
Loss from prepayment of debt	-	-	-	(6,681)
Other	1,860	2,559	8,019	8,797
Total fee revenue	14,144	13,764	43,282	42,010
Total revenue	65,112	55,216	143,238	165,272
Operating expenses:				
Salaries and employee benefits	23,090	22,918	71,416	72,440
Communications and equipment	3,305	3,254	9,819	9,620
Occupancy	3,379	3,539	10,195	10,849

Advertising and public relations	962	934	2,937	2,868
Postage, printing and supplies	644	954	2,401	2,849
Professional fees	2,650	2,180	7,515	6,107
Foreclosed property	194	3,706	7,678	9,382
FDIC assessments and other regulatory charges	2,405	2,537	7,415	7,592
Amortization of intangibles	427	728	1,623	2,190
Other	3,041	4,033	11,691	12,151
Total operating expenses	40,097	44,783	132,690	136,048
Net income before income taxes	25,015	10,433	10,548	29,224
Income tax expense (benefit)	9,515	(135)	(246,681)	629
Net income	15,500	10,568	257,229	28,595
Preferred stock dividends and discount accretion	3,059	3,041	9,166	9,103
Net income available to common shareholders	$12,441	$7,527	$248,063	$19,492
Earnings per common share				
Basic	$.21	$.13	$4.24	$.34
Diluted	.21	.13	4.24	.34
Weighted average common shares outstanding				
Basic	59,100	57,880	58,443	57,826
Diluted	59,202	57,880	58,444	57,826

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Comprehensive Income
(Unaudited)

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
2013	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net (loss) income	$ 25,015	$ (9,515)	$ 15,500	$ 10,548	$ 246,681	$ 257,229
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	(13,215)	4,971	(8,244)	(26,932)	10,148	(16,784)
Reclassification adjustment for gains included in net income	-	-	-	(116)	45	(71)
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities and release of valuation allowance	-	-	-	-	(2,950)	(2,950)
Net unrealized gains (losses)	(13,215)	4,971	(8,244)	(27,048)	7,243	(19,805)
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	(214)	82	(132)	(804)	309	(495)
Adjustment of 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 and release of valuation allowance	-	-	-	-	1,293	1,293
Net unrealized losses	(214)	82	(132)	(804)	1,602	798
	(58)	23	(35)	(902)	351	(551)

Amounts reclassified into net income on cash flow hedges						
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	(3,369)	1,321	(2,048)	8,733	(3,386)	5,347
Adjustment of 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 and release of valuation allowance	-	-	-		13,698	13,698
Net unrealized losses	(3,427)	1,344	(2,083)	7,831	10,663	18,494
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	133	(52)	81	398	(155)	243
Net defined benefit pension plan activity	133	(52)	81	(17)	6	(11)
Total other comprehensive income (loss)	(16,723)	6,345	(10,378)	(20,038)	19,514	(524)
Comprehensive income	$ 8,292	$ (3,170)	$ 5,122	$ (9,490)	$ 266,195	$ 256,705
2012						
Net income	$ 10,433	$ 135	$ 10,568	$ 29,224	$ (629)	$ 28,595
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	5,813	(2,139)	3,674	6,737	(2,415)	4,322
Reclassification adjustment for gains included in net income	-	-	-	(7,047)	2,631	(4,416)
Valuation allowance for the change in deferred taxes	-	2,139	2,139	-	(216)	(216)

arising from unrealized gains and losses on available-for-sale securities						
Net unrealized gains (losses)	5,813	-	5,813	(310)	-	(310)
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	(499)	189	(310)	(1,312)	497	(815)
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	-	(189)	(189)	-	(497)	(497)
Net unrealized losses	(499)	-	(499)	(1,312)	-	(1,312)
Amortization of gains included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	(763)	297	(466)	(3,077)	1,197	(1,880)
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	(3,943)	1,534	(2,409)	(8,798)	3,422	(5,376)
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	-	(1,831)	(1,831)	-	(4,619)	(4,619)
Net unrealized losses	(4,706)	-	(4,706)	(11,875)	-	(11,875)
Net actuarial loss on defined benefit pension plan	-	-	-	-	-	-
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	154	(60)	94	462	(180)	282
Valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior	-	60	60	-	180	180

service cost and actuarial losses and amortization of prior service cost and actuarial losses						
Net defined benefit pension plan activity	154	-	154	462	-	462
Total other comprehensive income (loss)	762	-	762	(13,035)	-	(13,035)
Comprehensive income	$ 11,195	$ 135	$ 11,330	$ 16,189	$ (629)	$ 15,560

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	September 30, 2013	December 31, 2012	September 30, 2012
ASSETS			
Cash and due from banks	$70,986	$66,536	$57,270
Interest-bearing deposits in banks	131,147	124,613	119,355
Short-term investments	62,000	60,000	45,000
Cash and cash equivalents	264,133	251,149	221,625
Securities available for sale	1,963,424	1,834,593	1,761,994
Securities held to maturity (fair value $214,651, $261,131 and $281,336)	205,613	244,184	262,648
Mortgage loans held for sale	11,987	28,821	30,571
Loans, net of unearned income	4,267,067	4,175,008	4,137,845
Less allowance for loan losses	(80,372)	(107,137)	(107,642)
Loans, net	4,186,695	4,067,871	4,030,203
Assets covered by loss sharing agreements with the FDIC	31,207	47,467	53,070
Premises and equipment, net	165,993	168,920	170,532
Bank owned life insurance	80,537	81,867	81,574
Accrued interest receivable	18,199	18,659	19,133
Other intangible assets	3,888	5,510	6,237
Foreclosed property	4,467	18,264	26,958
Net deferred tax asset	269,784	-	-
Other assets	37,366	34,954	34,690
Total assets	$7,243,293	$6,802,259	$6,699,235
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	$1,418,782	$1,252,605	$1,210,703
NOW	1,279,134	1,316,453	1,184,341
Money market	1,197,495	1,149,912	1,126,312
Savings	249,044	227,308	222,431
Time:			
Less than $100,000	925,089	1,055,271	1,123,672
Greater than $100,000	624,019	705,558	731,766
Brokered	419,344	245,033	223,474
Total deposits	6,112,907	5,952,140	5,822,699
Short-term borrowings	53,769	52,574	53,243
Federal Home Loan Bank advances	125	40,125	50,125
Long-term debt	129,865	124,805	120,285
Unsettled securities purchases	11,610	-	24,319
Accrued expenses and other liabilities	82,800	51,210	43,309
Total liabilities	6,391,076	6,220,854	6,113,980
Shareholders' equity:			
Preferred stock, $1 par value; 10,000,000 shares authorized;			
Series A; $10 stated value; 21,700 shares issued and outstanding	217	217	217

Series B; $1,000 stated value; 180,000 shares issued and outstanding	179,714	178,557	178,183
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;			
45,222,839, 42,423,870 and 42,393,319 shares issued and outstanding	45,223	42,424	42,393
Common stock, non-voting, $1 par value; 30,000,000 shares authorized;			
14,189,006, 15,316,794 and 15,316,794 shares issued and outstanding	14,189	15,317	15,317
Common stock issuable; 242,262, 133,238 and 129,270 shares	3,979	3,119	3,247
Capital surplus	1,077,536	1,057,951	1,056,998
Accumulated deficit	(461,090)	(709,153)	(711,369)
Accumulated other comprehensive loss	(24,164)	(23,640)	(16,344)
Total shareholders' equity	852,217	581,405	585,255
Total liabilities and shareholders' equity	$7,243,293	$6,802,259	$6,699,235

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	Preferred Stock Series A	Series B	Series D	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulat Other Comprehe Income (Loss)
Balance, December 31, 2011	$217	$177,092	$16,613	$41,647	$15,914	$3,233	$1,054,940	$(730,861)	$(3,309)
Net income								28,595	
Other comprehensive loss									(13,035)
Common stock issued to dividend reinvestment plan and employee benefit plans (87,086 shares)				86			616		
Conversion of non-voting common stock to voting common stock (597,415 shares)				597	(597)				
Amortization of stock options and restricted stock awards							1,412		
Vesting of restricted stock (59,081 shares issued, 36,673 shares deferred)				60		155	(257)		
Deferred compensation plan, net, including dividend equivalents						149			
Shares issued from deferred compensation plan (2,637 shares)				3		(290)	287		
Preferred stock dividends:									
Series A								(9)	
Series B		1,091						(7,841)	
Series D								(1,253)	
Balance, September 30, 2012	$217	$178,183	$16,613	$42,393	$15,317	$3,247	$1,056,998	$(711,369)	$(16,344)
Balance, December 31, 2012	$217	$178,557	$16,613	$42,424	$15,317	$3,119	$1,057,951	$(709,153)	$(23,640)
Net income								257,229	
Other comprehensive income									(524)
Common stock issued to dividend reinvestment plan and to employee benefit plans (49,830 shares)				50			532		
Conversion of non-voting common stock to voting (1,127,788 shares)				1,128	(1,128)				
				1,551			17,838		

