UNITED COMMUNITY BANKS INC
Form 10-K
February 28, 2014

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, 2013

Commission File Number 001-35095

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

Georgia (State or other jurisdiction of incorporation or organization)	58-1807304 (I.R.S. Employer Identification No.)
125 Highway 515 East, Blairsville, Georgia (Address of principal executive offices)	30512 (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 x No o

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller Reporting Company	o

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

State the aggregate market value of the voting and non-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: $709,568,000 (based on shares held by non-affiliates at $12.42 per share, the closing stock price on the Nasdaq stock market on June 30, 2013).

As of January 31, 2014, 59,438,488 shares of common stock were issued and outstanding including 43,372,615 voting shares and 11,065,873 non-voting shares. Also outstanding were presently exercisable options to acquire 361,122 shares, presently exercisable warrants to acquire 1,631,674 shares and 237,825 shares issuable under United Community Banks, Inc.'s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2014 Annual Meeting of Shareholders 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, as amended (the "BHC Act"), 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 (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, their contribution has primarily been to provide United access to new markets with attractive organic 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.

To emphasize its commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of separate "community banks", which as of December 31, 2013, operated at 102 locations throughout north Georgia, the Atlanta-Sandy Springs-Roswell, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina, east and central Tennessee and the Greenville-Anderson-Mauldin, South Carolina metropolitan statistical area. In 2012, United expanded into Greenville, South Carolina by opening a loan production office which has subsequently been converted to a full-service branch. 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 "Community Bank 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.

The Bank, through its full-service retail mortgage lending division, United Community Mortgage Services ("UCMS"), is approved as a seller/servicer for the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and provides fixed and adjustable-rate home mortgages. During 2013, the Bank originated $297 million of residential mortgage loans throughout its footprint in Georgia, North Carolina, Tennessee and South Carolina for the purchase of homes and to refinance existing mortgage debt. Substantially all of these mortgages were sold into the secondary market without recourse to the Bank, other than for breaches of warranties.

The Bank owns an insurance agency, United Community Insurance Services, Inc. ("UCIS"), known as United Community Advisory Services, which is a subsidiary of the Bank. United also owns a captive insurance subsidiary, United Community Risk Management Services, Inc. ("UCRMSI") that provides risk management services for United's subsidiaries.

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

Recent Developments

Preferred Stock Redemptions. On December 31, 2013, United redeemed all of its outstanding Series A Non-Cumulative Preferred Stock (the "Series A Preferred Stock") in the principal amount of $217,000. The redemption price for shares of the Series A Preferred Stock was the stated value of $10 per share, plus any accrued and unpaid dividends that had been earned thereon through the redemption date. Following the redemption, there are no shares of United’s Series A Preferred Stock outstanding.

On December 27, 2013, United redeemed $75 million of its $180 million in outstanding Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the “Series B Preferred Stock”). The Series B Preferred Stock was originally issued to the U.S. Department of the Treasury (“Treasury”) under the Troubled Asset Relief Program Capital Purchase Program (the “CPP”). In the redemption, shares of the Series B Preferred Stock were redeemed from third parties that purchased the securities from Treasury in a private placement. The redemption price for shares of the Series B Preferred Stock called for redemption was the stated liquidation value of $1,000 per share, plus accrued and unpaid dividends that had been earned thereon to, but not including, the redemption date. As of December 31, 2013, $105 million of United’s Series B Preferred Stock was outstanding. The remaining $105 million of United’s Series B Preferred Stock was redeemed on January 10, 2014 on comparable terms. United funded both redemptions by utilizing cash on hand, cash dividends from the Bank and short-term debt.

Termination of Memorandums of Understanding. In December 2013, the Georgia Department of Banking and Finance (the “DBF”) and the Federal Deposit Insurance Corporation (the “FDIC”) terminated their informal memorandum of understanding with the Bank (the “Bank MOU”). The Bank MOU, which was entered into in April 2010, required, among other things, that the Bank maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of at least 10% and prohibited the Bank from declaring or paying any cash dividends to United without the prior approval of the DBF and the FDIC.

In January 2014, the Federal Reserve Bank of Atlanta and the DBF terminated their informal memorandum of understanding with United (the "Holding Company MOU"). The Holding Company MOU, which was entered into in November 2011, provided, among other things, that United could not incur additional indebtedness, pay cash dividends, make payments on its trust preferred securities or subordinated indebtedness or repurchase outstanding stock without prior approval of the Federal Reserve Bank of Atlanta and the DBF.

Reverse Stock Split

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

Forward-Looking Statements

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

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following factors:

- our ability to maintain profitability;
- our ability to fully realize our deferred tax asset balances, including net operating loss carry-forwards;
- the condition of the banking system and financial markets;
- our ability to raise capital as may be necessary;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets;
- the accounting and reporting policies of United;
- if our allowance for loan losses is not sufficient to cover actual loan losses;
- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- competition from financial institutions and other financial service providers;

risks with respect to future expansion and acquisitions;

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

the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and related regulations and other changes in financial services laws and regulations;

the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution;

regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur;

the risk that we may be required to increase the valuation allowance on our deferred tax asset in future periods;

the risk that we could have an "ownership change" under Section 382 of the Internal Revenue Code, which could impair our ability to timely and fully realize our deferred tax asset balance; and

