

UNITED COMMUNITY BANKS INC

Form 10-K

February 29, 2008

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

Commission File Number 0-21656

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

Georgia 58-1807304  
(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

63 Highway 515, Blairsville, Georgia 30512  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (706) 781-2265

Securities registered pursuant to Section 12(b) of the Act: None

Name of exchange on which registered: Nasdaq Global Select

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Sections 13 or 15(d) of the Act.  
Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ x

Accelerated filer ☐ o

Non-accelerated filer ☐ o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ o No ☒ x

State the aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: \$1,088,226,189 based on shares held by non-affiliates at \$25.89 per share, the closing stock price on the Nasdaq stock market on June 29, 2007).

As of January 31, 2008, 49,965,766 shares of common stock were issued and outstanding, including presently exercisable options to acquire 1,694,064 shares and 84,627 shares issuable under United Community Banks, Inc.’s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2008 are incorporated herein into Part III by reference.

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PART I

ITEM 1. BUSINESS.

United Community Banks, Inc. (“United”), a bank holding company registered under the Bank Holding Company Act of 1956, was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, Blairsville, Georgia, now known as United Community Bank, Blairsville, Georgia

United acquired United Community Bank, Brevard, North Carolina in 1990 and merged the bank into United Community Bank, Blairsville, Georgia effective February 1, 2008. Although United operated both the Georgia bank and north Carolina bank for the past five years, we will refer to the consolidated Georgia bank (“the Bank”) only through this report. Substantially all of United’s activities were conducted by the Bank.

Since the early 1990’s, United has actively expanded its market coverage through organic growth complemented by selective acquisitions, primarily of banks whose managements share United’s community banking and customer service philosophies. Although those acquisitions have directly contributed to United’s growth over the last ten years, their contribution has primarily been to provide United access to new markets with attractive growth potential. Organic growth in assets includes growth through existing offices as well as growth at de novo locations and post-acquisition growth at acquired banking offices. Organic growth will continue to be the principal focus of United’s balanced growth strategy to extend its reach in both new and existing markets.

To emphasize its commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of 27 separate “community banks”, which as of December 31, 2007, operated at 111 locations in north Georgia, metro Atlanta and Gainesville (“Atlanta Region”), coastal Georgia, western North Carolina and east Tennessee. The community banks offer a full range of retail and corporate banking services, including checking, savings, and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services, and other financial services, and are led by local bank presidents (referred to herein as the “Presidents”) and management with significant experience in, and ties to, their communities. Each of the community bank Presidents has authority, alone or with other local officers, to make most credit decisions.

In June 2007, United completed the acquisition of Gwinnett Commercial Group, Inc. and its wholly-owned subsidiary First Bank of the South. The acquisition of Gwinnett Commercial Group added assets and deposits of \$809 million and \$568 million, respectively, and five banking offices in Atlanta Region.

In December 2006, United completed the acquisition of Southern Bancorp, Inc. a Georgia bank holding company and its wholly-owned subsidiary Southern National Bank. Southern National Bank has two banking offices in Atlanta Region. United also acquired two branch locations in western North Carolina. Both transactions collectively added \$430 million in assets and \$360 million in deposits. In addition, United opened five de novo locations in 2007 and eight in 2006.

The Bank, through its full-service retail mortgage lending division, United Community Mortgage Services (“UCMS”), is approved as a seller/servicer for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation and provides fixed and adjustable-rate home mortgages. During 2007, the Bank originated \$410 million of residential mortgage loans throughout Georgia, North Carolina and Tennessee for the purchase of homes and to refinance existing mortgage debt. Substantially all of these mortgages were sold into the secondary market with no recourse to the Bank other than for breach of warranties.

Acquired in 2000, Brintech, Inc. (“Brintech”), a subsidiary of the Bank, is a consulting firm for the financial services industry. Brintech provides consulting, advisory, and implementation services in the areas of strategic planning,

profitability improvement, technology, efficiency, security, risk management, network, Internet banking, marketing, core processing, and telecommunications.

United owns an insurance agency, United Community Insurance Services, Inc. (“UCIS”), known as United Community Advisory Services, that is a subsidiary of the Bank.

United provides retail brokerage services through an affiliation with a third party broker/dealer.

## Forward-Looking Statements

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

- our past operating results may not be indicative of future operating results;
- our business is subject to the success of the local economies in which we operate;
- our concentration of construction and land development loans is subject to unique risks that could adversely affect our earnings;
- we may face risks with respect to future expansion and acquisitions or mergers;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- if our allowance for loan losses is not sufficient to cover actual loan losses, earnings would decrease;
- competition from financial institutions and other financial service providers may adversely affect our profitability;
- business increases, productivity gains and other investments are lower than expected or do not occur as quickly as anticipated;
- competitive pressures among financial services companies increase significantly;
- the success of our business strategy;
- the strength of the United States economy in general changes;
- trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, change;
- inflation or market conditions fluctuate;
- conditions in the stock market, the public debt market and other capital markets deteriorate;
- financial services laws and regulations change;
- technology changes and United fails to adapt to those changes;
- consumer spending and saving habits change;
- unanticipated regulatory or judicial proceedings occur; and
- United is unsuccessful at managing the risks involved in the foregoing.

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

## Monetary Policy And Economic Conditions

United's profitability depends to a substantial extent on the difference between interest revenue received from loans, investments, and other earning assets, and the interest paid on deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of United, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits.

## Competition

The market for banking and bank-related services is highly competitive. United actively competes in their respective market areas, which include north Georgia, the Atlanta Region, coastal Georgia, western North Carolina and east Tennessee, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies, and brokerage firms.

The following table displays the respective percentage of total bank and thrift deposits in each county where the Bank has operations. The table also indicates the ranking by deposit size in each county. All information in the table was obtained from the Federal Deposit Insurance Corporation Summary of Deposits as of June 30, 2007. The following information only shows market share in deposit gathering, which may not be indicative of market presence in other areas.

## Share of Local Deposit Markets by County - Banks and Savings Institutions

	Market Share	Rank in Market		Market Share	Rank in Market		Market Share	Rank in Market
Atlanta Region			North Georgia			Coastal Georgia		
Bartow	7%	6	Chattooga	42%	1	Chatham	1%	12
Carroll	3	9	Fannin	50	1	Glynn	18	2
Cherokee	4	9	Floyd	15	3	Ware	7	5
Cobb	4	8	Gilmer	15	2			
						North Carolina		
Coweta	1	12	Habersham	14	3	Avery	13	4
Dawson	36	1	Jackson	2	11	Cherokee	46	1
DeKalb	1	18	Lumpkin	27	2	Clay	53	1
Douglas	2	11	Rabun	12	5	Graham	75	1
Fayette	1	12	Towns	32	2	Haywood	11	5
Forsyth	3	11	Union	85	1	Henderson	3	11
Fulton	1	17	White	40	1	Jackson	23	2
Gwinnett	4	5				Macon	9	4
Hall	9	5	Tennessee			Mitchell	29	1
Henry	3	12	Blount	4	8	Swain	31	2
Newton	4	6	Bradley	4	7	Transylvania	12	3
Paulding	2	8	Knox	1	13	Watauga	1	13
Pickens	2	7	Loudon	19	3	Yancey	12	5
Rockdale	12	4	McMinn	3	8			
Walton	1	13	Monroe	2	8			
			Roane	9	4			

## Loans

The Bank makes both secured and unsecured loans to individuals, firms, and corporations. Secured loans include first and second real estate mortgage loans. The Bank also makes direct installment loans to consumers on both a secured and unsecured basis. At December 31, 2007, commercial (commercial and industrial), commercial (secured by real estate), construction (residential and commercial), residential mortgage and consumer installment loans represented approximately 7%, 25%, 40%, 25% and 3%, respectively, of United's total loan portfolio.

Specific risk elements associated with the Bank's lending categories include, but are not limited to:

Loan Type	Risk Elements
Commercial (commercial and industrial)	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and vehicles); increased competition; use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payments.
Commercial (secured by real estate)	Loan portfolio concentrations; declines in general economic conditions and occupancy rates; business failure and lack of a suitable alternative use for property; environmental contamination.



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Construction (residential and commercial)      Loan portfolio concentrations; inadequate long-term financing arrangements; cost overruns, changes in market demand for property.

Residential mortgage      Changes in general economic conditions or in the local economy; loss of borrower's employment; insufficient collateral value due to decline in property value.

Consumer installment      Loss of borrower's employment; changes in local economy; the inability to monitor collateral (vehicles and boats).

## Lending Policy

The Bank makes loans primarily to persons or businesses that reside, work, own property, or operate in its primary market areas. Unsecured loans are generally made only to persons who qualify for such credit based on net worth and liquidity. Secured loans are made to persons who are well established and have net worth, collateral, and cash flow to support the loan. Exceptions to the Bank's policies are permitted on a case-by-case basis and require the approving officer to document, in writing, the reason for the exception. Loans exceeding the approving officer's credit limit must be approved through the credit approval process involving Regional Credit Managers. All loans to borrowers whose aggregate lending relationship exceeds \$5 million must be reported to the Bank's Board of Directors for ratification.