Warrant exercise (1,551,126 shares)									
Amortization of stock options and restricted stock awards							2,168		
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (51,995 shares issued, 115,664 shares deferred)				52		1,693	(1,900)		
Deferred compensation plan, net, including dividend equivalents						132			
Shares issued from deferred compensation plan (18,230 shares)				18		(965)	947		
Preferred stock dividends:									
Series A								(9)	
Series B		1,157						(7,907)	
Series D								(1,250)	
Balance, September 30, 2013	$217	$179,714	$16,613	$45,223	$14,189	$3,979	$1,077,536	$(461,090)	$(24,164)

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
(in thousands)	2013	2012
Operating activities:		
Net income	$257,229	$28,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	20,847	24,478
Provision for loan losses	62,500	48,500
Stock based compensation	2,168	1,412
Deferred income tax benefit	(250,054)	-
Securities gains, net	(116)	(7,047)
Losses and write downs on sales of other real estate owned	5,141	5,687
Loss on prepayment of borrowings	-	6,681
Changes in assets and liabilities:		
Other assets and accrued interest receivable	16,225	40,708
Accrued expenses and other liabilities	31,562	(3,108)
Mortgage loans held for sale	16,834	(6,690)
Net cash provided by operating activities	162,336	139,216
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	45,578	65,040
Purchases	(8,481)	-
Investment securities available-for-sale:		
Proceeds from sales	20,751	371,103
Proceeds from maturities and calls	399,304	492,768
Purchases	(574,020)	(818,048)
Net increase in loans	(288,514)	(104,806)
Proceeds from note sales	91,913	-
Collections from FDIC under loss sharing agreements	5,121	7,301
Proceeds from sales of premises and equipment	3,550	667
Purchases of premises and equipment	(7,533)	(3,231)
Proceeds from sale of other real estate	24,049	22,309
Net cash (used in) provided by investing activities	(288,282)	33,103
Financing activities:		
Net change in deposits	160,767	(275,284)
Net change in short-term borrowings	1,195	(53,814)
Proceeds from Federal Home Loan Bank advances	650,000	1,629,000
Settlement of Federal Home Loan Bank advances	(690,000)	(1,621,701)
Proceeds from issuance of senior debt	40,000	-
Repayment of subordinated debentures	(35,000)	-
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	582	702

Proceeds from warrant exercise	19,389	-
Cash dividends on preferred stock	(8,003)	(8,013)
Net cash provided by (used in) financing activities	138,930	(329,110)
Net change in cash and cash equivalents	12,984	(156,791)
Cash and cash equivalents at beginning of period	251,149	378,416
Cash and cash equivalents at end of period	$264,133	$221,625
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$26,517	$32,668
Income taxes	2,361	(27,103)
Unsettled securities purchases	11,610	24,319
Transfers of loans to foreclosed property	18,460	26,854

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.

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. This guidance 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.

In July 2013, the FASB issued Accounting Standards Update No. 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to be used as a benchmark interest rate for hedge accounting in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The standard is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. This guidance did not have a material impact on United's financial position, results of operations or disclosures.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward exists. This ASU provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Since United has both unrecognized tax benefits and net operating loss and tax credit carryforwards, this ASU could have an impact on United's financial position, results of operations or disclosures; however, United does not expect the impact to be material to United's financial position, results of operations or disclosures.

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.

United also enters into derivative transactions that are subject to master netting arrangements; however there were no offsetting positions with the same counterparty at September 30, 2013, December 31, 2012 or September 30, 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 September 30, 2013 and December 31, 2012, and September 30, 2012 (in thousands).

September 30, 2013	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	$ 405,000	$ (350,000)	$ 55,000	$ -	$ -	$ 55,000
Derivatives	8,092	-	8,092	-	-	8,092
Total	$ 413,092	$ (350,000)	$ 63,092	$ -	$ -	$ 63,092
Weighted average interest rate of reverse repurchase agreements	1.13 %					

	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	$ 350,000	$ (350,000)	$ -	$ -	$ -	$ -
Derivatives	37,269	-	37,269	-	25,579	11,690
Total	$ 387,269	$ (350,000)	$ 37,269	$ -	$ 25,579	$ 11,690
Weighted average interest rate of repurchase agreements	.28 %					

December 31, 2012	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	$ 325,000	$ (265,000)	$ 60,000	$ -	$ -	$ 60,000

agreements						
Securities lending transactions	50,000	(50,000)	-	-	-	-
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 %					

September 30, 2012	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	$ 270,000	$ (225,000)	$ 45,000	$ -	$ -	$ 45,000
Securities lending transactions	100,000	(100,000)	-	-	-	-
Derivatives	778	-	778	-	-	778
Total	$ 370,778	$ (325,000)	$ 45,778	$ -	$ -	$ 45,778
Weighted average interest rate of reverse repurchase agreements	1.19 %					

	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	$	225,000	$	(225,000)	$	-	$	-	$	-	$	-
Securities lending transactions		100,000		(100,000)		-		-		-		-
Derivatives		10,363		-		10,363		-		11,126		(763)
Total	$	335,363	$	(325,000)	$	10,363	$	-	$	11,126	$	(763)
Weighted average interest rate of repurchase agreements		.41 %										

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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 and nine month periods ended September 30, 2013 and 2012 (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Proceeds from sales	$ 5,000	$ -	$ 20,751	$ 371,103
Gross gains on sales	$ -	$ -	$ 116	$ 7,047
Gross losses on sales	-	-	-	-
Net gains on sales of securities	$ -	$ -	$ 116	$ 7,047
Income tax expense attributable to sales	$ -	$ -	$ 45	$ 2,631

Securities with a carrying value of $1.34 billion, $1.40 billion, and $1.28 billion were pledged to secure public deposits and other secured borrowings at September 30, 2013, December 31, 2012 and September 30, 2012, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the Federal Home Loan Bank of Atlanta ("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 September 30, 2013, December 31, 2012 and September 30, 2012 are as follows (in thousands).

As of September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$51,745	$2,723	$53	$54,415
Mortgage-backed securities (1)	153,868	6,767	399	160,236
Total	$205,613	$9,490	$452	$214,651
As of December 31, 2012				
State and political subdivisions	$51,780	$5,486	$-	$57,266
Mortgage-backed securities(1)	192,404	11,461	-	203,865
Total	$244,184	$16,947	$-	$261,131
As of September 30, 2012				
State and political subdivisions	$51,790	$5,795	$-	$57,585
Mortgage-backed securities(1)	210,858	12,893	-	223,751
Total	$262,648	$18,688	$-	$281,336

(1)All are residential type mortgage-backed securities

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

The cost basis, unrealized gains and losses, and fair value of securities available-for-sale at September 30, 2013, December 31, 2012 and September 30, 2012 are presented below (in thousands).

As of September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 22,781	$ 893	$ 150	$ 23,524
Mortgage-backed securities (1)	1,390,280	14,469	21,432	1,383,317
Corporate bonds	255,391	936	9,376	246,951
Asset-backed securities	306,961	1,836	1,559	307,238
Other	2,394	-	-	2,394
Total	$ 1,977,807	$ 18,134	$ 32,517	$ 1,963,424
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 September 30, 2012				
State and political subdivisions	$ 27,403	$ 1,478	$ 3	$ 28,878
Mortgage-backed securities (1)	1,356,002	27,689	751	1,382,940
Corporate bonds	148,315	450	5,613	143,152
Asset-backed securities	204,522	713	806	204,429
Other	2,595	-	-	2,595
Total	$ 1,738,837	$ 30,330	$ 7,173	$ 1,761,994

(1) All are residential type mortgage-backed securities

The following table summarizes held-to-maturity securities in an unrealized loss position as of September 30, 2013 (thousands). As of December 31, 2012 and September 30, 2012, there were no held-to-maturity securities in an unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
As of September 30, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$4,825	$53	$-	$-	$4,825	$53
Mortgage-backed securities	8,009	399	-	-	8,009	399
Total unrealized loss position	$12,834	$452	$-	$-	$12,834	$452

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes available-for-sale securities in an unrealized loss position as of September 30, 2013, December 31, 2012 and September 30, 2012 (in thousands).