the risk that we could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

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Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission (the “SEC”). United cautions that the foregoing list of factors is not exclusive, and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-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 Board of Governors of the Federal Reserve System (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 its market areas, which include north Georgia, the Atlanta-Sandy Springs-Roswell, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina, east and central Tennessee and the Greenville-Anderson-Mauldin, South Carolina metropolitan statistical area, 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 table on the following page displays the respective percentage of total bank and thrift deposits for the last five years in each county where the Bank has deposit operations. The table also indicates the Bank’s 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 of each year. 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				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
Atlanta, Georgia MSA										
Bartow	11 %	9 %	12 %	9 %	8 %	3	4	3	4	5
Carroll	7	6	6	5	4	5	6	6	7	7
Cherokee	4	5	4	4	4	9	9	9	9	9
Cobb	3	3	3	3	3	11	10	10	10	7
Coweta	2	2	2	2	3	11	10	10	10	10
Dawson	36	36	36	30	29	1	1	1	1	1
DeKalb	1	1	1	1	1	18	18	21	21	18
Douglas	2	2	2	1	1	12	12	11	13	13
Fayette	7	7	8	9	11	5	6	5	4	4
Forsyth	7	6	3	2	3	6	7	11	13	11
Fulton	1	1	1	1	1	20	20	20	18	20
Gwinnett	3	3	3	3	3	7	8	7	8	7
Henry	6	5	4	4	4	6	7	7	9	8
Newton	3	3	3	3	3	8	8	8	8	9
Paulding	4	5	5	3	2	9	6	7	8	12
Pickens	6	4	3	2	2	5	6	7	7	7
Rockdale	12	12	12	12	12	4	4	4	4	3
Walton	2	1	2	1	1	10	10	10	10	10
Gainesville, Georgia MSA										
Hall	12	12	14	14	13	4	5	3	3	4
North Georgia										
Chattooga	43	40	40	39	40	1	1	1	1	1
Fannin	50	49	52	49	50	1	1	1	1	1
Floyd	15	16	16	14	13	4	2	1	3	3
Gilmer	26	25	25	15	14	2	2	2	2	2
Habersham	23	22	20	16	14	2	2	2	3	3
Jackson	7	6	6	5	4	7	6	7	8	8
Lumpkin	29	29	29	28	29	2	2	2	2	1
Rabun	14	13	12	11	10	3	3	5	5	5
Towns	50	48	41	37	27	1	2	2	2	2
Union	84	83	84	86	88	1	1	1	1	1
White	48	44	46	43	39	1	1	1	1	1
Tennessee										
Blount	1	1	2	2	3	12	11	11	11	11
Bradley	5	5	5	5	5	7	7	7	7	7
Knox	1	1	1	1	1	30	26	23	25	16
Loudon	15	13	14	14	16	3	3	3	3	3
McMinn	—	3	2	2	3	—	9	9	9	9
Monroe	3	4	4	3	4	8	7	7	8	7
Roane	9	8	8	8	10	5	6	6	6	4
Coastal Georgia										

Chatham	2	1	1	1	1	9	10	10	10	11
Glynn	12	12	18	15	13	2	3	2	3	3
Ware	3	3	4	4	7	9	9	9	8	7
North Carolina										
Avery	16	16	18	17	15	4	2	1	1	4
Cherokee	35	35	29	29	34	1	1	1	1	1
Clay	44	45	48	49	51	1	1	1	1	1
Graham	71	71	72	72	74	1	1	1	1	1
Haywood	11	10	10	11	12	6	5	5	5	4
Henderson	3	3	3	3	3	10	11	11	11	11
Jackson	28	25	25	25	24	1	1	1	1	1
Macon	7	8	8	8	9	5	5	6	5	4
Mitchell	34	36	37	34	32	1	1	1	1	1
Swain	17	21	25	30	28	2	2	2	2	2
Transylvania	14	15	14	13	14	3	3	3	4	3
Watauga	2	2	1	1	2	11	12	12	11	11
Yancey	20	18	20	19	17	2	2	2	2	4

Loans

The Bank makes both secured and unsecured loans to individuals, and businesses. Secured loans include first and second real estate mortgage loans and commercial loans secured by non-real estate assets. The Bank also makes direct installment loans to consumers on both a secured and unsecured basis. At December 31, 2013, commercial (secured by real estate), commercial (commercial and industrial), commercial construction, residential mortgage, residential construction, and consumer installment loans represented approximately 41%, 11%, 3%, 30%, 8% and 7%, 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 (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.
Commercial (commercial and industrial)	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and other non-real estate assets); use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payments; declines in general economic conditions.
Commercial construction	Inadequate long-term financing arrangements; inventory levels; cost overruns, changes in market demand for property.
Residential mortgage	Loan portfolio concentrations; changes in general economic conditions or in the local economy; loss of borrower's employment; insufficient collateral value due to decline in property value.
Residential construction	Inadequate long-term financing arrangements; inventory levels; cost overruns, changes in market demand for property; rising interest rates.
Consumer installment	Loss of borrower's employment; changes in local economy; the inability to monitor collateral.

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 their credit history, net worth, income and liquidity. Secured loans are made to persons who are well established and have the credit history, net worth, collateral, and cash flow to support the loan. Exceptions to the Bank's policies are permitted on a case-by-case basis. Major policy exceptions require the approving officer to document the reason for the exception. Loans exceeding the lending officer's credit limit must be approved through the credit approval process involving Regional Credit Managers. Consumer loans are approved through the centralized consumer credit centers.

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 Credit

Administration as authorized by the Bank's Board of Directors. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by Credit Administration as authorized by the Bank's Board of Directors. At December 31, 2013, the Bank's legal lending limit was $215 million; however, the Board of Directors has established an internal lending limit of $25 million. All loans to borrowers for any individual real estate project that exceeds $15 million or whose total aggregate borrowing relationship exceed $20 million require the approval of two Bank directors and must be reported quarterly to the Bank's Board of Directors for ratification.

Commercial Lending

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

Consumer Credit Center

United has implemented a centralized consumer credit center that provides underwriting, regulatory disclosure and document preparation for all consumer loan requests originated by the bank's market lenders. Requests are processed through an automated loan origination software platform.

Loan Review and Nonperforming 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 generally 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 source of repayment, different loans in a relationship can be assigned different risk ratings. Under United's 10-tier loan grading system for commercial loans, 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. The entire 10-grade rating scale provides 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)	Loans in this category are presently protected from apparent loss; however weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.
8 (Substandard)	These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. There is the distinct possibility that United will sustain some loss if deficiencies are not corrected. If possible, immediate corrective action is taken.
9 (Doubtful)	Specific weaknesses characterized as Substandard that are severe enough to make collection in full highly questionable and improbable. There is no reliable secondary source of full repayment.
10 (Loss)	Loans categorized as Loss have the same characteristics as Doubtful, however, probability of loss is certain. Loans classified as Loss are charged-off.

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

In addition, Credit Administration, with supervision and input from Accounting, prepares a quarterly analysis to determine the adequacy of the Allowance for Credit Losses ("ACL"). The ACL is comprised of the allowance for loan losses and the allowance for unfunded commitments. The allowance for loan losses analysis starts with total loans and subtracts loans fully secured by deposit accounts at the Bank, which effectively have no risk of loss. Next, all loans that are considered impaired are individually reviewed and assigned a specific reserve if one is warranted. Most collateral dependent impaired loans with specific reserves are charged down to net realizable value. 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, weighted toward the most recent quarters, and adjusted to reflect current economic conditions. Loss factors for these loans are determined based on historical loss experience by type of loan. The unallocated portion of the allowance is maintained due to imprecision in estimating loss factors and economic and other conditions that cannot be entirely quantified in the analysis.