United's Credit Administration department provides each lending officer with written guidelines for lending activities as approved by the Bank's Board of Directors. Limited lending authority is delegated to lending officers by United's Management Credit and Policy Committee as authorized by the Bank's Board of Directors or the Committee's designees in Credit Administration. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by the Management Credit and Policy Committee as authorized by the Bank's Board of Directors. Loans to borrowers whose total aggregate loans exceed \$15.0 million require the additional approval of two Bank directors.

## Regional Credit Managers

United utilizes its Regional Credit Managers to provide credit administration support to the Bank as needed. The Regional Credit Managers have joint lending approval authority with the community bank Presidents within varying limits set by the Management Credit and Policy Committee based on characteristics of each market. The Regional Credit Managers also provide credit underwriting support as needed by the community banks they serve.

## Loan Review and Non-performing Assets

The Loan Review Department of United reviews, or engages an independent third party to review, the Bank's loan portfolio on an ongoing basis to identify any weaknesses in the portfolio and to assess the general quality of credit underwriting. The results of such reviews are presented to Executive Management, the community bank Presidents, Credit Administration management and the Audit Committee of the Board of Directors. If an individual loan or credit relationship has a material weakness identified during the review process, the risk rating of the loan, or all loans comprising that credit relationship, will be downgraded to the classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, collateral, and other secondary source of repayment, different loans in a relationship can be assigned different risk ratings. Under United's 10-tier loan grading system, grades 1 through 6 are considered "pass" (acceptable) credit risk, grade 7 is a "watch" rating, and grades 8 through 10 are "adversely classified" credits that require management's attention. Both the pass and adversely classified ratings, and the entire 10-grade rating scale, provide for a higher numeric rating for increased risk. For example, a risk rating of 1 is the least risky of all credits and would be typical of a loan that is 100% secured by a deposit at the Bank. Risk ratings of 2 through 6 in the pass category each have incrementally more risk. The four watch list credit ratings and rating definitions are:

- |                 |  |
|-----------------|--|
| 7 (Watch)       | Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past-due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable. |
| 8 (Substandard) | Specific and well-defined weaknesses that may include poor liquidity and deterioration of financial ratios. Loan may be past-due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.                             |

- |              |  |
|--------------|--|
| 9 (Doubtful) | Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. No reliable secondary source of full repayment. |
| 10 (Loss)    | Same characteristics as Doubtful, however, probability of loss is certain. Loans classified as such are generally charged-off.                               |

In addition, Credit Administration and Accounting jointly prepare a quarterly analysis to determine the adequacy of the Allowance for Loan Losses (“ALL”) for the Bank. The ALL analysis also provides the consolidated analysis for United. The ALL analysis starts with total loans and subtracting loans fully secured by deposit accounts at the Bank, which effectively have no risk of loss. Next, all loans with an adversely classified rating are subtracted, including loans considered impaired. The remaining loan balance for each major loan category is then multiplied by its respective loss factor that is derived from the average historical loss rate for the preceding two year period, adjusted to reflect current economic conditions, which provides a required minimum ALL for pass credits. Loss factors for these loans are determined based on historical loss experience by type of loan. Loans that are considered impaired are evaluated separately and are assigned specific reserves as necessary.

## Asset/Liability Committees

United's asset/liability committee ("ALCO") is composed of executive officers and the Treasurer of United. The ALCO is charged with managing the assets and liabilities of United and the Bank. The ALCO attempts to manage asset growth, liquidity, and capital to maximize income and reduce interest rate risk, market risk and liquidity risk. The ALCO directs the Bank's overall acquisition and allocation of funds. At periodic meetings, the committee reviews the monthly asset and liability funds budget in relation to the actual flow of funds; the ratio of the amount of rate sensitive assets to the amount of rate sensitive liabilities; the ratio of allowance for loan losses to outstanding and non-performing loans; and other variables, such as stress testing expected loan demand, investment opportunities, core deposit growth within specified categories, regulatory changes, monetary policy adjustments and the overall state of the economy. A more comprehensive discussion of United's Asset/Liability Management and interest rate risk is contained in Management's Discussion and Analysis (Part II, Item 7) and Quantitative and Qualitative Disclosures About Market Risk (Part II, Item 7A) sections of this report.

## Investment Policy

United's investment portfolio policy is to maximize income within liquidity, asset quality and regulatory constraints. The policy is reviewed from time to time by United's ALCO and United's Board of Directors. Individual transactions, portfolio composition, and performance are reviewed and approved periodically by United's Board of Directors or a committee thereof. The Chief Financial Officer and Treasurer of United administer the policy and report information to the Board of Directors on a quarterly basis concerning sales, purchases, maturities and calls, resultant gains or losses, average maturity, federal taxable equivalent yields, and appreciation or depreciation by investment categories.

## Employees

As of December 31, 2007, United and its subsidiaries had 1,944 full-time equivalent employees. Neither United nor any of its subsidiaries is a party to any collective bargaining agreement and management believes that employee relations are good.

## Available Information

United's Internet website address is [ucbi.com](http://ucbi.com). United makes available free of charge through its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with, or furnished to, the Securities & Exchange Commission.

## Supervision And Regulation

The following is an explanation of the supervision and regulation of United and the Bank as financial institutions. This explanation does not purport to describe state, federal or Nasdaq Stock Market supervision and regulation of general business corporations or Nasdaq listed companies.

General. United is a registered bank holding company subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "Act"). United is required to file annual and quarterly financial information with the Federal Reserve and is subject to periodic examination by the Federal Reserve.

The Act requires every bank holding company to obtain the Federal Reserve's prior approval before (1) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already

control; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities listed in the Act or found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are:

- making or servicing loans and certain types of leases;
- performing certain data processing services;
- acting as fiduciary or investment or financial advisor;
- providing brokerage services;

underwriting bank eligible securities;  
underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and  
making investments in corporations or projects designed primarily to promote community welfare.

Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act (the “GLB Act”) relaxed the previous limitations and permitted bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies which may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Among the activities that are deemed “financial in nature” include:

lending, exchanging, transferring, investing for others or safeguarding money or securities;  
insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;  
providing financial, investment, or economic advisory services, including advising an investment company;  
issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;  
and  
underwriting, dealing in or making a market in securities

A bank holding company may become a financial holding company under this statute only if each of its subsidiary banks is well-capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. Any bank holding company that does not elect to become a financial holding company remains subject to the bank holding company restrictions of the Act.

Under this legislation, the Federal Reserve Board serves as the primary “umbrella” regulator of financial holding companies with supervisory authority over each parent company and limited authority over its subsidiaries. The primary regulator of each subsidiary of a financial holding company will depend on the type of activity conducted by the subsidiary. For example, broker-dealer subsidiaries will be regulated largely by securities regulators and insurance subsidiaries will be regulated largely by insurance authorities.

United has no current plans to register as a financial holding company.

United must also register with the Georgia Department of Banking and Finance (“DBF”) and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationship of United and the Bank and related matters. The DBF may also require such other information as is necessary to keep itself informed concerning compliance with Georgia law and the regulations and orders issued thereunder by the DBF, and the DBF may examine United and the Bank. Although the Bank operates branches in North Carolina and Tennessee, neither the North Carolina Banking Commission (“NCBC”), nor the Tennessee Department of Financial Institutions (“TDFI”) examines or directly regulates out-of-state holding companies.

United is an “affiliate” of the Bank under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Bank to United, (2) investments in the stock or securities of United by the Bank, (3) the Bank taking the stock or securities of an “affiliate” as collateral for loans by the Bank to a borrower, and (4) the purchase of assets from United by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank and each of its subsidiaries are regularly examined by the Federal Deposit Insurance Corporation (the “FDIC”). The Bank, as a state banking association organized under Georgia law, is subject to the supervision of, and is

regularly examined by, the DBF. The Bank's North Carolina branches are subject to examination by the NCBC. The Bank's Tennessee branches are subject to examination by the TDFI. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving The Bank.

Payment of Dividends. United is a legal entity separate and distinct from the Bank. Most of the revenue of United results from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by United to its shareholders.

Under the regulations of the DBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the DBF, unless such bank meets all the following requirements:

- (a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);
- (b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and
- (c) the ratio of equity capital to adjusted assets is not less than 6%.

The payment of dividends by United and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank. At February 1, 2008, net assets available from the Bank to pay dividends without prior approval from regulatory authorities totaled approximately \$28 million. For 2007, United's declared cash dividend payout to common stockholders was \$16.8 million, or 28.57% of basic earnings per common share.

**Capital Adequacy.** The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of Total Capital (as defined) to risk-weighted assets of eight percent (8%); and (2) a minimum Tier I Capital (as defined) to risk-weighted assets of four percent (4%). In addition, the Federal Reserve and the FDIC have established a minimum three percent (3%) leverage ratio of Tier I Capital to quarterly average total assets for the most highly-rated banks and bank holding companies. "Tier I Capital" generally consists of common equity excluding unrecognized gains and losses on available for sale securities, plus minority interests in equity accounts of consolidated subsidiaries and certain perpetual preferred stock less certain intangibles. The Federal Reserve and the FDIC will require a bank holding company and a bank, respectively, to maintain a leverage ratio greater than four percent (4%) if either is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The FDIC, the Office of the Comptroller of the Currency (the "OCC") and the Federal Reserve consider interest rate risk in the overall determination of a bank's capital ratio, requiring banks with greater interest rate risk to maintain adequate capital for the risk.