	Less than 12 Months		12 Months or More		Total	
As of September 30, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$4,533	$148	$10	$2	$4,543	$150
Mortgage-backed securities	533,681	17,958	100,534	3,474	634,215	21,432
Corporate bonds	115,511	6,463	53,042	2,913	168,553	9,376
Asset-backed securities	79,015	869	56,181	690	135,196	1,559
Total unrealized loss position	$732,740	$25,438	$209,767	$7,079	$942,507	$32,517
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 September 30, 2012						
State and political subdivisions	$-	$-	$12	$3	$12	$3
Mortgage-backed securities	105,296	741	17,059	10	122,355	751
Corporate bonds	4,893	10	113,590	5,603	118,483	5,613
Asset-backed securities	90,766	806	-	-	90,766	806
Total unrealized loss position	$200,955	$1,557	$130,661	$5,616	$331,616	$7,173

At September 30, 2013, there were 133 available-for-sale securities and seven held-to-maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at September 30, 2013, December 31, 2012 and September 30, 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 have recovered much of their initial market value loss. Therefore, 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 or nine months ended September 30, 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 September 30, 2013, by contractual maturity, are presented in the following table (in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
State and political subdivisions:				
Within 1 year	$2,832	$2,876	$-	$-
1 to 5 years	16,485	17,144	12,472	13,267
5 to 10 years	2,616	2,616	25,062	26,322
More than 10 years	848	888	14,211	14,826
	22,781	23,524	51,745	54,415
Corporate bonds:				
1 to 5 years	38,245	38,388	-	-
5 to 10 years	206,377	198,370	-	-
More than 10 years	10,769	10,193	-	-
	255,391	246,951	-	-
Asset-backed securities:				
1 to 5 years	72,616	72,188	-	-
5 to 10 years	145,680	146,029	-	-
More than 10 years	88,665	89,021	-	-
	306,961	307,238	-	-
Other:				
More than 10 years	2,394	2,394	-	-
	2,394	2,394	-	-
Total securities other than mortgage-backed securities:				
Within 1 year	2,832	2,876	-	-
1 to 5 years	127,346	127,720	12,472	13,267
5 to 10 years	354,673	347,015	25,062	26,322
More than 10 years	102,676	102,496	14,211	14,826
Mortgage-backed securities	1,390,280	1,383,317	153,868	160,236
	$1,977,807	$1,963,424	$205,613	$214,651

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 September 30, 2013, December 31, 2012 and September 30, 2012, are summarized as follows (in thousands).

	September 30, 2013	December 31, 2012	September 30, 2012
Commercial (secured by real estate)	$ 1,742,771	$ 1,813,365	$ 1,819,155
Commercial & industrial	457,414	458,246	459,997
Commercial construction	137,146	154,769	160,765
Total commercial	2,337,331	2,426,380	2,439,917
Residential mortgage	1,309,295	1,214,203	1,174,236
Residential construction	317,789	381,677	388,742
Consumer installment	302,652	152,748	134,950
Total loans	4,267,067	4,175,008	4,137,845
Less allowance for loan losses	(80,372)	(107,137)	(107,642)
Loans, net	$ 4,186,695	$ 4,067,871	$ 4,030,203

United's wholly-owned Georgia banking subsidiary, United Community Bank (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 and central 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. Home equity lines of credit are included in the residential mortgage category and are primarily responsible for the growth in that loan class compared to prior periods. Indirect auto loans are included in the consumer installment category above and contributed to the significant growth in that class of loans.

Changes in the allowance for loan losses for the three and nine months ended September 30, 2013 and 2012 are summarized as follows (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance beginning of period	$ 81,845	$ 112,705	$ 107,137	$ 114,468
Provision for loan losses	3,000	15,500	62,500	48,500
Charge-offs:				
Commercial (secured by real estate)	1,928	8,445	34,122	16,791
Commercial & industrial	826	343	18,581	1,987
Commercial construction	134	3,198	6,484	3,650

Residential mortgage	1,306	3,575	10,380	13,356
Residential construction	1,096	6,231	22,608	21,706
Consumer installment	419	442	1,691	1,603
Total loans charged-off	5,709	22,234	93,866	59,093
Recoveries:				
Commercial (secured by real estate)	71	271	1,556	571
Commercial & industrial	690	602	1,368	802
Commercial construction	1	8	60	38
Residential mortgage	231	48	649	592
Residential construction	24	555	57	1,153
Consumer installment	219	187	911	611
Total recoveries	1,236	1,671	4,601	3,767
Net charge-offs	4,473	20,563	89,265	55,326
Balance end of period	$80,372	$107,642	$80,372	$107,642

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

During the second quarter of 2013, United executed a plan to accelerate the disposition of classified assets including performing classified loans, nonperforming loans and foreclosed properties. The purpose of the accelerated classified asset disposition plan was to resolve legacy credit problems remaining from the recent financial crisis and to accelerate the improvement of United's credit measures toward pre-crisis levels. The classified asset sales included individual note and foreclosed property sales and a large bulk sale of classified assets to a single investor. The bulk sale included performing and nonperforming classified loans and foreclosed properties. The assets were divided into four separate pools that were bid for separately by potential buyers. A single purchaser was the high bidder for each of the four pools. The table below shows the allocation among impaired loans, loans that were not considered impaired and foreclosed properties, including United's recorded investment in those assets, the sales proceeds and the resulting net charge-offs of assets sold in the bulk sale transaction (in thousands).

	Recorded Investment	Net Sales Proceeds	Net Charge-Off
Loans considered impaired	$ 96,829	$ 56,298	$ (40,531)
Loans not considered impaired	25,687	15,227	(10,460)
Foreclosed properties	8,398	5,933	(2,465)
Total assets sold	$ 130,914	$ 77,458	$ (53,456)

The loans considered impaired in the table above were assigned specific reserves of $6.86 million in the most recent analysis of the allowance for loan losses prior to the sale. Because the assets were sold at liquidation prices in a bulk transaction with no recourse, the sales price was generally lower than the appraised value of the foreclosed properties and loan collateral. Although the classified asset sales increased charge-offs during the second quarter of 2013, they accomplished management's goal of moving classified asset levels toward the pre-crisis range.

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. Loans are evaluated for impairment quarterly and specific reserves are established in the allowance for loan losses for any measured impairment.

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 minimize distortions caused by 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 often 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 mortgage real estate loans which are further divided into home equity first lien, home equity junior lien and all other residential mortgage 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
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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 September 30, 2013, December 31, 2012 and September 30, 2012 (in thousands).

Nine Months Ended September 30, 2013	Commercial (Secured by Real Estate)	Commercial & Industrial	Commercial Construction	Residential Mortgage	Residential Construction	Consumer Installment	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$27,847	$5,537	$8,389	$26,642	$26,662	$2,747	$9,313	$107,137
Charge-offs	(34,122)	(18,581)	(6,484)	(10,380)	(22,608)	(1,691)	-	(93,866)
Recoveries	1,556	1,368	60	649	57	911	-	4,601
Provision	28,854	19,608	1,853	3,791	10,231	450	(2,287)	62,500
Ending balance	$24,135	$7,932	$3,818	$20,702	$14,342	$2,417	$7,026	$80,372
Ending allowance attributable to loans:								
Individually evaluated for impairment	$1,975	$546	$150	$2,008	$662	$11	$-	$5,352
Collectively evaluated for impairment	22,160	7,386	3,668	18,694	13,680	2,406	7,026	75,020
Total ending allowance balance	$24,135	$7,932	$3,818	$20,702	$14,342	$2,417	$7,026	$80,372
Loans:								
Individually evaluated for impairment	$54,463	$4,105	$13,478	$18,970	$14,121	$204	$-	$105,341
Collectively evaluated for impairment	1,688,308	453,309	123,668	1,290,325	303,668	302,448	-	4,161,726

Total loans	$1,742,771	$ 457,414	$ 137,146	$1,309,295	$ 317,789	$ 302,652	$ -	$4,267,067
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	$ -	$11,644
Collectively evaluated for impairment	21,741	5,047	6,150	24,477	26,037	2,728	9,313	95,493
Total ending allowance balance	$27,847	$ 5,537	$ 8,389	$26,642	$ 26,662	$ 2,747	$ 9,313	$107,137
Loans:								
Individually evaluated for impairment	$104,409	$ 51,501	$ 40,168	$22,247	$ 34,055	$ 430	$ -	$252,810
Collectively evaluated for impairment	1,708,956	406,745	114,601	1,191,956	347,622	152,318	-	3,922,198
Total loans	$1,813,365	$ 458,246	$ 154,769	$1,214,203	$ 381,677	$ 152,748	$ -	$4,175,008
Nine Months Ended September 30, 2012								
Beginning balance	$31,644	$ 5,681	$ 6,097	$29,076	$ 30,379	$ 2,124	$ 9,467	$114,468
Charge-offs	(16,791)	(1,987)	(3,650)	(13,356)	(21,706)	(1,603)	-	(59,093)
Recoveries	571	802	38	592	1,153	611	-	3,767
Provision	11,351	362	6,101	11,163	18,233	1,738	(448)	48,500
Ending balance	$26,775	$ 4,858	$ 8,586	$27,475	$ 28,059	$ 2,870	$ 9,019	$107,642
Ending allowance attributable to loans:								
Individually evaluated for impairment	$6,692	$ 725	$ 2,289	$1,856	$ 1,270	$ 21	$ -	$12,853
Collectively evaluated for impairment	20,083	4,133	6,297	25,619	26,789	2,849	9,019	94,789
Total ending allowance	$26,775	$ 4,858	$ 8,586	$27,475	$ 28,059	$ 2,870	$ 9,019	$107,642

balance								
Loans:								
Individually evaluated for impairment	$119,023	$ 53,531	$ 42,249	$21,678	$ 31,576	$ 498	$ -	$268,555
Collectively evaluated for impairment	1,700,132	406,466	118,516	1,152,558	357,166	134,452	-	3,869,290
Total loans	$1,819,155	$ 459,997	$ 160,765	$1,174,236	$ 388,742	$ 134,950	$ -	$4,137,845

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 real estate 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.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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Generally, closed-end retail loans (installment and residential mortgage loans) past due 90 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 90 cumulative days from their contractual due date are generally charged-off.