Asset/Liability Committee

United's Asset Liability Management Committee ("ALCO") is composed of executive officers and the Treasurer of United. ALCO is charged with managing the assets and liabilities of United and the Bank. ALCO's primary role is to balance asset growth and income generation with the prudent management of interest rate risk, market risk and liquidity risk and with the need to maintain appropriate levels of capital. ALCO directs the Bank's overall balance sheet strategy, including the acquisition and investment of funds. At regular meetings, the committee reviews the interest rate sensitivity and liquidity positions, including stress scenarios, the net interest margin, the investment portfolio, the funding mix and other variables, such as 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 the 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 balance income generation with liquidity, interest rate sensitivity, pledging and regulatory needs. The Chief Financial Officer and the Treasurer of United administer the policy, and it is reviewed from time to time by United's ALCO and the Board of Directors. Portfolio activity, composition, and performance are reviewed and approved periodically by United's Board of Directors or a committee thereof.

Employees

As of December 31, 2013, United and its subsidiaries had 1,472 full-time equivalent employees. Neither United nor any of its subsidiaries are a party to any collective bargaining agreement and management believes that employee relations are good.

Available Information

United's Internet website address is www.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 SEC.

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 Federal Reserve under the BHC 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 BHC 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 BHC 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 BHC Act.

Under this legislation, the Federal Reserve 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 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, east and central Tennessee and Greenville, South Carolina; neither the North Carolina Banking Commission, the Tennessee Department of Financial Institutions (the “TDFI”), nor the South Carolina Commissioner of Banking 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 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. 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, a state bank with negative retained earnings may declare dividends by first obtaining the written permission of the DBF. If a state bank has positive retained earnings, it may declare a dividend without DBF approval if it 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.

Under rules adopted by the Federal Reserve in November 2011, known as the Comprehensive Capital Analysis and Review ("CCAR") Rules, bank holding companies with $50 billion or more of total assets are required to submit annual capital plans to the Federal Reserve and generally may pay dividends and repurchase stock only under a capital plan as to which the Federal Reserve has not objected. The CCAR rules will not apply to United for so long as our total consolidated assets remain below $50 billion. However, it is anticipated that United capital ratios will be important factors considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practices.

Due to our accumulated deficit (negative retained earnings), the Bank does not have the ability to pay cash dividends to United in 2014 without the approval of the DBF. During the fourth quarter of 2013, the Bank paid a cash dividend of $50.0 million to United. United did not pay cash dividends on its common stock in 2013.

Capital Adequacy. Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

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 to risk-weighted assets of 8%; and (2) a minimum ratio of Tier 1 capital to risk-weighted assets of 4%. In addition, the Federal Reserve and the FDIC have established a minimum 3% leverage ratio of Tier 1 capital to quarterly average total assets for the most highly-rated banks and bank holding companies. “Total capital” is composed of Tier 1 capital and Tier 2 capital. “Tier 1 capital” includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets. “Tier 2 capital” includes, among other things, perpetual preferred stock and related surplus not meeting the Tier 1 capital definition, qualifying mandatorily convertible debt securities, qualifying subordinated debt and allowances for possible loan and lease losses, subject to limitations. 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 Federal Reserve will require a bank holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The FDIC, the Office of the Comptroller of the Currency (the “OCC”) and the Federal Reserve require banks to maintain capital well above minimum levels.

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. The FDIC is required to resolve a bank when its ratio of tangible equity to total assets 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 1 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 1 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 1 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 1 risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a “critically undercapitalized” institution has a ratio of tangible equity to total assets 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 allow it to “downgrade” an institution to a lower capital category based on supervisory factors other than capital.

As of December 31, 2013, the FDIC categorized the Bank as “well-capitalized” under current regulations.

In July 2013, the Federal Reserve published the Basel III Capital Rules establishing a new comprehensive capital framework applicable to all depository institutions, bank holding companies with total consolidated assets of $500 million or more and all and savings and loan holding companies except for those that are substantially engaged in insurance underwriting or commercial activities (collectively, "banking organizations"). The rules implement the December 2010 framework proposed by the Basel Committee on Banking Supervision (the "Basel Committee"), known as "Basel III", for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules substantially revise the foregoing risk-based capital requirements applicable to bank holding companies and depository institutions, including United and the Bank, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules:

define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios;

address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords;

introduce a new capital measure called "common equity Tier 1" ("CET1");

specify that Tier 1 capital consists of CET1 and "additional Tier 1 capital" instruments meeting specified requirements; and

implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

The Basel III Capital Rules are effective for United and the Bank on January 1, 2015 subject to a phase in period.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require United and the Bank to maintain;

a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation);

a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);

a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and

a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority’s risk-adjusted measure for market risk).

The initial minimum capital ratios as of January 1, 2015 will be as follows: (i) 4.5% CET1 to risk-weighted assets, (ii) 6.0% Tier 1 capital to risk-weighted assets, and (iii) 8.0% total capital to risk-weighted assets.

Effective January 1, 2015, the Basel III Capital Rules will also revise the FDIC’s current “prompt corrective action” regulations by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8.0% (as compared to the current 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, certain banking organizations, including United and the Bank, may make a one-time permanent election to continue to exclude these items. United and the Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of United’s available-for-sale securities portfolio. The Basel III Capital Rules also eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital of bank holding companies. Instruments issued prior to May 19, 2010 will be grandfathered for bank holding companies with consolidated assets of $15 billion or less (subject to the 25% of Tier 1 capital limit).

The “capital conservation buffer” is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Management believes that, as of December 31, 2013, United and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Consumer Protection Laws. The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau ("CFPB"), and giving it the power to promulgate and enforce federal consumer protection laws. Depository institutions are subject to the CFPB's rule writing authority, and existing federal bank regulatory agencies retain examination and enforcement authority for such institutions. The CFPB and United's existing federal regulator, the FDIC, are focused on the following:

risks to consumers and compliance with the federal consumer financial laws

the markets in which firms operate and risks to consumers posed by activities in those markets;

depository institutions that offer a wide variety of consumer financial products and services;

depository institutions with a more specialized focus; and

non-depository companies that offer one or more consumer financial products or services.