In addition, Section 38 of the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "1991 Act"). The "prompt corrective action" provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank's financial condition declines. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank's capital leverage ratio reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a "well-capitalized" institution



has a Total risk-based capital ratio of at least 10%, a Tier I risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an “adequately capitalized” institution has a Total risk-based capital ratio of at least 8%, a Tier I risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an “undercapitalized” institution has a Total risk-based capital ratio of under 8%, a Tier I risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a “significantly undercapitalized” institution has a Total risk-based capital ratio of under 6%, a Tier I risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a “critically undercapitalized” institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also establish procedures for “downgrading” an institution to a lower capital category based on supervisory factors other than capital.

To continue to conduct its business as currently conducted, United and the Bank will need to maintain capital well above the minimum levels. As of December 31, 2007 and 2006, the most recent notifications from the FDIC categorize the Bank as “well-capitalized” under current regulations.

**Commercial Real Estate.** In December, 2006 the federal banking agencies, including the FDIC, issued a final guidance on concentrations in commercial real estate lending, noting that recent increases in banks' commercial real estate concentrations could create safety and soundness concerns in the event of a significant economic downturn. The guidance mandates certain minimal risk management practices and categorizes banks with defined levels of such concentrations as banks requiring elevated examiner scrutiny. The Bank has concentrations in commercial real estate loans in excess of those defined levels. Although management believes that United's credit processes and procedures meet the risk management standards dictated by this guidance, regulatory outcomes could effectively limit increases in the real estate concentrations in the Bank's loan portfolio and require additional credit administration and management costs associated with those portfolios.

**Loans.** Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. The Bank adopted the federal guidelines in 2001.

**Transactions with Affiliates.** Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Generally, these requirements limit these transactions to a percentage of the bank's capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

**Financial Privacy.** In accordance with the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

**Anti-Money Laundering Initiatives and the USA Patriot Act.** A major focus of governmental policy on financial institutions in recent years has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. The USA Patriot Act of 2001 (the "USA Patriot Act") has imposed significant new compliance and due diligence obligations, creating new crimes and penalties. The United States Treasury Department has issued a number of implementing regulations which apply to various requirements of the USA Patriot Act to United and the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

## Executive Officers Of United

Senior executives of United are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors.

The senior executives officers of United, and their ages, positions with United, past five year employment history and terms of office as of February 1, 2008, are as follows:

Name (age)	Position with United	Officer of United Since
Jimmy C. Tallent (55)	President, Chief Executive Officer and Director	1988
Guy W. Freeman (71)	Executive Vice President, Chief Operating Officer and Director	1995
Rex S. Schuette (58)	Executive Vice President and Chief Financial Officer	2001
David Shearrow (48)	Executive Vice President and Chief Risk Officer since April 2007; prior to joining United, he served as Executive Vice President and Senior Credit Officer of SunTrust Banks.	2007
Craig Metz (52)	Executive Vice President of Marketing	2002
Bill M. Gilbert (55)	Senior Vice President of Retail Banking since June 2003; previously, he was President of United Community Bank - Summerville	2003

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with directors or officers of United acting solely in their capacities as such. Thomas C. Gilliland, former Executive Vice President, Secretary, and General Counsel, retired effective January 31, 2008.

## ITEM 1A. RISK FACTORS.

An investment in United's common stock involves risk. Investors should carefully consider the risks described below and all other information contained in this Annual Report on Form 10-K and the documents incorporated by reference before deciding to purchase common stock. It is possible that risks and uncertainties not listed below may arise or become material in the future and affect United's business.

Past operating results may not be indicative of future operating results.

United may not be able to sustain its growth. Various factors, such as increased size, economic conditions, regulatory and legislative considerations, competition and the ability to find and retain people that can make United's community-focused operating model successful, may impede its ability to expand its market presence. If United experiences a significant decrease in its growth rate, its results of operations and financial condition may be adversely affected.

United's business is subject to the success of the local economies and real estate markets in which it operates.

United's success significantly depends on the growth in population, income levels, loans and deposits and on the continued stability in real estate values in its markets. If the communities in which it operates do not grow or if prevailing economic conditions locally or nationally are unfavorable, United's business may be adversely affected. Adverse economic conditions in United's specific market areas, specifically decreases in real estate property values due to the nature of United's loan portfolio, approximately 90% of which is secured by real estate, could reduce United's growth rate, affect the ability of customers to repay their loans and generally affect United's financial condition and results of operations. United is less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of more diverse economies.

United's concentration of residential construction loans is subject to unique risks that could adversely affect earnings.

United's residential construction loan portfolio was \$1.8 billion at December 31, 2007, comprising 31% of total loans. Residential construction loans are often riskier than home equity loans or residential mortgage loans to individuals. In the event of a general economic slowdown like the one we are currently experiencing, these loans sometimes represent higher risk due to slower sales and reduced cash flow that could affect the borrowers' ability to repay on a timely basis.

In addition, although regulations and regulatory policies affecting banks and financial services companies undergo continuous change and we cannot predict when changes will occur or the ultimate effect of any changes, there has been recent regulatory focus on construction, development and other commercial real estate lending. Recent changes in the federal policies applicable to construction, development or other commercial real estate loans make us subject us to substantial limitations with respect to making such loans, increase the costs of making such loans, and require us to have a greater amount of capital to support this kind of lending, all of which could have a material adverse effect on our profitability or financial condition.

United may face risks with respect to future expansion and acquisitions.

United regularly engages in de novo branch expansion. Also, when a business opportunity becomes available in the right market with the right management team, United may seek to acquire other financial institutions or parts of those institutions. These involve a number of risks, including:

- the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to an acquired branch or institution, a new branch office or a new market;
-

the time and costs of evaluating new markets, hiring or retaining experienced local management and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on results of operations; and
- the risk of loss of key employees and customers of an acquired branch or institution.

Changes in prevailing interest rates may negatively affect net income and the value of United's assets.

Changes in prevailing interest rates may negatively affect the level of net interest revenue, the primary component of net income. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. At December 31, 2007, our simulation model indicated that a 200 basis point increase in rates over the next twelve months would cause an approximate 1.3% increase in net interest revenue and a 200 basis point decrease in rates over the next twelve months would cause an approximate 1.5% decrease in net interest revenue.

Changes in the level of interest rates may also negatively affect the value of United's assets and its ability to realize gains or avoid losses from the sale of those assets, all of which ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

If United's allowance for loan losses is not sufficient to cover actual loan losses, earnings would decrease.

United's loan customers may not repay their loans according to their terms and the collateral securing the payment of these loans may be insufficient to assure repayment. United may experience significant loan losses which would have a material adverse effect on operating results. Management makes various assumptions and judgments about the collectibility of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. United maintains an allowance for loan losses in an attempt to cover any loan losses inherent in the portfolio. In determining the size of the allowance, management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. If those assumptions are incorrect, the allowance may not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in the loan portfolio.

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

When we make loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and the borrower's net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our profitability or financial condition.

Competition from financial institutions and other financial service providers may adversely affect United's profitability.

The banking business is highly competitive, and United experiences competition in each of its markets from many other financial institutions. United competes with commercial banks, credit unions, savings and loan associations, mortgage banking firms, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as community, super-regional, national and international financial institutions that operate offices in its market areas and elsewhere. United competes with these institutions both in attracting deposits and in making loans. Many of United's competitors are well-established, larger financial institutions that are able to operate profitably with a narrower net interest margin and have a more diverse revenue base. United may face a competitive disadvantage as a result of its smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although United competes by concentrating marketing efforts in primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, there can be no assurance that this strategy will continue to be successful.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS.

There are no unresolved comments from the Securities and Exchange Commission staff regarding United's periodic or current reports under the Exchange Act.

#### ITEM 2. PROPERTIES.

The executive offices of United are located at 63 Highway 515, Blairsville, Georgia. United owns this property. The Bank conducts business from facilities primarily owned by the Bank, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Bank, Brintech and UCIS provide services or perform operational functions at 130 locations, of which 99 are owned and 31 are leased under operating leases. Note 7 to United's Consolidated Financial Statements includes additional information regarding amounts invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings incidental to its business. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision will result in a material adverse change in the consolidated financial condition or results of operations of United. No material proceedings terminated in the fourth quarter of 2007.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders of United during the fourth quarter of 2007.

## PART II

## ITEM 5. MARKET FOR UNITED'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Stock. United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI". The closing price for the period ended December 31, 2007 was \$15.80. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2007 and 2006.

## Stock Price Information

	2007				2006			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	\$ 34.98	\$ 30.81	\$ 32.79	232,269	\$ 29.64	\$ 26.02	\$ 28.15	59,252
Second quarter	33.03	25.80	25.89	266,682	31.26	27.02	30.44	92,937
Third quarter	27.50	22.16	24.52	346,596	33.10	27.51	30.05	86,495
Fourth quarter	25.73	15.13	15.80	421,910	33.37	29.03	32.32	87,626

At January 31, 2008, there were approximately 6,435 record shareholders and 15,200 beneficial shareholders of United's common stock.

Dividends. United declared cash dividends of \$.36, \$.32 and \$.28 per common share in 2007, 2006 and 2005, respectively. Federal and state laws and regulations impose restrictions on the ability of United and the Bank to pay dividends. Additional information regarding this item is included in Note 16 to the Consolidated Financial Statements and under the heading of "Supervision and Regulation" in Part I of this report.