At September 30, 2013, December 31, 2012 and September 30, 2012, loans with a carrying value of $1.94 billion, $1.90 billion and $1.78 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 and nine months ended September 30, 2013 and 2012 (in thousands).

	2013			2012		
Three Months Ended September 30,	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)	$55,303	$ 1,336	$1,461	$124,681	$ 1,218	$1,311
Commercial & industrial	4,189	114	104	43,764	141	611
Commercial construction	13,501	244	246	43,488	238	255
Total commercial	72,993	1,694	1,811	211,933	1,597	2,177
Residential mortgage	19,070	436	446	22,920	254	274
Residential construction	14,136	346	307	40,653	252	473
Consumer installment	214	7	7	454	7	8
Total	$106,413	$ 2,483	$2,571	$275,960	$ 2,110	$2,932
Nine Months Ended September 30,						
Commercial (secured by real estate)	$76,060	$ 2,913	$3,126	$121,223	$ 3,883	$4,128
Commercial & industrial	8,821	333	803	47,263	450	1,921
Commercial construction	14,620	509	593	40,202	722	1,016
Total commercial	99,501	3,755	4,522	208,688	5,055	7,065
Residential mortgage	19,906	882	862	23,547	734	832
Residential construction	14,219	850	882	48,679	989	1,422
Consumer installment	228	17	17	393	20	21
Total	$133,854	$ 5,504	$6,283	$281,307	$ 6,798	$9,340

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2013, December 31, 2012 and September 30, 2012 (in thousands).

	September 30, 2013			December 31, 2012			September 30, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses

			Losses Allocated			Allocated			Allocated
With no related allowance recorded:									
Commercial (secured by real estate)	$ 25,066	$ 20,384	$ -	$ 74,066	$ 62,609	$ -	$ 85,137	$ 77,801	$ -
Commercial & industrial	235	235	-	74,572	49,572	-	76,247	51,247	-
Commercial construction	1,127	1,127	-	23,938	17,305	-	17,739	16,656	-
Total commercial	26,428	21,746	-	172,576	129,486	-	179,123	145,704	-
Residential mortgage	4,768	3,729	-	10,336	8,383	-	11,091	8,746	-
Residential construction	9,101	7,364	-	35,439	19,093	-	32,228	19,601	-
Consumer installment	-	-	-	-	-	-	62	62	-
Total with no related allowance recorded	40,297	32,839	-	218,351	156,962	-	222,504	174,113	-
With an allowance recorded:									
Commercial (secured by real estate)	36,183	34,079	1,975	44,395	41,800	6,106	44,590	41,222	6,692
Commercial & industrial	4,002	3,870	546	2,170	1,929	490	2,321	2,284	725
Commercial construction	12,430	12,351	150	23,746	22,863	2,239	26,476	25,593	2,289
Total commercial	52,615	50,300	2,671	70,311	66,592	8,835	73,387	69,099	9,706
Residential mortgage	15,598	15,241	2,008	14,267	13,864	2,165	13,410	12,932	1,856
Residential construction	7,257	6,757	662	15,412	14,962	625	13,105	11,975	1,270
Consumer installment	214	204	11	441	430	19	444	436	21
Total with an allowance recorded	75,684	72,502	5,352	100,431	95,848	11,644	100,346	94,442	12,853
Total	$ 115,981	$ 105,341	$ 5,352	$ 318,782	$ 252,810	$ 11,644	$ 322,850	$ 268,555	$ 12,853

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There were no loans more than 90 days past due and still accruing interest at September 30, 2013, December 31, 2012 or September 30, 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.

The following table presents the recorded investment (unpaid principal less amounts charged-off) in nonaccrual loans by loan class as of September 30, 2013, December 31, 2012 and September 30, 2102 (in thousands).

	Nonaccrual Loans		
	September 30, 2013	December 31, 2012	September 30, 2012
Commercial (secured by real estate)	$ 8,015	$ 22,148	$ 25,896
Commercial & industrial	609	31,817	32,678
Commercial construction	343	23,843	18,590
Total commercial	8,967	77,808	77,164
Residential mortgage	12,504	12,589	13,996
Residential construction	4,097	18,702	22,935
Consumer installment	520	795	906
Total	$ 26,088	$ 109,894	$ 115,001
Balance as a percentage of unpaid principal	61.6 %	69.5 %	68.8 %

The following table presents the aging of the recorded investment in past due loans as of September 30, 2013, December 31, 2012 and September 30, 2012 by class of loans (in thousands).

	Loans Past Due				Loans Not	
As of September 30, 2013	30 - 59 Days	60 - 89 Days	> 90 Days	Total	Past Due	Total
Commercial (secured by real estate)	$2,026	$1,283	$2,429	$5,738	$1,737,033	$1,742,771
Commercial & industrial	763	191	93	1,047	456,367	457,414
Commercial construction	16	-	235	251	136,895	137,146
Total commercial	2,805	1,474	2,757	7,036	2,330,295	2,337,331
Residential mortgage	8,849	3,077	4,652	16,578	1,292,717	1,309,295
Residential construction	3,705	418	924	5,047	312,742	317,789
Consumer installment	853	103	149	1,105	301,547	302,652
Total loans	$16,212	$5,072	$8,482	$29,766	$4,237,301	$4,267,067

As of December 31, 2012						
Commercial (secured by real estate)	$8,106	$3,232	$7,476	$18,814	$1,794,551	$1,813,365
Commercial & industrial	1,565	429	867	2,861	455,385	458,246
Commercial construction	2,216	-	4,490	6,706	148,063	154,769
Total commercial	11,887	3,661	12,833	28,381	2,397,999	2,426,380
Residential mortgage	12,292	2,426	4,848	19,566	1,194,637	1,214,203
Residential construction	2,233	1,934	5,159	9,326	372,351	381,677
Consumer installment	1,320	245	289	1,854	150,894	152,748
Total loans	$27,732	$8,266	$23,129	$59,127	$4,115,881	$4,175,008
As of September 30, 2012						
Commercial (secured by real estate)	$5,395	$5,210	$11,103	$21,708	$1,797,447	$1,819,155
Commercial & industrial	1,499	295	696	2,490	457,507	459,997
Commercial construction	213	880	3,838	4,931	155,834	160,765
Total commercial	7,107	6,385	15,637	29,129	2,410,788	2,439,917
Residential mortgage	11,771	4,798	5,556	22,125	1,152,111	1,174,236
Residential construction	4,318	2,319	11,054	17,691	371,051	388,742
Consumer installment	1,269	219	394	1,882	133,068	134,950
Total loans	$24,465	$13,721	$32,641	$70,827	$4,067,018	$4,137,845

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As of September 30, 2013, December 31, 2012, and September 30, 2012, $4.72 million, $9.50 million and $10.8 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 $3,000, $689,000 and $377,000 as of September 30, 2013, December 31, 2012 and September 30, 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 September 30, 2013, December 31, 2012 and September 30, 2012 (dollars in thousands).

	September 30, 2013			December 31, 2012			September 30, 2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial (sec by RE)	77	$ 47,963	$ 43,163	96	$ 80,261	$ 75,340	101	$ 84,672	$ 79,645
Commercial & industrial	34	3,051	2,919	32	7,492	7,250	30	7,237	7,199
Commercial construction	12	12,904	12,825	25	37,537	33,809	25	37,832	35,866
Total commercial	123	63,918	58,907	153	125,290	116,399	156	129,741	122,710
Residential mortgage	120	19,032	17,929	117	20,323	19,296	114	18,226	17,487
Residential construction	55	12,360	10,290	67	25,822	23,786	73	28,629	24,772
Consumer installment	36	214	204	51	1,292	1,282	50	1,371	1,363
Total loans	334	$ 95,524	$ 87,330	388	$ 172,727	$ 160,763	393	$ 177,967	$ 166,332

Loans modified under the terms of a TDR during the three and nine months ended September 30, 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 and nine months ended September 30, 2013 and 2012 that were initially restructured within one year prior to the three and nine months ended September 30, 2013 and 2012 (dollars in thousands).