Stress Testing. As required by the Dodd-Frank Act, the federal bank regulatory agencies have implemented stress testing requirements for certain financial institutions, including bank holding companies and state chartered banks, with more than $10 billion in total consolidated assets. Although these requirements do not apply to institutions with $10 billion or less in total consolidated assets, the federal bank regulatory agencies emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential impact of adverse market conditions or outcomes on the organization's financial condition. Based on this regulatory guidance, United and the Bank will be expected to consider the institution's interest rate risk management, commercial real estate concentrations and other credit-related information, and funding and liquidity management during this analysis of adverse outcomes.

Volcker Rule. The Dodd-Frank Act amended the BHC Act to require the federal bank regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule". The Federal Reserve adopted final rules implementing the Volcker Rule on December 10, 2013. Although United continues to evaluate the impact of the Volcker Rule and the final rules adopted by the Federal Reserve thereunder, United does not currently anticipate that the Volcker Rule will have a material effect on its operations and the operations of its subsidiaries, including the Bank, as United does not engage in businesses prohibited by the Volcker Rule. United may incur costs to adopt additional policies and systems to ensure compliance with the Volcker Rule.

Durbin Amendment. The Dodd-Frank Act included provisions which restrict interchange fees to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. This statutory provision is known as the "Durbin Amendment". The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rules, interchange fees for debit card transactions were capped at $0.21 plus five basis points in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. Another related rule also permits an additional $0.01 per transaction "fraud prevention adjustment" to the interchange fee if certain Federal Reserve standards are implemented, including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, only apply to debit card issuers with $10 billion or more in total consolidated assets.

Incentive Compensation. The federal bank regulatory agencies have issued guidance on incentive compensation policies (the "Incentive Compensation Guidance") intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the institution's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of financial institutions, such as United, that are not "large, complex banking organizations." These reviews will be tailored to each financial institution based on the scope and complexity of the institution's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the financial institution's supervisory ratings, which can affect the institution's ability to make acquisitions and take other actions. Enforcement actions may be taken against a financial institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the institution's safety and soundness and the institution is not taking prompt and effective measures to correct the deficiencies.

The federal bank regulatory agencies have proposed rule-making implementing provisions of the Dodd-Frank Act to prohibit incentive-based compensation plans that expose "covered financial institutions" to inappropriate risks. Covered financial institutions are institutions that have over $1 billion in assets and offer incentive-based compensation programs. The proposed rules would:

provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks,

be compatible with effective internal controls and risk management, and

be supported by strong corporate governance, including active and effective oversight by the organization's board of directors and appropriate policies, procedures and monitoring.

The scope and content of federal bank regulatory agencies' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect United's ability to hire, retain and motivate its key employees.

Commercial Real Estate. The federal bank regulatory agencies, including the FDIC, restrict concentrations in commercial real estate lending and have noted that recent increases in banks' commercial real estate concentrations have created safety and soundness concerns in the current economic downturn. The regulatory 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.

Source of Strength Doctrine. Federal Reserve regulations and policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, United is expected to commit resources to support the Bank.

Loans. Inter-agency guidelines adopted by federal bank regulatory agencies 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.

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 regulatory agencies 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. Treasury has issued a number of implementing regulations which apply various requirements of the USA Patriot Act of 2001 to 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.

Future Legislation. Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of United and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of United or any of its subsidiaries. With the current economic environment, the nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

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 executive officers of United, and their ages, positions with United, past five year employment history and terms of office as of February 1, 2014, are as follows:

Name (age)	Position with United and Employment History	Officer of United Since
Jimmy C. Tallent (61)	President, Chief Executive Officer and Director	1988
H. Lynn Harton (52)	Executive Vice President and Chief Operating Officer; prior to joining United was Executive Vice President and Special Assistant to the Chief Executive Officer of Toronto-Dominion Bank (2010 - 2012); President and Chief Executive Officer of South Financial Group (2009 - 2010); Chief Risk and Chief Credit Officer of South Financial Group (2007 - 2009);	2012
Rex S. Schuette (64)	Executive Vice President and Chief Financial Officer	2001
David Shearrow (54)	Executive Vice President and Chief Risk Officer	2007
Bill M. Gilbert (61)	Director of Banking; Regional President of North Georgia and Coastal Georgia (2011 - 2013); Senior Vice President of Retail Banking (2003 - 2011)	2003
Tim Schools (44)	Chief Strategy Officer; Regional President of North Carolina and Tennessee (November 2011 through 2012); prior to joining United was President (2008 - 2010) and Chief Operating Officer (2007 – 2008) of American Savings Bank, F.S.B.	2011

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.

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 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.

As a financial services company, adverse conditions in the general business or economic environment could have a material adverse effect on our financial condition and results of operations.

Adverse changes in business and economic conditions generally or specifically in the markets in which we operate could adversely impact our business, including causing one or more of the following negative developments:

a decrease in the demand for loans and other products and services offered by us;

a decrease in the value of our loans secured by residential or commercial real estate;

a permanent impairment of our assets, such as our deferred tax assets; or

an increase in the number of customers or other counterparties who default on their loans or other obligations to us, which could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

For example, if we are unable to continue to generate sufficient taxable income in the future, then we may not be able to fully realize the benefits of our deferred tax assets. Such a development or one or more other negative developments resulting from adverse conditions in the general business or economic environment, some of which are described above, could have a material adverse effect on our financial condition and results of operations.

The results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy were to deteriorate.

We regularly perform an internal analysis of our capital position. Our analysis is based on the tests that were administered to the nation's nineteen largest banks by Treasury in connection with its Supervisory Capital Assessment Program ("SCAP"). Under the stress test, we apply many of the same methodologies, but less severe loss assumptions than Treasury applies in its program, to estimate our loan losses (loan charge-offs), resources available to absorb those losses and any necessary additions to capital that would be required under the "more adverse" stress test scenario. As a result, our estimates for loan losses are lower than those suggested by the SCAP assumptions.

We have also calculated our loss estimates based on the SCAP test, and while we believe we have appropriately applied Treasury's assumptions in performing this internal stress test, results of this test may not be comparable to the results of stress tests performed and publicly released by Treasury, and the results of this test may not be the same as if the test had been performed by Treasury.

The results of these stress tests involve many assumptions about the economy and future loan losses and default rates, and may not accurately reflect the impact on our financial condition if the economy were to deteriorate. Any deterioration of the economy could result in credit losses significantly higher, with a corresponding impact on our financial condition and capital, than those predicted by our internal stress test.