Share Repurchases. United has in place a board approved repurchase authorization for up to 3,000,000 shares of United's common stock. The share repurchase program was initially authorized for 1,000,000 shares expiring December 31, 2007 and was announced in our Form 10-Q for the period ended March 31, 2006, filed May 8, 2006. In July 2007, the authorization was increased by the Board of Directors to 2,000,000 shares as announced in our Form 10-Q for the period ended June 30, 2007, filed August 8, 2007. In October 2007, the Board of Directors further increased the authorization to 3,000,000 shares and extended the expiration date to December 31, 2008. This amendment was announced in our third quarter 2007 earnings announcement dated October 23, 2007. At December 31, 2007, 2,000,000 shares had been purchased under the authorization and 1,000,000 shares remain available under the authorization. Stock repurchases may be made in the open market or in private transactions at time and in amounts we deem appropriate. However, there is no guarantee as to the exact number of additional shares that may be repurchased and we may terminate or limit the stock repurchase program at any time. We will hold the repurchased shares as treasury shares.

Additionally, United's Amended and Restated 2000 Key Employee Stock Option Plan allows option holders to exercise stock options by delivering previously acquired shares having a fair market value equal to the exercise price provided that the shares delivered must have been held by the option holder for at least six months. During 2007 and 2006, optionees delivered 1,755 and 17,576 shares, respectively, to exercise stock options.





The following table sets forth information regarding purchases of our common stock by us or any affiliated purchaser, by quarter, during 2007. There were no purchases of stock during the first and second quarters of 2007 and there were no purchases, other than shares delivered by optionees, during 2006.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the publicly announced plans or programs
July 2007	62,000	\$ 23.91	62,000	2,938,000
August 2007	602,775	24.08	602,775	2,335,225
September 2007	640,000	24.81	640,000	1,695,225
Total third quarter	1,304,775	24.43	1,304,775	
October 2007	94,600	\$ 22.02	94,600	1,600,625
November 2007	495,000	20.42	495,000	1,105,625
December 2007	105,625	18.85	105,625	1,000,000
Total fourth quarter	695,225	20.40	695,225	

**Sales of Unregistered Securities.** United has not sold any unregistered securities in the past three years other than 7,500 shares sold to one employee in one transaction for \$15.37 per share on August 4, 2005 and 189 shares sold to one employee in one transaction for \$7.55 on July 13, 2005. Both of these transactions were pursuant to the exercise of options granted by companies that were acquired by United, exempt under Section 4(2) of the Securities Act because of the small number of purchasers and shares involved, the knowledge and sophistication of the purchases and the nature of the transactions.

Performance Graph. Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United's common stock against the cumulative total return on the Nasdaq Stock Market (U.S. Companies) Index and the Nasdaq Bank Stocks Index for the five-year period commencing December 31, 2002 and ending on December 31, 2007.

	2002	2003	Cumulative Total Return		2006	2007
			2004	2005		
United Community Banks, Inc.	\$ 100	\$ 136	\$ 169	\$ 169	\$ 207	\$ 103
Nasdaq Stock Market (U.S.) Index	100	150	163	166	183	198
Nasdaq Bank Index	100	129	147	144	161	128

ITEM 6. SELECTED  
FINANCIAL DATA.  
UNITED COMMUNITY  
BANKS, INC.  
Selected Financial Information  
For the Years Ended December  
31,

(in thousands, except per share  
data;

	2007	2006	2005	2004	2003	2002	5 Year CAGR (4)
taxable equivalent)							
INCOME SUMMARY							
Interest revenue	\$ 550,917	\$ 446,695	\$ 324,225	\$ 227,792	\$ 198,689	\$ 185,498	
Interest expense	276,434	208,815	127,426	74,794	70,600	76,357	
Net interest revenue	274,483	237,880	196,799	152,998	128,089	109,141	20%
Provision for loan losses (1)	37,600	14,600	12,100	7,600	6,300	6,900	
Fee revenue	62,651	49,095	46,148	39,539	38,184	30,734	15
Total revenue	299,534	272,375	230,847	184,937	159,973	132,975	18
Operating expenses (1)	190,061	162,070	140,808	110,974	97,251	80,690	19
Income before taxes	109,473	110,305	90,039	73,963	62,722	52,285	16
Income taxes	40,482	41,490	33,297	26,807	23,247	19,505	
Net operating income	68,991	68,815	56,742	47,156	39,475	32,780	16
Fraud loss provision, net of tax	10,998	-	-	-	-	-	
Merger-related charges, net of tax	-	-	-	565	1,357	-	
Net income	\$ 57,993	\$ 68,815	\$ 56,742	\$ 46,591	\$ 38,118	\$ 32,780	12
OPERATING PERFORMANCE (1)							
Earnings per common share:							
Basic	\$ 1.50	\$ 1.70	\$ 1.47	\$ 1.31	\$ 1.15	\$ 1.02	8
Diluted	1.48	1.66	1.43	1.27	1.12	.99	8
Return on tangible equity (2)(3)	14.23%	17.52%	18.99%	19.74%	19.24%	17.88%	
Return on assets	.89	1.09	1.04	1.07	1.06	1.11	
Efficiency ratio	56.53	56.35	57.77	57.65	58.39	57.72	
Dividend payout ratio	24.00	18.82	19.05	18.32	17.39	16.34	

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GAAP

PERFORMANCE

Per common share:

Basic earnings	\$ 1.26	\$ 1.70	\$ 1.47	\$ 1.29	\$ 1.11	\$ 1.02	4
Diluted earnings	1.24	1.66	1.43	1.25	1.08	.99	5
Cash dividends declared (rounded)	.36	.32	.28	.24	.20	.17	17
Book value	17.73	14.37	11.80	10.39	8.47	6.89	21
Tangible book value (3)	10.94	10.57	8.94	7.34	6.52	6.49	11

Key performance ratios:

Return on equity (2)	7.79%	13.28%	13.46%	14.39%	14.79%	16.54%	
Return on assets	.75	1.09	1.04	1.05	1.02	1.11	
Net interest margin	3.88	4.05	3.85	3.71	3.68	3.95	
Dividend payout ratio	28.57	18.82	19.05	18.60	18.02	16.34	
Equity to assets	9.61	8.06	7.63	7.45	7.21	7.01	
Tangible equity to assets (3)	6.63	6.32	5.64	5.78	6.02	6.60	

ASSET

QUALITY

Allowance for loan losses	\$ 89,423	\$ 66,566	\$ 53,595	\$ 47,196	\$ 38,655	\$ 30,914	
Non-performing assets	46,258	13,654	12,995	8,725	7,589	8,019	
Net charge-offs	39,834	5,524	5,701	3,617	4,097	3,111	
Allowance for loan losses to loans	1.51%	1.24%	1.22%	1.26%	1.28%	1.30%	
Non-performing assets to total assets	.56	.19	.22	.17	.19	.25	
Net charge-offs to average loans	.69	.12	.14	.11	.15	.14	

AVERAGE  
BALANCES

Loans	\$ 5,734,608	\$ 4,800,981	\$ 4,061,091	\$ 3,322,916	\$ 2,753,451	\$ 2,239,875	21
Investment securities	1,277,935	1,041,897	989,201	734,577	667,211	464,468	22
Earning assets	7,070,900	5,877,483	5,109,053	4,119,327	3,476,030	2,761,265	21
Total assets	7,730,530	6,287,148	5,472,200	4,416,835	3,721,284	2,959,295	21
Deposits	6,028,625	5,017,435	4,003,084	3,247,612	2,743,087	2,311,717	21
Shareholders' equity	742,771	506,946	417,309	329,225	268,446	207,312	29
Common shares - Basic	45,893	40,393	38,477	36,071	34,132	32,062	
	46,593	41,575	39,721	37,273	35,252	33,241	

Common shares -  
Diluted

## AT YEAR END

Loans	\$ 5,929,263	\$ 5,376,538	\$ 4,398,286	\$ 3,734,905	\$ 3,015,997	\$ 2,381,798	20
Investment securities	1,356,846	1,107,153	990,687	879,978	659,891	559,390	19
Total assets	8,207,302	7,101,249	5,865,756	5,087,702	4,068,834	3,211,344	21
Deposits	6,075,951	5,772,886	4,477,600	3,680,516	2,857,449	2,385,239	21
Shareholders' equity	831,902	616,767	472,686	397,088	299,373	221,579	30
Common shares outstanding	46,903	42,891	40,020	38,168	35,289	31,895	8

- (1) Excludes pre-tax provision for fraud losses of \$18 million, or \$.24 per diluted common share, recorded in 2007 and pre-tax merger-related charges totaling \$.9 million, or \$.02 per diluted common share, recorded in 2004 and \$2.1 million, or \$.04 per diluted share, recorded in 2003.
- (2) Net income available to common shareholders, which excludes preferred stock dividends, divided by average realized common equity which excludes accumulated other comprehensive income (loss).
- (3) Excludes effect of acquisition related intangibles and associated amortization.
- (4) Compound annual growth rate.