New Troubled Debt Restructurings for the Three Months Ended September 30, 2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended September 30, 2013 Number of Contracts	Recorded Investment
Commercial (secured by real estate)	1	$ 1,841	$ 741	$ -	$ -
Commercial & industrial	1	68	68	-	-
Commercial construction	-	-	-	-	-
Total commercial	2	1,909	809	-	-
Residential mortgage	16	2,365	2,207	1	533
Residential construction	3	727	727	1	414
Consumer installment	1	7	7	2	9
Total loans	22	$ 5,008	$ 3,750	4	$ 956

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New Troubled Debt Restructurings for the Nine Months Ended September 30, 2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Nine Months Ended September 30, 2013 Number of Contracts	Recorded Investment
Commercial (secured by real estate)	18	$ 11,932	$ 10,832	$1	$ 432
Commercial & industrial	10	883	777	1	35
Commercial construction	-	-	-	2	1,454
Total commercial	28	12,815	11,609	4	1,921
Residential mortgage	29	5,129	4,827	3	641
Residential construction	10	1,850	1,721	3	531
Consumer installment	5	28	28	5	29
Total loans	72	$ 19,822	$ 18,185	15	$ 3,122

New Troubled Debt Restructurings for the Three Months Ended September 30, 2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended September 30, 2012 Number of Contracts	Recorded Investment
Commercial (secured by real estate)	13	$ 7,914	$ 7,836	$3	$ 324
Commercial & industrial	3	162	162	-	-
Commercial construction	6	5,531	5,451	-	-
Total commercial	22	13,607	13,449	3	324
Residential mortgage	15	2,252	2,102	2	47
Residential construction	12	6,569	6,188	10	2,953
Consumer installment	7	44	43	1	2
Total loans	56	$ 22,472	$ 21,782	16	$ 3,326

New Troubled Debt Restructurings for the Nine Months Ended September 30, 2012	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Nine Months Ended September 30, 2012	
				Number of Contracts	Recorded Investment
Commercial (secured by real estate)	47	$ 30,828	$ 29,305	$6	$ 2,631
Commercial & industrial	20	3,484	3,484	2	48
Commercial construction	20	34,014	33,934	2	4,174
Total commercial	87	68,326	66,723	10	6,853
Residential mortgage	59	12,819	12,487	6	447
Residential construction	46	17,958	15,738	14	4,550
Consumer installment	22	314	308	2	8
Total loans	214	$ 99,417	$ 95,256	32	$ 11,858

Collateral dependent TDRs that subsequently default and are 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.

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As of September 30, 2013, December 31, 2012 and September 30, 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 /		
As of September 30, 2013	Pass	Watch	Performing	Nonaccrual	Loss	Not Rated	Total
Commercial (secured by real estate)	$ 1,603,863	$ 55,351	$ 75,542	$ 8,015	$ -	$ -	$ 1,742,771
Commercial & industrial	435,635	10,062	10,342	609	-	766	457,414
Commercial construction	109,332	10,560	16,911	343	-	-	137,146
Total commercial	2,148,830	75,973	102,795	8,967	-	766	2,337,331
Residential mortgage	1,215,149	28,470	53,172	12,504	-	-	1,309,295
Residential construction	283,197	14,943	15,552	4,097	-	-	317,789
Consumer installment	298,823	1,162	2,147	520	-	-	302,652
Total loans	$ 3,945,999	$ 120,548	$ 173,666	$ 26,088	$ -	$ 766	$ 4,267,067
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 September 30, 2012							

Commercial (secured by real estate)	$ 1,591,321	$ 75,606	$ 126,332	$ 25,896	$ -	$ -	$ 1,819,155
Commercial & industrial	403,460	4,179	18,740	32,678	-	940	459,997
Commercial construction	108,909	6,086	27,180	18,590	-	-	160,765
Total commercial	2,103,690	85,871	172,252	77,164	-	940	2,439,917
Residential mortgage	1,051,402	36,640	72,198	13,996	-	-	1,174,236
Residential construction	292,002	38,635	35,170	22,935	-	-	388,742
Consumer installment	130,277	881	2,886	906	-	-	134,950
Total loans	$ 3,577,371	$ 162,027	$ 282,506	$ 115,001	$ -	$ 940	$ 4,137,845

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.

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Note 6 – Foreclosed Property

Major classifications of foreclosed properties at September 30, 2013, December 31, 2012 and September 30, 2012 are summarized as follows (in thousands).

	September 30, 2013	December 31, 2012	September 30, 2012
Commercial real estate	$ 1,130	$ 6,368	$ 9,613
Commercial construction	376	2,204	3,121
Total commercial	1,506	8,572	12,734
Residential mortgage	2,420	5,192	6,509
Residential construction	1,981	11,454	19,043
Total foreclosed property	5,907	25,218	38,286
Less valuation allowance	(1,440)	(6,954)	(11,328)
Foreclosed property, net	$ 4,467	$ 18,264	$ 26,958
Balance as a percentage of original loan unpaid principal	41.5 %	39.7 %	36.4 %

In the second quarter of 2013, United completed the accelerated sales of classified assets including performing and nonperforming classified loans and foreclosed properties. The classified asset sales resulted in a much lower balance of foreclosed property costs at September 30, 2013 and elevated losses from sales for the first nine months of 2013.

Activity in the valuation allowance for foreclosed property for the three and nine months ended September 30, 2013 and 2012 is presented in the following table (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	$3,602	$11,872	$6,954	$18,982
Additions charged to expense	329	2,394	2,739	5,513
Disposals	(2,491)	(2,938)	(8,253)	(13,167)
Balance at end of period	$1,440	$11,328	$1,440	$11,328

Expenses related to foreclosed assets for the three and nine months ended September 30, 2013 and 2012 is presented in the following table (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

Net loss on sales	$513	$350	$3,563	$174
Provision for unrealized losses	329	2,394	2,739	5,513
Operating expenses	(648)	962	1,376	3,695
Total foreclosed property expense	$194	$3,706	$7,678	$9,382

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Note 7 – Long-term Debt

Long term debt at September 30, 2013, December 31, 2012 and September 30, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012	September 30, 2012	Issue Date	Stated Maturity Date	Earliest Call Date	Interest Rate	
2013 senior debentures	$ 40,000	$ -	$ -	2013	2018	2015	6.000	%
2012 senior debentures	35,000	35,000	-	2012	2017	2017	9.000	
Total senior debentures	75,000	35,000	-					
2002 subordinated debentures	-	-	30,500	2002	2012	2012	6.750	%
2003 subordinated debentures	-	35,000	35,000	2003	2015	2010	7.500	
Total subordinated debentures	-	35,000	65,500					
United Community Capital Trust	21,650	21,650	21,650	1998	2028	2008	8.125	%
United Community Statutory Trust I	5,155	5,155	5,155	2000	2030	2010	10.600	
United Community Capital Trust II	10,309	10,309	10,309	2000	2030	2010	11.295	
Southern Bancorp Capital Trust I	4,382	4,382	4,382	2004	2034	2009	Prime + 1.00	
United Community Statutory Trust II	12,131	12,077	12,059	2008	2038	2013	9.000	
United Community Statutory Trust III	1,238	1,232	1,230	2008	2038	2013	Prime + 3.00	
Total trust preferred securities	54,865	54,805	54,785					
Total long-term debt	$ 129,865	$ 124,805	$ 120,285					

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

Senior Debentures

The 2013 senior debentures are redeemable on or after August 13, 2015 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest, and they will mature on August 13, 2018. The 2012 senior debentures are not redeemable and will mature on October 15, 2017.

Subordinated Debentures

The 2003 subordinated debentures were redeemed on September 30, 2013 at a redemption price equal to $35 million (100% of the principal amount) plus all accrued and unpaid interest as of such date. At redemption, the applicable interest rate on the 2003 subordinated debentures was 7.50%. The 2002 subordinated debentures were retired upon maturity in the fourth quarter of 2012.

Trust Preferred Securities

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

The trust preferred securities issued under United Community Statutory Trust II and United Community Statutory Trust III had attached warrants that allowed the holder to redeem the trust preferred securities in exchange for common stock at the exercise price of $100 per share. The warrants expired unexercised on October 31, 2013.

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Note 8 – 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 and nine months ended September 30, 2013 (in thousands).

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income: For the Three Months Ended September 30, 2013	Amounts Reclassified from Accumulated Other Comprehensive Income: For the Nine Months Ended September 30, 2013	Affected Line Item in the Statement Where Net Income is Presented
Unrealized (losses) gains on available-for-sale securities:			
	$ -	$ 116	Securities gains, net
	-	(45)	Tax (expense) or benefit
	$ -	$ 71	Net of tax
Amortization of gains included in net income on available-for-sale securities transferred to held to maturity:			
	$ 214	$ 803	Investment securities interest revenue
	(83)	(310)	Tax (expense) or benefit
	$ 131	$ 493	Net of tax
Gains included in net income on derivative financial instruments accounted for as cash flow hedges:			
Effective portion of interest rate contracts	$ 10	$ 850	Loan interest revenue
Ineffective portion of interest rate contracts	48	52	Other fee revenue
	58	902	Total before tax
	(23)	(351)	Tax (expense) or benefit
	$ 35	$ 551	Net of tax
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan			
Prior service cost	$ (91)	$ (273)	Salaries and employee benefits expense
Actuarial losses	(42)	(126)	Salaries and employee benefits expense
	(133)	(399)	Total before tax
	52	155	Tax (expense) or benefit
	$ (81)	$ (244)	Net of tax

Total reclassifications for the period	$	85	$	871	Net of tax

Amounts shown above in parentheses reduce earnings

Note 9 – 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 and nine months ended September 30, 2013 and 2012, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (in thousands).