Our industry and business may be adversely affected by conditions in the financial markets and economic conditions generally.

In recent years, we have faced a challenging and uncertain economic environment, including a major recession in the U.S. economy from which it is slowly recovering. A return of recessionary conditions and/or further deterioration of national economic conditions could adversely affect the financial condition and operating performance of financial institutions. Specifically, declines in real estate values and sales volumes and increased unemployment levels may result in higher than expected loan delinquencies, increases in levels of non-performing and classified assets and a decline in demand for products and services offered by financial institutions. While economic conditions in the markets in which we operate, the U.S. and worldwide have improved since the recession, there can be no assurance that this improvement will continue. Uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits, which could cause us to incur losses and may adversely affect our results of operations and financial condition.

Our ability to raise additional capital may be limited, which could affect our liquidity and be dilutive to existing shareholders.

We may be required or choose to raise additional capital, including for strategic, regulatory or other reasons. Depending on the capital markets, traditional sources of capital may not be available to us on reasonable terms if we needed to raise additional capital. In such case, there is no guarantee that we will be able to successfully raise additional capital at all or on terms that are favorable or otherwise not dilutive to existing shareholders.

Capital resources and liquidity are essential to our businesses and could be negatively impacted by disruptions in our ability to access other sources of funding.

Capital resources and liquidity are essential to the Bank. We depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include traditional and brokered deposits, inter-bank borrowings, Federal Funds purchased, repurchase agreements and Federal Home Loan Bank advances. We also raise funds from time to time in the form of either short-or long-term borrowings or equity issuances.

Our capital resources and liquidity could be negatively impacted by disruptions in our ability to access these sources of funding. The cost of brokered and other out-of-market deposits and potential future regulatory limits on the interest rate we pay for brokered deposits could make them unattractive sources of funding. Further, factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to access sources of funds. Other financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy generally and there may not be a viable market for raising short or long-term debt or equity capital. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could be developed if we are downgraded or put on (or remain on) negative watch by the rating agencies, we suffer a decline in the level of our business activity or regulatory authorities take significant action against us, among other reasons.

Among other things, if we fail to remain “well-capitalized” for bank regulatory purposes, because we do not qualify under the minimum capital standards or the FDIC otherwise downgrades our capital category, it could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and trust preferred securities, and our ability to make acquisitions, and we would not be able to accept brokered deposits without prior FDIC approval. To be “well-capitalized,” a bank must generally maintain a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. In addition, our regulators may require us to maintain higher capital levels. Once implemented, the Basel III Capital Rules will require even higher ratios. Our failure to remain “well-capitalized” or to maintain any higher capital requirements imposed on us could negatively affect our business, results of operations and financial condition.

If we are unable to raise funds using the methods described above, we would likely need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations and financial condition.

In addition, United is a legal entity separate and distinct from the Bank and depends on subsidiary service fees and dividends from the Bank to fund its payment of dividends to its common and preferred shareholders and of interest and principal on its outstanding debt and trust preferred securities. The Bank is also subject to other laws that authorize regulatory authorities to prohibit or reduce the flow of funds from the Bank to United and the Bank’s negative retained earnings position requires written consent of the Bank’s regulators before it can pay a dividend. Any inability of United to pay its obligations, or need to defer the payment of any such obligations, could have a material adverse effect on our business, operations, financial condition, and the value of our common stock.

Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which we are perceived in such markets, may adversely affect financial condition or results of operations.

In general, the amount, type and cost of our funding, including from other financial institutions, the capital markets and deposits, directly impacts our operating costs and our assets growth and therefore, can positively or negatively affect our financial condition or results of operations. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, our operating losses, our ability to remain "well capitalized," events that adversely impact our reputation, enforcement actions, disruptions in the capital markets, events that adversely impact the financial services industry, changes affecting our assets, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments. Also, we compete for funding with other financial institutions, many of which are substantially larger, and have more capital and other resources than we do. In addition, as some of these competitors consolidate with other financial institutions, their competitive advantages may increase. Competition from these institutions may also increase the cost of funds.

Our business is subject to the success of the local economies and real estate markets in which we operate.

Our success significantly depends on the growth in population, income levels, loans and deposits and on stability in real estate values in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally do not improve significantly, our business may be adversely affected. If market and economic conditions deteriorate, this may lead to valuation adjustments on our loan portfolio and losses on defaulted loans and on the sale of other real estate owned. Additionally, such adverse economic conditions in our market areas, specifically decreases in real estate property values due to the nature of our loan portfolio, more than 80% of which is secured by real estate, could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of more diverse economies.

Our concentration of residential construction and development loans is subject to unique risks that could adversely affect our results of operations and financial condition.

Our residential construction and development loan portfolio was $329 million at December 31, 2013, comprising 8% of total loans. Residential construction and development loans are often riskier than home equity loans or residential mortgage loans to individuals. Poor economic conditions could result in decreased demand for residential housing, which, in turn, would adversely affect the development and construction efforts of residential real estate developer borrowers. Consequently, economic downturns adversely affect the ability of residential real estate developer borrowers to repay these loans and the value of property used as collateral for such loans. A sustained weak economy could also result in higher levels of nonperforming loans in other categories, such as commercial and industrial loans, which may result in additional losses. As a result, these loans could represent higher risk due to slower sales and reduced cash flow that affect the borrowers' ability to repay on a timely basis which could result in a sharp increase in our total net charge-offs and require us to significantly increase our allowance for loan losses, any of which could have a material adverse effect on our financial condition or results of operations.

Our concentration of commercial real estate loans is subject to risks that could adversely affect our results of operations and financial condition.

Our commercial real estate loan portfolio was $1.76 billion at December 31, 2013, comprising 41% of total loans. Commercial real estate loans typically involve larger loan balances than compared to residential mortgage loans. The repayment of loans secured by commercial real estate is dependent upon both the successful operation of the commercial project and the business operated out of that commercial real estate site, as over half of the commercial real estate loans are for owner-occupied properties. If the cash flows from the project are reduced or if the borrower's business is not successful, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may be subject to adverse conditions in the real estate market or economy. In addition, many economists believe that deterioration in income producing commercial real estate is likely to worsen as vacancy rates continue to rise and absorption rates of existing square footage and/or units continue to decline. As a result, these loans could represent higher risk due to slower sales and reduced cash flow that affect the borrowers' ability to repay on a timely basis, could result in a sharp increase in our total net charge-offs and could require us to significantly increase our allowance for loan losses, any of which could have a material adverse effect on our financial condition or results of operations.