UNITED COMMUNITY BANKS,  
INC.Selected Financial Information  
(continued)

	2007				2006			
(in thousands, except per share data; taxable equivalent) INCOME SUMMARY	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	
Interest revenue	\$ 140,768	\$ 144,884	\$ 136,237	\$ 129,028	\$ 123,463	\$ 116,304	\$ 107,890	
Interest expense	71,038	73,203	68,270	63,923	60,912	55,431	49,407	
Net interest revenue	69,730	71,681	67,967	65,105	62,551	60,873	58,483	
Provision for loan losses (1)	26,500	3,700	3,700	3,700	3,700	3,700	3,700	
Fee revenue	16,100	15,615	16,554	14,382	13,215	12,146	11,976	
Total revenue	59,330	83,596	80,821	75,787	72,066	69,319	66,759	
Operating expenses	49,336	48,182	47,702	44,841	42,521	41,441	39,645	
Income before taxes	9,994	35,414	33,119	30,946	29,545	27,878	27,114	
Income taxes	3,960	12,878	12,043	11,601	11,111	10,465	10,185	
Net operating income	6,034	22,536	21,076	19,345	18,434	17,413	16,929	
Fraud loss provision, net of tax	1,833	-	9,165	-	-	-	-	
Net income	\$ 4,201	\$ 22,536	\$ 11,911	\$ 19,345	\$ 18,434	\$ 17,413	\$ 16,929	
OPERATING PERFORMANCE (1)								
Per common share:								
Basic earnings	\$ .13	\$ .47	\$ .47	\$ .45	\$ .45	\$ .43	\$ .42	
Diluted earnings	.13	.46	.46	.44	.44	.42	.41	
Return on tangible equity (2)(3)(4)	5.06%	17.54%	17.52%	17.18%	17.49%	17.29%	17.68%	
Return on assets (4)	.29	1.11	1.12	1.11	1.10	1.09	1.10	
Dividend payout ratio	69.23	19.15	19.15	20.00	17.78	18.60	19.05	
GAAP PERFORMANCE MEASURES								
Per common share:								
Basic earnings	\$ .09	\$ .47	\$ .26	\$ .45	\$ .45	\$ .43	\$ .42	
Diluted earnings	.09	.46	.26	.44	.44	.42	.41	
Cash dividends declared	.09	.09	.09	.09	.08	.08	.08	
Book value	17.73	17.53	16.98	14.83	14.37	13.07	12.34	
Tangible book value (3)	10.94	10.82	10.44	11.06	10.57	10.16	9.50	

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Key performance ratios:

Return on equity (2)(4)	2.01%	10.66%	7.05%	12.47%	13.26%	13.22%	13.41%
Return on assets (4)	.20	1.11	.64	1.11	1.10	1.09	1.10
Net interest margin (4)	3.73	3.89	3.94	3.99	3.99	4.07	4.07
Efficiency ratio	57.67	55.34	56.59	56.56	55.93	56.46	56.27
Dividend payout ratio	100.00	19.15	34.62	20.00	17.78	18.60	19.05
Equity to assets	10.20	10.32	8.94	8.80	8.21	8.04	7.95
Tangible equity to assets (3)	6.58	6.65	6.65	6.66	6.46	6.35	6.22

ASSET QUALITY

Allowance for loan losses	\$ 89,423	\$ 90,935	\$ 92,471	\$ 68,804	\$ 66,566	\$ 60,901	\$ 58,508
Non-performing assets	46,258	63,337	43,601	14,290	13,654	9,347	8,805
Net charge-offs	31,012	5,236	2,124	1,462	1,930	1,307	1,042
Allowance for loan losses to loans	1.51%	1.53%	1.54%	1.27%	1.24%	1.23%	1.22%
Non-performing assets to total assets	.56	.77	.54	.20	.19	.14	.14
Net charge-offs to average loans (4)	2.07	.35	.15	.11	.15	.11	.09

AVERAGE BALANCES

Loans	\$ 5,940,230	\$ 5,966,933	\$ 5,619,950	\$ 5,402,860	\$ 5,134,721	\$ 4,865,886	\$ 4,690,196
Investment securities	1,404,796	1,308,192	1,242,448	1,153,208	1,059,125	1,029,981	1,039,707
Earning assets	7,424,992	7,332,492	5,915,134	6,599,035	6,225,943	5,942,710	5,758,697
Total assets	8,210,120	8,083,739	7,519,392	7,092,710	6,669,950	6,350,205	6,159,152
Deposits	6,151,476	6,246,319	5,945,633	5,764,426	5,517,696	5,085,168	4,842,389
Stockholders' equity	837,195	834,094	672,348	624,100	547,419	510,791	489,821
Common Shares - Basic	47,203	48,348	44,949	43,000	41,096	40,223	40,156
Common Shares - Diluted	47,652	48,977	45,761	43,912	42,311	41,460	41,328

AT PERIOD END

Loans	\$ 5,929,263	\$ 5,952,749	\$ 5,999,093	\$ 5,402,198	\$ 5,376,538	\$ 4,965,365	\$ 4,810,277
Investment securities	1,356,846	1,296,826	1,213,659	1,150,424	1,107,153	980,273	974,524
Total assets	8,207,302	8,180,600	8,087,667	7,186,602	7,101,249	6,455,290	6,331,136
Deposits	6,075,951	6,154,308	6,361,269	5,841,687	5,772,886	5,309,219	4,976,650
Stockholders' equity	831,902	833,761	828,731	638,456	616,767	526,734	496,297
Common shares outstanding	46,903	47,542	48,781	43,038	42,891	40,269	40,179

Excludes effect of special \$15 million fraud related loan loss provision recorded in the second quarter of 2007 and (1) an additional \$3 million in the fourth quarter of 2007.

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

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



(4) Annualized.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Overview

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

Net income was \$58.0 million in 2007, a decrease of 16% from the \$68.8 million earned in 2006. Diluted earnings per common share was \$1.24 for 2007, compared with \$1.66 for 2006, a decrease of 25%. The decrease from 2006 was primarily due to a more challenging economic environment that resulted in a higher provision for loan losses, a decline in the net interest margin and a special fraud-related provision for loan losses resulting from the failed real estate developments near Spruce Pine, North Carolina. Because the special provision for fraud-related losses was considered by management to be an isolated and nonrecurring event, management's discussion will primarily refer to operating earnings and performance measures which exclude those fraud-related losses. Management believes that the presentation of operating earnings provides a meaningful basis for analyzing underlying performance trends. A reconciliation of operating earnings measures to earnings measures prepared using accounting principles generally accepted in the United States (GAAP) is shown in Table 1 on page 22 of this report.

Net operating income was \$69.0 million in 2007 and was level with the \$68.8 million earned in 2006. Diluted operating earnings per common share was \$1.48 for 2007, compared with \$1.66 for 2006, a decrease of 11%. Operating return on tangible equity for 2007 was 14.23%, compared with 17.52% for 2006. Operating return on assets for 2007 was .89% as compared to 1.09% in 2006.

Earnings for 2007 were influenced by a sharp decline in loan demand, particularly in the residential construction and housing markets. This began with problems in sub-prime lending early in the year. Although United does not participate in sub-prime lending, the slowdown in the housing market resulted in a buildup of finished home inventory as well as a surplus of finished lot inventory, particularly in the Atlanta Region market. This put stress on many residential real estate builders and developers who depend on an active housing market to sell their inventories. As a result, loan demand was down significantly in 2007 and United saw a sharp increase in credit losses. The soft housing market also affected deposit pricing as large mortgage banks, and local community banks, needing liquidity, aggressively competed for certificates of deposit, driving rates significantly above wholesale borrowings with similar terms. Competitive deposit pricing and the carrying cost of a larger base of nonperforming assets compressed the net interest margin 17 basis points to 3.88%, further affecting 2007 earnings.

The economic environment in 2006 was in sharp contrast to 2007. Earnings for 2006 were influenced by strong loan and deposit growth and rising interest rates that allowed us to engage in significant de novo branch expansion. The net interest margin increased 20 basis points to 4.05%, as rising interest rates had a positive effect on United's slightly asset sensitive balance sheet. The local economies in United's markets were strong, contributing to the strong loan growth.

For 2007, taxable equivalent net interest revenue of \$274.5 million was up \$36.6 million, or 15%, from 2006, primarily due to the acquisitions of Gwinnett Commercial Group and Southern Bancorp and strong loan growth during 2006. In 2007, loan growth slowed substantially leaving loans, absent the Gwinnett Commercial Group acquisition, only slightly above the level at December 31, 2006.

As a result of the soft housing market, credit quality measures showed deterioration in 2007. Net charge offs, excluding \$18 million fraud-related Spruce Pine lot loans, were \$21.8 million compared with \$5.5 million in 2006. The weakening credit conditions resulted in a provision for loan losses of \$37.6 million, excluding the \$18

million provision related to the Spruce Pine lot loans, compared with \$14.6 million in 2006. At December 31, 2007, the allowance for loan losses as a percentage of loans was 1.51% compared with 1.24% at the end of 2006. Nonperforming assets, which includes nonaccrual loans, loans past due more than 90 days and foreclosed real estate but excluding nonperforming assets related to Spruce Pine, were up \$32.6 million from 2006 while loans increased \$553 million over the same period, primarily due to the acquisition of Gwinnett Commercial Group. At December 31, 2007, such nonperforming assets represented .50% of total assets compared with .19% at the end of 2006. Net charge offs as a percentage of average loans were .38%, excluding \$18 million related to the Spruce Pine lot loans, compared with .12% for 2006.