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Series A - 6% fixed	$ 3	$ 3	$ 9	$ 9
Series B - 5% fixed until December 6, 2013, 9% thereafter	2,641	2,619	7,907	7,841
Series D - LIBOR plus 9.6875%, resets quarterly	415	419	1,250	1,253
Total preferred stock dividends	$ 3,059	$ 3,041	$ 9,166	$ 9,103

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.

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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 and nine months ended September 30, 2012.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share data).

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net income available to common shareholders	$ 12,441	$ 7,527	$ 248,063	$ 19,492
Weighted average shares outstanding:				
Basic	59,100	57,880	58,443	57,826
Effect of dilutive securities				
Convertible securities	-	-	-	-
Stock options	1	-	1	-
Warrants	101	-	-	-
Diluted	59,202	57,880	58,444	57,826
Income per common share:				
Basic	$ .21	$ .13	$ 4.24	$ .34
Diluted	$ .21	$ .13	$ 4.24	$ .34

At September 30, 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 originally to the U.S. Treasury in conjunction with the issuance of United's fixed rate cumulative preferred perpetual stock, Series B; 371,449 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $98.54; 1,073,259 shares issuable upon completion of vesting of restricted stock awards; and warrants to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at $21.25 per share granted to Fletcher International Ltd. ("Fletcher") in connection with a 2010 asset purchase and sale agreement.

Note 10 – 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.

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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 September 30, 2013, December 31, 2012 and September 30, 2012 (in thousands).

Derivatives accounted for as hedges under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value September 30, 2013	December 31, 2012	September 30, 2012
Asset derivatives	Other assets	$ 6,289	$ 23	$ 182
Liability derivatives	Other liabilities	$ 35,451	$ 11,900	$ 9,758

Derivatives not accounted for as hedges under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value September 30, 2013	December 31, 2012	September 30, 2012
Asset derivatives	Other assets	$ 1,803	$ 635	$ 596
Liability derivatives	Other liabilities	$ 1,818	$ 643	$ 605

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 September 30, 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 and 2015. United had three swap contracts outstanding with a total notional amount of $200 million that were designated as cash flow hedges of future issuances of three-month brokered deposits or other LIBOR based floating rate wholesale borrowings and three swap contracts outstanding with a total notional amount of $375 million that were designated as cash flow hedges of indexed money market accounts at September 30, 2013. At December 31, 2012 and September 30, 2012, United had three swap contracts outstanding with a notional amount of $200 million that were designated as cash flow hedges of future issuances of three-month brokered deposits or other LIBOR based floating-rate wholesale borrowings and two swap contracts outstanding with a total notional amount of $200 million that were designated as cash flow hedges of indexed money market accounts.

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. During the three and nine months ended September 30, 2013, United accelerated the reclassification of $48,000 and $53,000, respectively, in gains from terminated positions, as the forecasted transactions are no longer expected to occur. For the same periods in 2012, those amounts were gains of $114,000 and $238,000, respectively. At September 30, 2013, there were no remaining unamortized balances from terminated positions. United's forward starting active cash flow hedges of floating rate liabilities will begin to become effective over the next twelve months. United recognized $33,000 in hedge ineffectiveness losses on active cash flow hedges in the third quarter of 2013. No such hedge ineffectiveness gains or losses were recognized on active cash flow hedges in 2012. United expects that $2.24 million will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

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Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate investments and 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 of fixed rate obligations involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate swaps designated as fair value hedges of fixed rate investments involve the receipt of variable-rate amounts from a counterparty in exchange for United making fixed rate payments over the life of the instrument without the exchange of the underlying notional amount. At September 30, 2013, United had 27 interest rate swaps with an aggregate notional amount of $387 million that were designated as fair value hedges of interest rate risk. Eight of the interest rate swaps outstanding at September 30, 2013 with an aggregate notional amount of $86 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 19 were pay-variable / receive-fixed swaps hedging changes in the fair value of fixed rate brokered time deposits resulting from changes in interest rates. At September 30, 2012, United had 9 interest rate swaps with an aggregate notional amount of $122 million that were designated as fair value hedges of fixed rate brokered time deposits.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2013, United recognized net gains of $38,000 and $241,000, respectively, and during the three and nine months ended September 30, 2012, United recognized net gains of $766,000 and $577,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of $2.47 million and $4.73 million, respectively, for the three and nine months ended September 30, 2013 and a net reduction of interest expense of $745,000 and $1.57 million, respectively, for the three and nine months ended September 30, 2012 related to United's fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized a $516,000 and $811,000 reduction of interest revenue on securities during the third quarter and first nine months 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 and nine months ended September 30, 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 September 30,				

Other fee revenue	$ (2,740)	$ 922	$ 2,778	$ (156)
Nine Months Ended September 30,				
Other fee revenue	$ (15,796)	$ 1,745	$ 16,037	$ (1,168)

In most cases, the estate of deceased brokered certificate of deposit holders may put the certificate of deposit back to the issuing bank at par upon the death of the holder. When these death puts occur, a gain or loss is recognized for the difference between the fair value and the par amount of the deposits put back. The change in the fair value of brokered time deposits that are being hedged in fair value hedging relationships reported in the table above includes gains and losses from death puts and such gains and losses are included in the amount of reported ineffectiveness gains or losses.

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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)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
	2013	2012	Location	2013	2012	Location	2013	2012
Three Months Ended September 30,								
			Interest revenue	$ 10	$ 649			
			Other fee revenue	48	114			
Interest rate products	$ (3,507)	$ (3,943)	Total	$ 58	$ 763	Other fee revenue	$ (33)	$ -
Nine Months Ended September 30,								
			Interest revenue	$ 851	$ 2,839			
			Other fee revenue	53	238			
Interest rate products	$ 8,595	$ (8,798)	Total	$ 904	$ 3,077	Other fee revenue	$ 46	$ -

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 September 30, Other fee revenue	$ 442	$ 278
Nine Months Ended September 30, Other fee revenue	$ 1,182	$ 346

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 September 30, 2013, collateral totaling $25.6 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.

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Note 11 – 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 September 30, 2013, 537,000 additional awards could be granted under the plan. Through September 30, 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 nine months of 2013.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2012	482,528	$ 97.73		
Granted	5,000	15.09		
Forfeited	(935)	30.23		
Expired	(115,144)	92.09		
Outstanding at September 30, 2013	371,449	98.54	3.4	$ 38
Exercisable at September 30, 2013	361,249	100.95	3.2	19

The fair value of each option is estimated on the date of grant using the Black-Scholes model. Key assumptions used to determine the fair value of options granted to employees during the first nine months of 2013 are shown below.

	Nine Months Ended September 30, 2013
Expected volatility	30.00 %
Expected dividend yield	0.00 %
Expected life (in years)	6.25
Risk-free rate	2.01 %

No stock options were granted during the nine months ended September 30, 2012. Most of United's outstanding stock options were granted prior to the economic downturn during which time United's stock price decreased sharply. The lower stock price has rendered most of United's 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.

Compensation expense relating to stock options for the nine months ended September 30, 2013 was a reduction of expense of $56,000 due to the reversal of previously recognized expense on grants that did not vest. Compensation expense relating to stock options of $190,000 was included in earnings for the nine months ended September 30, 2012. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for new options issued is estimated to be approximately 3% per year. No options were exercised during the first nine months of 2013 or 2012.

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

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2012	485,584	$ 10.72
Granted	795,833	14.69
Excercised	(190,366)	13.32
Cancelled	(17,792)	9.30
Outstanding at September 30, 2013	1,073,259	13.23
Vested at September 30, 2013	22,462	10.11

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 nine months ended September 30, 2013 and 2012, compensation expense of $2.01 million and $1.18 million, respectively, was recognized related to restricted stock and restricted stock unit awards. In addition, for the nine months ended September 30, 2013, $118,000 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 $16.1 million at September 30, 2013.

As of September 30, 2013, there was $12.4 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 3.7 years. The aggregate grant date fair value of options and restricted stock and restricted stock unit awards that vested during the nine months ended September 30, 2013, was $2.40 million.

Note 12 – 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 United. 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 that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the nine months ended September 30, 2013 and 2012, United issued 49,830 and 87,086 shares, respectively, and increased capital by $582,000 and $702,000, 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 September 30, 2013 and 2012, 242,262 and 129,270 shares, respectively, were issuable under the deferred compensation plan.