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

Changes in prevailing interest rates may negatively affect the level of our net interest revenue, the primary component of our net income. Federal Reserve policies, including interest rate policies, determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which affect our net interest revenue. 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. Changes in the interest rates may also negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

United's reported financial results depend on the accounting and reporting policies of United, the application of which requires significant assumptions, estimates and judgments.

United's accounting and reporting policies are fundamental to the methods by which we record and report our financial condition and results of operations. United's management must make significant assumptions and estimates and exercise significant judgment in selecting and applying many of these accounting and reporting policies so they comply with accounting principles generally accepted in the United States of America ("GAAP") and reflect management's judgment of the most appropriate manner to report United's financial condition and results. In some cases, management must select a policy from two or more alternatives, any of which may be reasonable under the circumstances, which may result in United reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting United's financial condition and results. They require management to make difficult, subjective and complex assumptions, estimates and judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to the allowance for loan losses, fair value measurement, and income taxes. Because of the uncertainty of assumptions and estimates involved in these matters, United may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the reserve provided; significantly decrease the carrying value of loans, foreclosed property or other assets or liabilities to reflect a reduction in their fair value; or, significantly increase or decrease accrued taxes and the value of our deferred tax assets.

If our allowance for credit losses is not sufficient to cover actual loan losses, earnings would decrease.

Our 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. We may experience significant loan losses which would have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectability 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. We maintain an allowance for credit losses in an attempt to cover any probable incurred loan losses in the loan portfolio. In determining the size of the allowance, our management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and real estate values, trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. As a result of these considerations, we have from time to time increased our allowance for credit losses. For the year ended December 31, 2013, we recorded a provision for credit losses of $65.5 million compared to $62.5 million and $251 million for the years ended December 31, 2012 and 2011, respectively. 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.

We 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 financial condition or results of operations.

Competition from financial institutions and other financial service providers may adversely affect our profitability.

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with 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 our market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. Many of our 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. We may face a competitive disadvantage as a result of our smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although we compete by concentrating marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, customer loyalty can be easily influenced by a competitor’s new products and our strategy may or may not continue to be successful.

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

We may engage in de novo branch expansion and, if the appropriate business opportunity becomes available, we may seek to acquire other financial institutions or parts of those institutions, including in FDIC-assisted transactions. 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;

the loss of key employees and customers of an acquired branch or institution;

the difficulty or failure to successfully integrate the acquired financial institution or portion of the institution; and

the temporary disruption of our business or the business of the acquired institution.

Changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our financial condition and results of operations.

We and our subsidiary bank are heavily regulated by federal and state authorities. This regulation is designed primarily to protect depositors, federal deposit insurance funds and the banking system as a whole, but not shareholders. Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. Any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

Federal and state regulators have the ability to impose or request that we consent to substantial sanctions, restrictions and requirements on our banking and nonbanking subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors' resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. In particular, institutions that are not sufficiently capitalized in accordance with regulatory standards may also face capital directives or prompt corrective action. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Enforcement actions, including the imposition of monetary penalties, may have a material impact on our financial condition or results of operations, and damage to our reputation, and loss of our holding company status. In addition, compliance with any such action could distract management's attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital. Closure of the Bank would result in a total loss of your investment.

The short-term and long-term impact of the changing regulatory capital requirements is uncertain.

In July 2013, the Federal Reserve published the Basel III Capital Rules, which substantially changed the regulatory risk-based capital rules applicable to United and the Bank. The Basel III Capital Rules include new minimum risk-based capital and leverage ratios, which will be phased in beginning January 1, 2015, and modify the capital and asset definitions for purposes of calculating those ratios. Among other things, as of January 1, 2015, the Basel III Capital Rules establish a new common equity Tier 1 minimum capital requirement of 4.5%, a higher minimum Tier 1capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0%. In addition, the Basel III Capital Rules provide, to be considered "well-capitalized", a new common equity Tier 1 capital requirement of 6.5% and a higher Tier 1capital to risk-weighted assets requirement of 8.0% that will be phased in and fully effective as of January 1, 2015. Moreover, the Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of an additional 2.5% of common equity Tier 1 capital in addition to the 4.5% minimum common equity Tier 1 requirement and the other amounts necessary to the minimum risk-based capital requirements that will be phased in and fully effective in 2019.

The application of the more stringent capital requirements described above could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in additional regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements under the Basel III Capital Rules could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in us modifying our business strategy and could limit our ability to pay dividends.

Our ability to fully utilize deferred tax assets could be impaired.

We reported a net deferred tax asset of $259 million as of December 31, 2013, which includes approximately $220 million of deferred tax benefits related to federal and state operating loss carry-forwards. Our ability to use such assets, including the reversal or partial release of the valuation allowance, is dependent on our ability to generate future earnings within the operating loss carry-forward periods, which are generally 20 years. If we do not realize taxable earnings within the carry-forward periods, our deferred tax asset would be permanently impaired. Additionally, our ability to use such assets to offset future tax liabilities could be permanently impaired if cumulative common stock transactions over a rolling three-year period resulted in an ownership change under Section 382 of the Internal Revenue Code. There is no guarantee that our tax benefits preservation plan will prevent us from experiencing an ownership change under Section 382. Our inability to utilize these deferred tax assets (benefits) would have a material adverse effect on our financial condition and results of operations.

We could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. Any change in enacted tax laws, rules or regulatory or judicial interpretations, any adverse outcome in connection with tax audits in any jurisdiction or any change in the pronouncements relating to accounting for income taxes could adversely affect our effective tax rate, tax payments and results of operations. In addition, changes in enacted tax laws, such as adoption of a lower income tax rate in any of the jurisdictions in which we operate, could impact our ability to obtain the future tax benefits represented by our deferred tax assets.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure we use, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or users. Such problems could jeopardize the security of our customers personal information and other information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, or inhibit current and potential customers from our Internet banking services, any of all of which could have a material adverse effect on our results of operations and financial condition. Although we have security measures designed to mitigate the possibility of break-ins, breaches and other disruptive problems, including firewalls and penetration testing, there can be no assurance that such security measures will be effective in preventing such problems.

Our lack of geographic diversification increases our risk profile.

Our operations are located principally in Georgia, western North Carolina and east Tennessee. As a result of this geographic concentration, our results depend largely upon economic and business conditions in this area. Deterioration in economic and business conditions in our service area could have a material adverse impact on the quality of our loan portfolio and the demand for our products and services, which in turn may have a material adverse effect on our results of operations.