Despite the challenging economic environment, fee revenue showed strong growth in 2007. Fee revenue in 2007 increased \$13.6 million, or 28%, from 2006. Although securities gains, net of losses from the prepayment of borrowings contributed to the increase, these balance sheet management activities represented only \$2.2 million of the increase. Increases occurred in every category with consulting fees and brokerage fees both achieving record levels. Also contributing to the increase in fee revenue was a \$50 million investment in bank owned life insurance ("BOLI") in April 2007 that added \$2.1 million to other fee revenue.

Operating expenses of \$190.1 million were up \$28.0 million, or 17%, from 2006. The increase resulted primarily from the acquisitions of Gwinnett Commercial Group in June 2007 and Southern Bancorp in December 2006, continued de novo expansion, higher write-downs and losses on other real estate and the new FDIC insurance assessments. Of the total \$28.0 million increase in operating expenses, the two acquisitions accounted for approximately \$9.0 million, higher losses on other real estate accounted for approximately \$4.0 million and the new FDIC assessments were responsible for \$1.7 million of the increase. In 2007, 2006 and 2005, United opened five, eight, and seven locations, respectively, resulting in higher staff, occupancy and equipment costs.

In June 2007, United completed the acquisition of Gwinnett Commercial Group, Inc., and its wholly-owned subsidiary, First Bank of the South. The company exchanged 5,691,948 shares of its common stock with a value of approximately \$191.4 million and \$31.5 million in cash for all of the outstanding shares of Gwinnett Commercial Group. The assets of First Bank of the South, including purchase accounting adjustments, totaled \$809.2 million, and were included in United's consolidated financial statements from the date of acquisition.

### Critical Accounting Policies

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon future events. Carrying assets and liabilities at fair value results in more financial statement volatility. The fair values and the information used to record the valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies for United are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant effect on the financial statements. Management considers the accounting policies related to the allowance for loan losses and intangible assets to be critical accounting policies.

### Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on non-impaired loans based on historical loss experience, management's evaluation of the current loan portfolio, and consideration of current economic trends and conditions. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimate pursuant to either Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, or SFAS 114, Accounting by Creditors for Impairment of a Loan. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over \$500,000 where the internal credit rating is at

or below a grade seven and on the “Watch List”. These analyses involve judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loss element is determined using the average of actual losses incurred over the prior two years for each type of loan. The historical loss experience is adjusted for known changes in economic conditions and credit quality trends such as changes in the amount of past due and nonperforming loans. The resulting loss allocation factors are applied to the balance of each type of loan after removing the balance of impaired loans and other specifically allocated loans from each category. The loss allocation factors are updated annually. The allocated component of the allowance for loan losses also includes consideration of concentrations of credit and changes in portfolio mix.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that accounts for the inherent imprecision in loan loss estimation based on historical loss experience as a result of United's growth through acquisitions, which have expanded the geographic footprint in which it operates, and changed its portfolio mix in recent years. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of economic cycles also affects estimates of loss. The historical losses used in developing loss allocation factors may not be representative of actual unrealized losses inherent in the portfolio.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. Although management believes its processes for determining the allowance adequately consider all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect earnings or financial position in future periods.

Additional information on United's loan portfolio and allowance for loan losses can be found in the sections of Management's Discussion and Analysis titled "Asset Quality and Risk Elements" and "Nonperforming Assets" and in the sections of Part I, Item 1 titled "Lending Policy" and "Loan Review and Non-performing Assets". Note 1 to the Consolidated Financial Statements includes additional information on United's accounting policies related to the allowance for loan losses.

#### Intangible Assets

United's intangible assets consist primarily of excess of cost over the fair value of net assets of acquired businesses (goodwill) and other identifiable intangible assets (primarily core deposit intangibles). United's goodwill is tested for impairment annually, or more often if events or circumstances indicate impairment may exist. Adverse changes in the economic environment, declining operations of acquired business units, or other factors could result in a decline in implied fair value of excess purchase price. If the implied fair value is less than the carrying amount, a loss would be recognized to reduce the carrying amount to implied fair value. These changes or factors, when they occur, could be material to United's operating results for any particular reporting period; the potential effect cannot be reasonably estimated.

Other identifiable intangible assets, primarily core deposit intangibles, are reviewed at least annually for events or circumstances which could affect the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an "other identifiable intangible asset" is deemed unrecoverable, an impairment loss would be recorded to reduce the carrying amount to the fair value. These events or circumstances, when they occur, could be material to United's operating results for any particular reporting period; the potential effect cannot be reasonably estimated.

#### Mergers and Acquisitions

As part of its balanced growth strategy, United selectively engages in evaluation of strategic partnerships. Mergers and acquisitions present opportunities to enter new markets with an established presence and a capable management team already in place. United employs certain criteria to ensure that any merger or acquisition candidate meets strategic growth and earnings objectives that will build future franchise value for shareholders. Additionally, the criteria include ensuring that management of a potential partner shares United's community banking philosophy of premium service quality and operates in attractive, high-growth markets with excellent opportunities for further organic growth. As part of this strategy, United completed one bank merger in 2007 and one bank merger and two

branch acquisitions in 2006. United will continue to evaluate potential transactions as they are presented.

On June 1, 2007, United completed the acquisition of Gwinnett Commercial Group, Inc. (“Gwinnett”), a bank holding company headquartered in Lawrenceville, Georgia, and its wholly-owned subsidiary First Bank of the South. On June 1, 2007, Gwinnett had assets totaling \$809 million, including purchase accounting related intangibles. United exchanged 5,691,948 shares of its common stock valued at \$191.4 million and \$31.5 million in cash for all of the outstanding shares. First Bank of the South was merged into The Bank and operates as a separate community bank, United Community Bank – Gwinnett.

On December 1, 2006, United completed the acquisition of Southern Bancorp, Inc. (“Southern”), a bank holding company headquartered in Marietta, Georgia, and its wholly owned subsidiary Southern National Bank. On December 1, 2006, Southern had assets totaling \$416 million, including purchase accounting related intangibles. United exchanged 2,180,118 shares of its common stock valued at \$67.8 million for all of the outstanding shares. Southern National Bank was merged into the Bank. The Cobb County location is now included with United Community Bank – Metro, and the Cherokee County location operates as a separate community bank, United Community Bank – Cherokee.

On September 22, 2006, United completed the acquisition of two western North Carolina banking locations in Sylva and Bryson City. These offices were acquired from another financial institution, and had \$8 million in loans and \$38 million in deposits on the date they were acquired. United paid a premium for these branches of approximately 8% of deposits. Both of these offices are located in markets where United has a presence and are natural extensions of its existing franchise.

## Operating Results

Much of the discussion contained in this report is presented on an operating basis. The presentation of operating earnings excludes an \$18 million fraud loss provision recorded in 2007 and merger-related charges in 2003 and 2004 that are considered non-recurring. The presentation of operating earnings is therefore not consistent with generally accepted accounting principles ("GAAP").

In June 2007, the North Carolina Attorney General obtained a receiver to take custody of the assets of the developers of two failed real estate developments near Spruce Pine, North Carolina, citing possible fraud on the part of the developers. United had loans to 83 individual borrowers totaling \$23.6 million secured by undeveloped lots in these developments. United was one of twelve banks that had loaned money to borrowers to finance the purchase of lots. The loans were made to appropriately qualified borrowers in accordance with our standard underwriting procedures. At the time the loans were made, we were not aware that most of the borrowers were simultaneously obtaining loans for additional lots at other banks and thereby taking on debt possibly beyond their repayment ability. We were also unaware that the borrowers' down payments were not paid in cash as indicated on the closing documents, but were financed by a second mortgage from the developer and that the developer agreed to service the borrowers' debts. We also subsequently learned that the appraisals relied upon in the underwriting process had been inflated by using comparable sales that were not at arms length to persons related to the developer and that many of the lots were subdivided into parcels that are too small to be used for their intended purpose. United recognized a provision for fraud-related loan losses of \$18 million in 2007 related to these loans and charged-off an equal amount of loans. The special provision reduced net income by \$11 million and reduced diluted earnings per share by \$.24 in 2007.

Merger-related charges in 2007 and 2006 related to the acquisitions of Gwinnett, Southern and the two North Carolina branches were insignificant and are therefore not shown separately. Pre-tax merger-related charges of \$.9 million and \$2.1 million were incurred in 2004 and 2003, respectively. These charges decreased net income by \$.6 million and \$1.4 million and diluted earnings per share by \$.02 and \$.04, respectively, for 2004 and 2003.

Management included non-GAAP net operating income because it believes it is useful for evaluating United's operations and performance over periods of time, as well as in managing and evaluating United's business and in discussions about United's operations and performance. Net operating income excludes the pre-tax effect of the special \$18 million fraud-related provision for loan losses in 2007 and the merger-related charges in 2003 and 2004 because management believes that the circumstances leading to the provision and such charges were isolated, non-recurring events and do not reflect overall trends in United's earnings and financial performance. Management believes this non-GAAP net operating income provides users of United's financial information with a meaningful measure for assessing United's financial results and credit trends, as well as comparison to financial results for prior periods.



The following is a reconciliation of net operating income to GAAP net income. There were no charges incurred in 2006, 2005 or 2002 that were excluded from the presentation of operating earnings.