Note 13 – Income Taxes

The income tax provision for the three and nine months ended September 30, 2013 was an expense of $9.52 million and a benefit of $247 million, respectively. Income tax expense for the three months ended September 30, 2013 represents an effective tax rate of 38%. Included in income tax expense for the third quarter of 2013 was a $1.00 million partial impairment charge on United's net deferred tax asset resulting from a reduction in the state income tax rate in North Carolina. During the third quarter, the State of North Carolina adopted legislation to reduce its corporate income tax rate from the current 6.90% to 6.00% effective January 1, 2014 and to 5.00% effective January 1, 2015. Because the lower statutory tax rate reduces the rate at which United's North Carolina net operating loss carryforwards will be recovered, United recognized a partial impairment charge on that component of its net deferred tax asset. Partially offsetting the $1.00 million charge was the release of a $400,000 previously established reserve for an uncertain tax position related to a tax return whose statute expired during the third quarter and is therefore no longer subject to audit. The income tax benefit for the first nine months of 2013 reflects the valuation allowance reversal in the second quarter.

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The valuation allowance on deferred tax assets was $4.61 million, $270 million and $272 million, respectively, at September 30, 2013, December 31, 2012 and September 30, 2012. Management assesses the valuation allowance recorded against deferred tax assets at each reporting period. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

In the second quarter of 2013, United reversed $272 million of its valuation allowance on its net deferred tax asset. United established a full valuation allowance on its net deferred tax asset in 2010 due to the realization of significant losses and uncertainty about United’s future earnings forecasts.

United evaluated the need for a valuation allowance again at September 30, 2013. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of the net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of $4.61 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused. The positive evidence considered by management in arriving at the conclusion that a full valuation allowance is not necessary included six consecutive profitable quarters beginning with the fourth quarter of 2011, United’s strong pre-crisis earnings history and growth in pre-tax, pre-credit earnings, which demonstrate demand for United’s products and services, and United’s significant improvement in credit measures, which improve both the sustainability of profitability and management’s ability to forecast future credit losses. The negative evidence considered by management included the fact that United remains in a three-year cumulative loss position and its current informal memorandums of understanding with the banking regulatory agencies.

United expects to realize $270 million in net deferred tax assets well in advance of the statutory carryforward period. At September 30, 2013, $47.7 million of existing deferred tax assets were not related to net operating losses or credits and therefore, have no expiration date. Approximately $190 million of the remaining deferred tax assets relate to federal net operating losses which will expire in annual installments beginning in 2029. Additionally, $26.0 million of the deferred tax assets relate to state net operating losses which will expire in annual installments beginning in 2023. Tax credit carryforwards at September 30, 2013 include federal alternative minimum tax credits totaling $3.0 million which have an unlimited carryforward period. Other federal and state tax credits at September 30, 2013 total $7.39 million and will expire beginning in 2013.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at September 30, 2013 that it was more likely than not that the net deferred tax assets of $270 million will be realized is based upon management's estimate of future taxable income. Management's estimate of future taxable income is based on internal forecasts which consider historical performance, various internal estimates and assumptions, as well as certain external data all of which management believes to be reasonable although inherently subject to significant judgment. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the valuation allowance may need to be increased for some or all of the deferred tax asset. Such an increase to the deferred tax asset valuation allowance could have a material adverse effect on United’s financial condition and results of operations.

United is subject to income taxation in the United States and various state jurisdictions. United’s federal and state income tax returns are filed on a consolidated basis. Currently, no years for which United filed a federal income tax return are under examination by the IRS, and there are no state tax examinations currently in progress. United is no longer subject to income tax examinations from state and local income tax authorities for years before 2009. Although United is unable to determine the ultimate outcome of future examinations, United believes that the liability recorded for uncertain tax positions is appropriate.

At September 30, 2013, December 31, 2012 and September 30, 2012, unrecognized income tax benefits totaled $4.45 million, $5.07 million and $5.61 million, respectively.

Note 14 – 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).

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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.

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.

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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 September 30, 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of September 30, 2013, December 31, 2012 and September 30, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

September 30, 2013	Level 1	Level 2	Level 3	Total
Assets:				

Securities available for sale:				
State and political subdivisions	$-	23,524	$-	$23,524
Mortgage-backed securities	-	1,383,317	-	1,383,317
Corporate bonds	-	246,601	350	246,951
Asset-backed securities	-	307,238	-	307,238
Other	-	2,394	-	2,394
Deferred compensation plan assets	3,203	-	-	3,203
Derivative financial instruments	-	8,092	-	8,092
Total assets	$3,203	$1,971,166	$350	$1,974,719
Liabilities:				
Deferred compensation plan liability	$3,203	$-	$-	$3,203
Brokered certificates of deposit	-	273,282	-	273,282
Derivative financial instruments	-	37,269	-	37,269
Total liabilities	$3,203	$310,551	$-	$313,754

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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

September 30, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
State and political subdivisions	$-	$28,878	$-	$28,878
Mortgage-backed securities	-	1,382,940	-	1,382,940
Corporate bonds	-	142,802	350	143,152
Asset-backed securities	-	204,429	-	204,429
Other	-	2,595	-	2,595
Deferred compensation plan assets	3,072	-	-	3,072
Derivative financial instruments	-	778	-	778
Total assets	$3,072	$1,762,422	$350	$1,765,844
Liabilities:				
Deferred compensation plan liability	$3,072	$-	$-	$3,072
Brokered certificates of deposit	-	122,211	-	122,211
Derivative financial instruments	-	10,363	-	10,363
Total liabilities	$3,072	$132,574	$-	$135,646

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

	Securities Available for Sale Three Months Ended September 30,		Securities Available for Sale Nine Months Ended September 30,	
Securities Available for Sale	2013	2012	2013	2012

Balance at beginning of period	$ 350	$ 350	$ 350	$ 350
Amounts included in earnings	-	-	-	-
Paydowns	-	-	-	-
Balance at end of period	$ 350	$ 350	$ 350	$ 350

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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 September 30, 2013, December 31, 2012 and September 30, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

September 30, 2013	Level 1	Level 2	Level 3	Total
Assets				
Loans	$-	$-	$76,393	$76,393
Foreclosed properties	-	-	3,898	3,898
Total	$-	$-	$80,291	$80,291
December 31, 2012				
Assets				
Loans	$-	$-	$165,751	$165,751
Foreclosed properties	-	-	14,788	14,788
Total	$-	$-	$180,539	$180,539
September 30, 2012				
Assets				
Loans	$-	$-	$172,909	$172,909
Foreclosed properties	-	-	20,369	20,369
Total	$-	$-	$193,278	$193,278

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 reprice 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.

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

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates. Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

The carrying amount and fair values for other financial instruments that are not measured at fair value on a recurring basis in United's balance sheet at September 30, 2013, December 31, 2012, and September 30, 2012 are as follows (in thousands).

	Carrying		Fair Value Level		
September 30, 2013	Amount	Level 1	Level 2	Level 3	Total
Assets:					
Securities held to maturity	$ 205,613	$ -	$ 214,651	$ -	$ 214,651
Loans, net	4,186,695	-	-	4,095,666	4,095,666
Mortgage loans held for sale	11,987	-	11,979	-	11,979
Liabilities:					
Deposits	6,112,907	-	6,117,769	-	6,117,769
Federal Home Loan Bank advances	125	-	125	-	125
Long-term debt	129,865	-	-	129,197	129,197
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	-	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
September 30, 2012										
Assets:										
Securities held to maturity	$	262,648	$	-	$	281,336	$	-	$	281,336
Loans, net		4,030,203		-		-		3,954,607		3,954,607
Mortgage loans held for sale		30,571		-		31,350		-		31,350
Liabilities:										
Deposits		5,822,699		-		5,848,540		-		5,848,540
Federal Home Loan Bank advances		50,125		-		50,125		-		50,125
Long-term debt		120,285		-		-		113,624		113,624

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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Note 15 – Commitments and Contingencies

United and the Bank are parties to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written is represented by the contractual amount of these instruments. United uses the same credit policies in making commitments and conditional obligations as it uses for underwriting on-balance sheet instruments. In most cases, collateral or other security is required to support financial instruments with credit risk.

The following table summarizes, as of September 30, 2013, December 31, 2012 and September 30, 2012, the contractual amount of off-balance sheet instruments (in thousands):

	September 30, 2013	December 31, 2012	September 30, 2012
Financial instruments whose contract amounts represent credit risk:			
Commitments to extend credit	$ 677,891	$ 313,798	$ 483,844
Letters of credit	9,818	13,683	13,416

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, 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", "estimates", "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 and in our Quarterly Report on Form 10-Q for the period ended June 30, 2013, 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;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- the accounting and reporting policies of United;
- if our allowance for loan losses is not sufficient to cover actual loan losses;
- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- competition from financial institutions and other financial service providers;
- risks with respect to future expansion and acquisitions;
- if the conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- the failure of other financial institutions;
- a special assessment that may be imposed by the FDIC on all FDIC-insured institutions in the future;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur, or any such proceedings or enforcement actions that is more severe than we anticipate;

- the risk that we may be required to increase the valuation allowance on our deferred tax asset in future periods;
- the risk that we could have an "ownership change" under Section 382 of the Internal Revenue Code, which could impair our ability to timely and fully realize our deferred tax asset balance; and
- the risk that we could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

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

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Overview

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

United is a bank holding company registered with the Board of Governors of the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At September 30, 2013, United had total consolidated assets of $7.24 billion and total loans of $4.27 billion (excluding the loans acquired from Southern Community Bank ("SCB") that are covered by loss sharing agreements). United also had total deposits of $6.11 billion and shareholders' equity of $852 million.