Our interest-only home equity lines of credit expose us to increased lending risk.

At December 31, 2013, we had $441 million of home equity line of credit loans, which represented 10% of our loan portfolio as of that date. Historically, United's home equity lines of credit generally had a 35 month or 10 year draw period with interest-only payment requirements for the term of the loan, a balloon payment requirement at the end of the draw period. Since June 2012 new home equity lines of credit generally have a 10 year interest only draw period followed by a 15 year amortized repayment period for any outstanding balance at the 10 year conversion date. United continues to offer a home equity line of credit with a 35 month draw period with interest-only payment requirements for the term of the loan with a balloon payment requirement at the end of the draw period. All home equity line of credit products, historically and currently available, have a maximum 80% combined loan to value ratio. Loan to value ratios are established on a case by case basis considering the borrower's credit profile and the collateral type – primary or secondary residence. These loans are also secured by a first or second lien on the underlying home.

In the case of interest-only loans, a borrower's monthly payment is subject to change when the loan converts to fully-amortizing status. Since the borrower's monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, the borrower might not be able to afford the increased monthly payment. In addition, interest-only loans have a large, balloon payment at the end of the loan term, which the borrower may be unable to pay. Also, real estate values may decline, dramatically reducing or even eliminating the borrower's equity, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off their mortgage obligations. The risks can be magnified by United's limited ability to monitor the delinquency status of the first lien on the collateral. For these reasons, home equity lines of credit are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of losses. The Bank mitigates these risks in its underwriting by calculating the fully amortizing principal and interest payment assuming 100% utilization and using that amount to determine the borrower's ability to pay.

We rely on third parties to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

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

ITEM 2. PROPERTIES.

The executive offices of United are located at 125 Highway 515 East, Blairsville, Georgia. United owns this property. The Bank conducts business from facilities primarily owned by the Bank or its subsidiaries, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Bank provides services or performs operational functions at 117 locations, of which 99 are owned and 18 are leased under operating leases. Note 9 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. Additionally, in the ordinary course of business, United and the Bank are subject to regulatory examinations and investigations. Based on our knowledge and advice of counsel, in the opinion of management, there is no such pending or threatened legal matter 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 2013.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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, 2013 was 17.75. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2013 and 2012.

	2013				2012			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$ 11.57	$ 9.59	$ 11.34	195,803	$ 10.30	$ 6.37	$ 9.75	142,987
Second quarter	12.94	10.15	12.42	184,922	9.77	7.76	8.57	145,132
Third quarter	16.04	12.15	14.99	341,270	8.82	6.12	8.39	329,475
Fourth quarter	18.56	14.82	17.75	421,948	9.49	8.01	9.44	202,871

At January 31, 2014, there were approximately 6,700 record shareholders and 16,650 beneficial shareholders of United's common stock.

Dividends. No cash or stock dividends were declared on United's common stock during 2013 or 2012. Federal and state laws and regulations impose restrictions on the ability of United and the Bank to pay dividends.

Additional information regarding dividends is included in Note 21 to the consolidated financial statements, under the heading of "Supervision and Regulation" in Part I of this report and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Dividends."

Share Repurchases. 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. In addition, United may withhold a sufficient number of restricted stock shares at the time of vesting to cover payroll tax withholdings at the election of the restricted stock recipient. In 2013 and 2012, 24,374 and 19,806 shares, respectively, were withheld to cover payroll taxes owed at the time of restricted stock vesting. No shares were delivered to exercise stock options in 2013 or 2012.

On December 31, 2013, United redeemed all of its outstanding Series A Preferred Stock in the principal amount of $217,000. The redemption price for shares of the Series A Preferred Stock was the stated value of $10 per share, plus any accrued and unpaid dividends that had been earned thereon through the redemption date. Following the redemption, there are no shares of United's Series A Preferred Stock outstanding.

On December 27, 2013, United redeemed $75 million of its $180 million in outstanding Series B Preferred Stock. The redemption price for shares of the Series B Preferred Stock called for redemption was the stated liquidation value of $1,000 per share, plus any accrued and unpaid dividends that had been earned thereon to, but not including, the redemption date. As of December 31, 2013, $105 million of United's Series B Preferred Stock was outstanding. The remaining $105 million of United's Series B Preferred Stock was redeemed on January 10, 2014 on comparable terms.

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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, 2008 and ending on December 31, 2013.

FIVE YEAR CUMULATIVE TOTAL RETURNS*
COMPARISON OF UNITED COMMUNITY BANKS, INC.,
NASDAQ STOCK MARKET (U.S.) INDEX
AND NASDAQ BANK INDEX
As of December 31

	Cumulative Total Return *					
	2008	2009	2010	2011	2012	2013
United Community Banks, Inc.	$ 100	$ 25	$ 15	$ 10	$ 14	$ 27
Nasdaq Stock Market (U.S.) Index	100	144	168	165	191	265
Nasdaq Bank Index	100	81	91	80	92	128

* Assumes $100 invested on December 31, 2008 in United's common stock and above noted indexes. Total return includes reinvestment of dividends at the closing stock price of the common stock on the dividend payment date and the closing values of stock and indexes as of December 31 of each year.

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ITEM 6. SELECTED FINANCIAL DATA.
For the Years Ended December 31,