Table 1 - Operating Earnings to GAAP Earnings

## Reconciliation

(in thousands, except per share data)

	Fourth Quarter 2007	Third Quarter 2007	Second Quarter 2007	Years Ended December 31,		
				2007	2004	2003
Special provision for fraud related loan losses	\$ 3,000	\$ -	\$ 15,000	\$ 18,000	\$ -	\$ -
Merger-related charges included in expenses:						
Salaries and employee benefits - severance and related costs	-	-	-	-	203	135
Professional fees	-	-	-	-	407	885
Contract termination costs	-	-	-	-	119	566
Other merger-related expenses	-	-	-	-	141	502
Total merger-related charges	-	-	-	-	870	2,088
Pre-tax earnings impact of non-operating charges	3,000	-	15,000	18,000	870	2,088
Income tax effect of special provision	1,167	-	5,835	7,002	305	731
After-tax effect of special provision	\$ 1,833	\$ -	\$ 9,165	\$ 10,998	\$ 565	\$ 1,357
Net Income Reconciliation						
Operating net income	\$ 6,034	\$ 22,536	\$ 21,076	\$ 68,991	\$ 47,156	\$ 39,475
After-tax effect of special provision and merger-related charges	(1,833)	-	(9,165)	(10,998)	(565)	(1,357)
Net income (GAAP)	\$ 4,201	\$ 22,536	\$ 11,911	\$ 57,993	\$ 46,591	\$ 38,118
Basic Earnings Per Share Reconciliation						
Basic operating earnings per share	\$ .13	\$ .47	\$ .47	\$ 1.50	\$ 1.31	\$ 1.15
Per share effect of special provision and merger-related charges	(.04)	-	(.21)	(.24)	(.02)	(.04)
Basic earnings per share (GAAP)	\$ .09	\$ .47	\$ .26	\$ 1.26	\$ 1.29	\$ 1.11

Diluted Earnings Per Share  
Reconciliation

Diluted operating earnings per share	\$	.13	\$	.46	\$	.46	\$	1.48	\$	1.27	\$	1.12
Per share effect of special provision and merger-related charges		(.04)		-		(.20)		(.24)		(.02)		(.04)
Diluted earnings per share (GAAP)	\$	.09	\$	.46	\$	.26	\$	1.24	\$	1.25	\$	1.08

Provision for Loan Losses  
Reconciliation

Operating provision for loan losses	\$	26,500	\$	3,700	\$	3,700	\$	37,600	\$	7,600	\$	6,300
Special provision for fraud related loan losses		3,000		-		15,000		18,000		-		-
Provision for loan losses (GAAP)	\$	29,500	\$	3,700	\$	18,700	\$	55,600	\$	7,600	\$	6,300

Nonperforming Assets  
Reconciliation

Nonperforming assets excluding fraud-related assets	\$	40,956	\$	39,761	\$	19,968	\$	40,956	\$	8,725	\$	7,589
Fraud-related loans and OREO included in nonperforming assets		5,302		23,576		23,633		5,302		-		-
Nonperforming assets (GAAP)	\$	46,258	\$	63,337	\$	43,601	\$	46,258	\$	8,725	\$	7,589

Allowance for Loan Losses  
Reconciliation

Allowance for loan losses excluding special fraud-related allowance	\$	89,423	\$	75,935	\$	77,471	\$	89,423	\$	47,196	\$	38,655
Fraud-related allowance for loan losses		-		15,000		15,000		-		-		-
Allowance for loan losses (GAAP)	\$	89,423	\$	90,935	\$	92,471	\$	89,423	\$	47,196	\$	38,655

Net Charge Offs  
Reconciliation

Net charge offs excluding charge off of fraud-related loans	\$	13,012	\$	5,236	\$	2,124	\$	21,834	\$	3,617	\$	4,097
Fraud-related loans charged off		18,000		-		-		18,000		-		-
Net charge offs (GAAP)	\$	31,012	\$	5,236	\$	2,124	\$	39,834	\$	3,617	\$	4,097

# Allowance for Loan Losses to Loans

## Ratio Reconciliation

### Allowance for loan losses to

### loans ratio excluding

### fraud-related allowance

1.51%	1.28%	1.29%	1.51%	1.26%	1.28%
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### Portion of allowance

### assigned to fraud-related

### loans

-	.25	.25	-	-	-
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### Allowance for loan losses

### to loans ratio (GAAP)

1.51%	1.53%	1.54%	1.51%	1.26%	1.28%
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# Nonperforming Assets to Total Assets

## Ratio Reconciliation

### Nonperforming assets to total

### assets ratio excluding

### fraud-related assets

.50%	.49%	.25%	.50%	.17%	.19%
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### Fraud-related nonperforming

### assets

.06	.28	.29	.06	-	-
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### Nonperforming assets to

### total assets ratio (GAAP)

.56%	.77%	.54%	.56%	.17%	.19%
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# Net Charge Offs to Average Loans Ratio

## Reconciliation

### Net charge offs to average

### loans ratio excluding

### fraud-related loans

.87%	.35%	.15%	.38%	.11%	.15%
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### Charge offs of fraud-related

### loans

1.20	-	-	.31	-	-
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### Net charge offs to average

### loans ratio (GAAP)

2.07%	.35%	.15%	.69%	.11%	.15%
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# Operating Expenses

## Reconciliation

### Operating expenses

### (operating basis)

\$ 49,336	\$ 47,702	\$ 47,702	\$ 190,061	\$ 110,974	\$ 97,251
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### Merger-related charges

-	-	-	-	870	2,088
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### Operating expenses

### (GAAP)

\$ 49,336	\$ 47,702	\$ 47,702	\$ 190,061	\$ 111,844	\$ 99,339
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## Results of Operations

The remainder of this financial discussion focuses on operating earnings, which exclude the fraud-related provision in 2007 and merger-related charges in 2003 and 2004, except for the discussion of income taxes. Operating and GAAP earnings were the same in 2006, 2005 and 2002. For additional information on operating earnings measures, refer to the preceding section on “Operating Results”.

### Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and other liabilities) is the single largest component of United’s revenue. United actively manages this revenue source to provide an optimal level of revenue while balancing interest rate, credit, and liquidity risks. Net interest revenue totaled \$274.5 million in 2007, an increase of \$36.6 million, or 15%, from the level recorded in 2006. Net interest revenue for 2006 increased \$41.1 million, or 21%, over the 2005 level.

The main drivers of the increase in net interest revenue for 2007 were loan growth due to the acquisition of Gwinnett in June, 2007, the acquisition of Southern National in December 2006 and core loan growth during 2006. Average loans increased \$934 million, or 19%, from last year. The average yield on loans increased 18 basis points reflecting the rising prime lending rate through June, 2006, on United’s predominantly prime-based loan portfolio. Year-end loan balances increased \$553 million from 2006, resulting in a 10% growth rate. This growth includes \$534 million from the acquisition of Gwinnett. Core loan growth slowed substantially in 2007 reflecting weakness in the housing market, particularly in the Atlanta Region. Aside from the Atlanta Region, loan growth continued in our other markets, although at a slower pace than in prior years. Excluding the acquisition of Gwinnett, loan volume in the Atlanta Region was down \$137 million from 2006. In our other markets of North Georgia, western North Carolina, east Tennessee and coastal Georgia, loans were up \$26 million, \$33 million, \$39 million and \$58 million, respectively.

Average interest-earning assets for the year increased \$1.2 billion, or 20%, over 2006. The increase reflects the acquisitions and core loan growth in 2006, as well as a 23% increase in the investment securities portfolio. The majority of the increase in interest-earning assets was funded by interest-bearing sources, as the increase in average interest-bearing liabilities for the year was \$1.1 billion over 2006. The average yield on interest-earning assets for 2007 was 7.79% up from 7.60% in 2006 reflecting the effect of higher short-term interest rates on United’s prime-based loans.

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

For 2007, 2006 and 2005, United’s net interest spread was 3.34%, 3.50% and 3.47%, respectively, while the net interest margin was 3.88%, 4.05% and 3.85%, respectively. Both the net interest margin and net interest spread fell in 2007 due to the increase in nonperforming assets, aggressive competitive pricing for deposits and the effect of the Federal Reserve’s action in lowering short-term rates in the second half of 2007 on United’s slightly asset-sensitive balance sheet. During most of the second half of 2007, there was an imbalance between LIBOR and retail certificate of deposit (“CD”) rates, which did not allow us to lower CD rates proportionately with the Fed Rate movements. This contributed to our margin compression in 2007. In 2006, United was able to significantly increase its liquidity by

gathering CDs at rates below comparable wholesale borrowings. Because United entered into 2007 with excess liquidity, we were able to avoid some of the aggressive CD pricing, and related margin compression, by allowing higher priced, non-relationship CDs to leave the bank in favor of lower priced wholesale borrowings.

The average rate on interest-bearing liabilities for 2007 was 4.45%, up from 4.10%, reflecting the effect of rising rates on United's floating rate liabilities, higher deposit pricing and a changing deposit mix with a higher portion of our overall funding coming from interest-bearing sources.

The following table shows the relationship between interest revenue and interest expense and the average balances of interest-earning assets and interest-bearing liabilities.