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

Included in management's discussion and analysis are certain non-GAAP (accounting principles generally accepted in the United States of America ("GAAP")) performance measures. United's management believes that non-GAAP performance measures are useful in analyzing United's financial performance trends and therefore this section will refer to non-GAAP performance measures. A reconciliation of these non-GAAP performance measures to GAAP performance measures is included in the table on page 42.

United reported net income of $15.5 million for the third quarter of 2013. This compared to net income of $10.6 million for the third quarter of 2012. Diluted earnings per common share was $.21 for the third quarter of 2013, compared to diluted earnings per common share of $.13 for the third quarter of 2012.

For the nine months ended September 30, 2013, United reported net income of $257 million. This compared to net income of $28.6 million for the first nine months of 2012. Diluted earnings per common share was $4.24 for the nine months ended September 30, 2013, compared to diluted earnings per common share of $.34 for the nine months ended September 30, 2012.

Year-to-date 2013 earnings were significantly impacted by the reversal of the valuation allowance on United's net deferred tax asset and the sales of classified assets, including a large bulk sale transaction that took place in the second quarter. The effects of these two events on the income statement were significant increases in the provision for loan losses and foreclosed property expense from the classified asset sales and the recognition of a tax benefit in the income tax line from the valuation allowance reversal.

Taxable equivalent net interest revenue was $54.3 million for the third quarter of 2013, compared to $57.4 million for the same period of 2012. The decrease in net interest revenue was primarily the result of continued lower yields on the loan and securities portfolios, which were due to loan pricing competition and reinvestment of maturing securities proceeds at record low rates as well as United's efforts to purchase floating rate securities to minimize exposure to rising interest rates. In addition, lower loan yields reflected low introductory rates on new retail loan offerings. Net interest margin decreased from 3.60% for the three months ended September 30, 2012 to 3.26% for the same period in 2013. For the nine months ended September 30, 2013, taxable equivalent net interest revenue was $164 million, compared to $173 million for the same period of 2012. Net interest margin decreased from 3.52% for the nine months ended September 30, 2012, to 3.32% for the same period in 2013.

United's provision for loan losses was $3.00 million for the three months ended September 30, 2013, compared to $15.5 million for the same period in 2012. Net charge-offs for the third quarter of 2013 were $4.47 million, compared to $20.6 million for the third quarter of 2012. For the nine months ended September 30, 2013, United's provision for loan losses was $62.5 million, compared to $48.5 million for the same period of 2012. The sales of approximately $151 million in classified loans in the second quarter of 2013 resulted in a $53.5 million increase in net charge-offs as well as the $30.5 million increase in the provision for loan losses during the second quarter of 2013.

As of September 30, 2013, United's allowance for loan losses was $80.4 million, or 1.88% of loans, compared to $108 million, or 2.60% of loans, at September 30, 2012. Nonperforming assets of $30.6 million, which excludes assets that are covered by loss sharing agreements with the FDIC, decreased to .42% of total assets at September 30, 2013 from 2.12% as of September 30, 2012, mostly due to the second quarter 2013 classified asset sales. During the third quarter of 2013, $9.96 million in loans were placed on nonaccrual compared with $30.5 million in the third quarter of 2012.

Fee revenue of $14.1 million increased $380,000, or 3%, from the third quarter of 2012, and for the first nine months of 2013, totaled $43.3 million, an increase of $1.27 million, or 3%, from the first nine months of 2012. The quarterly increase was due primarily to an increase in debit card and interchange fees and an increase in brokerage fees. In addition, other fee revenue included an increase of $164,000 related to customer derivative fees from our commercial loan swap program. These increases were offset by a $689,000 decrease in hedge ineffectiveness gains. The year-to-date increase in fee revenue resulted primarily from mortgage loan and related fees and brokerage fees.

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For the third quarter of 2013, operating expenses of $40.1 million were down $4.69 million from the third quarter of 2012. The decrease was primarily related to a decrease of $3.51 million in foreclosed property expense, driven by decreased volume due to the classified asset sales in the second quarter of 2013. In addition, lower workout and collection costs resulted in lower other expense for the third quarter of 2013 compared to the same period in 2012. Professional fees increased $470,000 from the third quarter of 2012, due to consulting services related to corporate initiatives to increase revenue and improve operating efficiency. For the nine months ended September 30, 2013, operating expenses of $133 million were down $3.36 million from the same period of 2012, mainly due to the same factors that contributed to the quarterly decrease. Salaries and employee benefits decreased $1.02 million, or 1%, compared to the nine months ended September 30, 2012, primarily due to lower headcount. Management continues its efforts to reduce costs and improve operating efficiency.

Recent Developments

On August 12, 2013, Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the “Elm Ridge Parties”) elected to exercise warrants to purchase an aggregate 1,551,126 shares of United’s common stock at the exercise price of $12.50 per share. United recognized net proceeds of approximately $19.4 million as a result of the exercise.

On August 12, 2013, upon completion of a public offering, United issued $34.6 million aggregate principal amount of its 6.00% Senior Notes due August 13, 2018 (the “Senior Notes”). On August 16, 2013, United completed an add-on public offering and issued an additional $5.42 million aggregate principal amount of the Senior Notes. As a result of these issuances, $40 million aggregate principal amount of the Senior Notes is issued and outstanding. Interest on the Senior Notes is payable semi-annually on February 13 and August 13, with the first such payment due on February 13, 2014. The 6.00% interest rate on the Senior Notes was determined by an auction process held before the original issuance. United may elect to redeem the Senior Notes, in whole or in part, on any interest payment date on or after August 13, 2015 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. The proceeds from the Senior Note issuances were used to redeem $35 million aggregate principal amount of United’s Subordinated Step-Up Notes due September 30, 2015 (the “Subordinated Notes”) at a price equal to 100% of the principal amount plus accrued and unpaid interest. As of the redemption date, the interest rate on the Subordinated Notes was 7.50%.

Critical Accounting Policies

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

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: taxable equivalent interest revenue, taxable equivalent net interest revenue, tangible book value per share, tangible equity to assets, tangible common equity to assets and tangible common equity to risk-weighted assets. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 42.

Table 1 - Financial Highlights
Selected Financial Information

	2013			2012		Third Quarter	For the Nine Months Ended		YTD
(in thousands, except per share data; taxable equivalent)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2013-2012 Change	September 30, 2013	September 30, 2012	2013-2012 Change
INCOME SUMMARY									
Interest revenue	$61,363	$61,693	$62,134	$64,450	$65,978		$185,190	$202,979	
Interest expense	7,025	7,131	7,475	8,422	8,607		21,631	29,908	
Net interest revenue	54,338	54,562	54,659	56,028	57,371	(5) %	163,559	173,071	(5) %
Provision for loan losses	3,000	48,500	11,000	14,000	15,500		62,500	48,500	
Fee revenue	14,144	16,312	12,826	14,761	13,764	3	43,282	42,010	3
Total revenue	65,482	22,374	56,485	56,789	55,635		144,341	166,581	
Operating expenses	40,097	48,823	43,770	50,726	44,783	(10)	132,690	136,048	(2)
Income (loss) before income taxes	25,385	(26,449)	12,715	6,063	10,852	134	11,651	30,533	(62)
Income tax expense (benefit)	9,885	(256,413)	950	802	284		(245,578)	1,938	
Net income	15,500	229,964	11,765	5,261	10,568	47	257,229	28,595	800
Preferred dividends and discount accretion	3,059	3,055	3,052	3,045	3,041		9,166	9,103	
Net income available to common shareholders	$12,441	$226,909	$8,713	$2,216	$7,527	65	$248,063	$19,492	1,173
PERFORMANCE MEASURES									
Per common share:									
Diluted income	$.21	$3.90	$.15	$.04	$.13	62	$4.24	$.34	1,147
Book value	10.99	10.90	6.85	6.67	6.75	63	10.99	6.75	63
Tangible book value (2)	10.95	10.82	6.76	6.57	6.64	65	10.95	6.64	65
Key performance ratios:									
	7.38 %	197.22 %	8.51 %	2.15 %	7.43 %		64.29 %	6.57 %	

Return on equity (1)(3)							
Return on assets (3)	.86	13.34	.70	.31	.63	4.93	.53
Net interest margin (3)	3.26	3.31	3.38	3.44	3.60	3.32	3.52
Efficiency ratio	58.55	68.89	64.97	71.69			