Table 2 - Average Consolidated Balance Sheet and Net Interest Margin Analysis  
For the Years Ended  
December 31,  
(In thousands, taxable  
equivalent)

	2007			2006			2005		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans (1)(2)	\$ 5,734,608	\$ 481,590	8.40%	\$ 4,800,981	\$ 394,439	8.22%	\$ 4,061,091	\$ 278,158	6.85%
Taxable securities (3)	1,236,595	64,377	5.21	995,172	47,149	4.74	940,411	40,195	4.27
Tax-exempt securities (1)(3)	41,340	2,826	6.84	46,725	3,240	6.93	48,790	3,433	7.04
Federal funds sold and other interest-earning assets	58,357	2,124	3.64	34,605	1,867	5.40	58,761	2,439	4.15
Total interest-earning assets	7,070,900	550,917	7.79	5,877,483	446,695	7.60	5,109,053	324,225	6.35
Non-interest-earning assets:									
Allowance for loan losses	(81,378)			(59,376)			(50,710)		
Cash and due from banks	135,021			122,268			105,488		
Premises and equipment	164,153			123,865			105,433		
Other assets (3)	441,834			222,908			202,936		
Total assets	\$ 7,730,530			\$ 6,287,148			\$ 5,472,200		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW	\$ 1,406,655	\$ 45,142	3.21%	\$ 1,115,434	\$ 30,549	2.74%	\$ 978,046	\$ 16,390	1.68
Money market	399,838	15,396	3.85	202,477	7,496	3.70	162,848	2,804	1.72
Savings deposits	188,560	1,653	.88	172,698	928	.54	175,648	791	.45
Time deposits less than \$100,000	1,619,279	79,333	4.90	1,410,869	61,676	4.37	1,066,734	32,334	3.03
Time deposits greater than \$100,000	1,377,915	71,467	5.19	1,134,414	54,304	4.79	708,081	25,083	3.54
Brokered deposits	337,376	16,600	4.92	334,243	14,344	4.29	319,372	9,551	2.99

Total interest-bearing deposits	5,329,623	229,591	4.31	4,370,135	169,297	3.87	3,410,729	86,953	2.55
Federal funds purchased, repurchase agreements, & other short-term borrowings	308,372	16,236	5.27	140,544	7,319	5.21	157,137	5,304	3.38
Federal Home Loan Bank advances	455,620	22,013	4.83	465,820	23,514	5.05	750,841	26,633	3.55
Long-term debt	122,555	8,594	7.01	112,135	8,685	7.75	111,869	8,536	7.63
Total borrowed funds	886,547	46,843	5.28	718,499	39,518	5.50	1,019,847	40,473	3.97
Total interest-bearing liabilities	6,216,170	276,434	4.45	5,088,634	208,815	4.10	4,430,576	127,426	2.88
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	699,002			647,300			592,355		
Other liabilities	72,587			44,268			31,960		
Total liabilities	6,987,759			5,780,202			5,054,891		
Shareholders' equity	742,771			506,946			417,309		
Total liabilities and shareholders' equity	\$ 7,730,530			\$ 6,287,148			\$ 5,472,200		
Net interest revenue		\$ 274,483			\$ 237,880			\$ 196,799	
Net interest-rate spread			3.34%			3.50%			3.47%
Net interest margin (4)			3.88%			4.05%			3.85%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans.

The rate used was 39%, reflecting the statutory federal rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized losses of \$8.1 million, \$17.5 million and \$2.7 million in 2007, 2006 and

2005, respectively, are included in other assets for purposes of this presentation.

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

The following table shows the relative effect on net interest revenue of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities.

Table 3 - Change in Interest Revenue and Interest Expense  
(in thousands, taxable equivalent)

	2007 Compared to 2006			2006 Compared to 2005		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	\$ 78,233	\$ 8,918	\$ 87,151	\$ 55,504	\$ 60,777	\$ 116,281
Taxable securities	12,241	4,987	17,228	2,429	4,525	6,954
Tax-exempt securities	(370)	(44)	(414)	(143)	(50)	(193)
Federal funds sold and other interest-earning assets	999	(742)	257	(1,177)	605	(572)
Total interest-earning assets	91,103	13,119	104,222	56,613	65,857	122,470
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	8,802	5,791	14,593	2,567	11,592	14,159
Money Market	7,588	312	7,900	819	3,873	4,692
Savings deposits	92	633	725	(13)	150	137
Time deposits less than \$100,000	9,716	7,941	17,657	12,377	16,965	29,342
Time deposits greater than \$100,000	12,357	4,806	17,163	18,453	10,768	29,221
Brokered deposits	136	2,120	2,256	463	4,330	4,793
Total interest-bearing deposits	38,691	21,603	60,294	34,666	47,678	82,344
Federal funds purchased, repurchase agreements & other short-term borrowings	8,798	119	8,917	(610)	2,625	2,015
Federal Home Loan Bank advances	(507)	(994)	(1,501)	(12,133)	9,014	(3,119)
Long-term debt	769	(860)	(91)	20	129	149
Total borrowed funds	9,060	(1,735)	7,325	(12,723)	11,768	(955)
Total interest-bearing liabilities	47,751	19,868	67,619	21,943	59,446	81,389
Increase in net interest revenue	\$ 43,352	\$ (6,749)	\$ 36,603	\$ 34,670	\$ 6,411	\$ 41,081

Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Provision for Loan Losses



Excluding the \$18 million special provision for fraud-related loan losses, the provision for loan losses was \$37.6 million in 2007, compared with \$14.6 million in 2006 and \$12.1 million in 2005. As a percentage of average outstanding loans, the provision was .66%, .30% and .30%, respectively, in 2007, 2006 and 2005. The ratio of net loan charge-offs to average outstanding loans for 2007, excluding the \$18 million in fraud-related charge-offs, was .38%, compared with .12% for 2006 and .14% for 2005. The provision for loan losses for each year is the amount management believes is necessary to position the allowance for loan losses at an amount adequate to absorb losses inherent in the loan portfolio as of the balance sheet date. The increase in the provision for loan losses in 2007 reflects the weak housing market and its effect on United's residential construction portfolio, primarily in the Atlanta Region market.

The provision for loan losses is based on management's evaluation of inherent risks in the loan portfolio and the corresponding analysis of the allowance for loan losses. Additional discussions on loan quality and the allowance for loan losses are included in the Asset Quality section of this report, Note 1 to the Consolidated Financial Statements, and above in the Critical Accounting Policies section of this report.

## Fee Revenue

Fee revenue for 2007 was \$62.7 million, compared with \$49.1 million in 2006 and \$46.1 million in 2005. The following table presents the components of fee revenue.

Table 4 - Fee Revenue  
For the Years Ended December 31,  
(in thousands)

	2007	2006	2005	Change 2007-2006
Service charges and fees	\$ 31,433	\$ 27,159	\$ 25,137	16%
Mortgage loan and related fees	8,537	7,303	7,330	17
Consulting fees	8,946	7,291	6,609	23
Brokerage fees	4,095	3,083	2,570	33
Securities gains (losses), net	3,182	(643)	(809)	
Losses on prepayment of borrowings	(2,242)	(636)	-	
Other	8,700	5,538	5,311	57
Total fee revenue	\$ 62,651	\$ 49,095	\$ 46,148	28

Comparability between current and prior years is affected by the acquisitions completed over the last 36 months. Earnings for acquired companies are included in consolidated earnings after their respective acquisition dates.

Service charges and fees of \$31.4 million were up \$4.3 million, or 16%, from 2006. This increase was primarily due to growth in transactions and new accounts from our core deposit programs, growth in fees on deposit accounts, and cross-selling of other products and services. The growth in the number of accounts and higher transaction activity was reflected in the increase in ATM and debit card revenue that was up \$1.5 million, or 26% from 2006. With the growth in the customer base, service charges and fees on deposit accounts for 2006 increased 8% from 2005.

Mortgage loan and related fees of \$8.6 million were up \$1.2 million, or 17%, from 2006. In 2007, United closed 2,234 mortgage loans totaling \$410 million compared with 2,117 loans totaling \$365 million in 2006. Substantially all these originated residential mortgages were sold into the secondary market, including the right to service the loans.

Consulting fees of \$8.9 million were up \$1.6 million, or 23%, from 2006. The increase was primarily due to the continued growth in risk management and strategic bank assessment services practices at our Brintech subsidiary.

Brokerage fees increased \$1.0 million, or 33% from 2006. The increase in brokerage fees for each year was due to strong market activity and growth in customers, particularly from 401(k) rollovers.

United incurred net securities gains of \$3.2 million during 2007, which resulted from balance sheet management activities. The 2007 securities gains allowed us to reduce our long-term borrowing costs by prepaying a Federal Home Loan Bank advance. In 2006, similar balance sheet management activities resulted in \$643,000 in net securities losses, and \$636,000 in losses from the prepayment of Federal Home Loan Bank advances.

Other fee revenue of \$8.7 million increased \$3.2 million, or 57%, from 2006. The increase was primarily due to an additional investment in BOLI. In April 2007, United purchased \$50 million in BOLI which added \$2.1 million to other fee revenue in 2007.

## Operating Expense

Operating expenses were \$190.1 million in 2007 as compared to \$162.1 million in 2006 and \$140.8 million in 2005. The following table presents the components of operating expenses.

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Table 5 - Operating Expenses  
For the Years Ended December 31,  
(in thousands)

	2007	2006	2005	Change 2007-2006
Salaries and employee benefits	\$ 115,153	\$ 100,964	\$ 84,854	14%
Communications and equipment	15,483	15,071	13,157	3
Occupancy	13,613	11,632	10,835	