(in thousands, except per share data; taxable equivalent)	2013	2012	2011	2010
INCOME SUMMARY				
Net interest revenue(1)	$219,641	$229,758	$238,670	$244,637
Operating provision for credit losses (2)	65,500	62,500	251,000	234,750
Operating fee revenue (1)(3)	56,598	56,112	44,907	46,963
Total operating revenue (2)(3)	210,739	223,370	32,577	56,850
Operating expenses (4)	174,304	186,774	261,599	242,952
Loss on sale of nonperforming assets	—	—	—	45,349
Operating income (loss) from continuing operations before taxes	36,435	36,596	(229,022)	(231,451
Operating income taxes	(236,705)	2,740	(2,276)	73,218
Net operating income (loss) from continuing operations	273,140	33,856	(226,746)	(304,669
Gain from acquisition, net of tax	—	—	—	—
Noncash goodwill impairment charges	—	—	—	(210,590
Severance cost, net of tax benefit	—	—	—	—
Fraud loss provision and subsequent recovery, net of tax benefit	—	—	—	11,750
Net income (loss) from discontinued operations	—	—	—	(101
Gain from sale of subsidiary, net of income taxes and selling costs	—	—	—	1,266
Net income (loss)	273,140	33,856	(226,746)	(502,344
Preferred dividends and discount accretion	12,078	12,148	11,838	10,316
Net income (loss) available to common shareholders	$261,062	$21,708	$(238,584)	$(512,660
PERFORMANCE MEASURES				
Per common share:				
Diluted operating earnings (loss) from continuing operations (2)(3)(4)	$4.44	$.38	$(5.97)	$(16.64
Diluted earnings (loss) from continuing operations	4.44	.38	(5.97)	(27.15
Diluted earnings (loss)	4.44	.38	(5.97)	(27.09
Book value	11.30	6.67	6.62	15.40
Tangible book value (6)	11.26	6.57	6.47	14.80
Key performance ratios:				
Return on common equity (5)	46.72	5.43	(93.57) %	(85.08
Return on assets	3.86	.49	(3.15)	(6.61
Net interest margin	3.30	3.51	3.52	3.59
Operating efficiency ratio from continuing operations (3)(4)	63.14	65.43	92.27	98.98
Equity to assets	10.35	8.47	7.75	10.77
Tangible equity to assets (6)	10.31	8.38	7.62	8.88
Tangible common equity to assets (6)	7.55	5.54	3.74	6.52
Tangible common equity to risk-weighted assets (6)	13.17	8.26	8.25	5.64
ASSET QUALITY *				
Non-performing loans	$26,819	$109,894	$127,479	$179,094
Foreclosed properties	4,221	18,264	32,859	142,208
Total non-performing assets (NPAs)	31,040	128,158	160,338	321,302

Allowance for loan losses	76,762	107,137		114,468		174,695
Operating net charge-offs (2)	93,710	69,831		311,227		215,657
Allowance for loan losses to loans	1.77	2.57	%	2.79	%	3.79
Operating net charge-offs to average loans (2)	2.22	1.69		7.33		4.42
NPAs to loans and foreclosed properties	.72	3.06		3.87		6.77
NPAs to total assets	.42	1.88		2.30		4.42
AVERAGE BALANCES ($ in millions)						
Loans	$4,254	$4,166		$4,307		$4,961
Investment securities	2,190	2,089		1,999		1,453
Earning assets	6,649	6,547		6,785		6,822
Total assets	7,074	6,865		7,189		7,605
Deposits	6,027	5,885		6,275		6,373
Shareholders' equity	732	582		557		819
Common shares - Basic (thousands)	58,787	57,857		39,943		18,925
Common shares - Diluted (thousands)	58,845	57,857		39,943		18,925
AT YEAR END ($ in millions)						
Loans *	$4,329	$4,175		$4,110		$4,604
Investment securities	2,312	2,079		2,120		1,490
Total assets	7,425	6,802		6,983		7,276
Deposits	6,202	5,952		6,098		6,469
Shareholders' equity	796	581		575		469
Common shares outstanding (thousands)	59,432	57,741		57,561		18,937

(1) Hedge ineffectiveness gains and losses were reclassified from operating fee revenue to net interest revenue in 2013 to correspond with the location where interest accruals on the hedged items are reported. All prior periods have been adjusted to reflect a consistent presentation. (2) Excludes the subsequent recovery of $11.8 million in previously recognized fraud related loan losses in 2010. (3) Excludes the gain from acquisition of $11.4 million, net of income tax expense of $4.3 million in 2009. (4) Excludes goodwill impairment charges of $211 million and $95 million in 2010 and 2009, respectively, and severance costs of $2.9 million, net of income tax benefit of $1.1 million in 2009. (5) Net income (loss) available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (6) Excludes effect of acquisition related intangibles and associated amortization.
* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Selected Financial Data (Continued)

(in thousands, except per share data; taxable equivalent)	2013 Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2012 Fourth Quarter	Third Quarter	Sec Qua
INCOME SUMMARY							
Interest revenue(1)	$61,695	$61,426	$62,088	$62,114	$64,450	$66,092	$66,
Interest expense(1)	5,816	7,169	7,157	7,540	8,306	8,113	10,
Net interest revenue	55,879	54,257	54,931	54,574	56,144	57,979	56,
Provision for credit losses	3,000	3,000	48,500	11,000	14,000	15,500	18,
Fee revenue(1)	13,519	14,225	15,943	12,911	14,645	13,156	13,
Total revenue	66,398	65,482	22,374	56,485	56,789	55,635	51,
Operating expenses	41,614	40,097	48,823	43,770	50,726	44,783	44,
Income (loss) before income taxes	24,784	25,385	(26,449)	12,715	6,063	10,852	7,3
Income tax expense (benefit)	8,873	9,885	(256,413)	950	802	284	894
Net income	15,911	15,500	229,964	11,765	5,261	10,568	6,4
Preferred dividends and discount accretion	2,912	3,059	3,055	3,052	3,045	3,041	3,0
Net income available to common shareholders	$12,999	$12,441	$226,909	$8,713	$2,216	$7,527	$3,4
PERFORMANCE MEASURES							
Per common share:							
Diluted income	$.22	$.21	$3.90	$.15	$.04	$.13	$.06
Book value	11.30	10.99	10.90	6.85	6.67	6.75	6.6
Tangible book value (2)	11.26	10.95	10.82	6.76	6.57	6.64	6.4
Key performance ratios:							
Return on common equity (3)(4)	7.52 %	7.38 %	197.22 %	8.51 %	2.15 %	7.43 %	3.5
Return on assets (4)	.86	.86	13.34	.70	.31	.63	.37
Net interest margin (4)	3.26	3.26	3.33	3.37	3.45	3.64	3.4
Efficiency ratio	60.02	58.55	68.89	64.97	71.69	62.95	63.
Equity to assets	11.62	11.80	11.57 (5)	8.60	8.63	8.75	8.3
Tangible equity to assets (2)	11.59	11.76	11.53 (5)	8.53	8.55	8.66	8.2
Tangible common equity to assets (2)	8.99	9.02	8.79 (5)	5.66	5.67	5.73	5.4
Tangible common equity to risk-weighted assets (2)	13.17	13.34	13.16	8.45	8.26	8.44	8.3
ASSET QUALITY *							
Non-performing loans	$26,819	$26,088	$27,864	$96,006	$109,894	$115,001	$115
Foreclosed properties	4,221	4,467	3,936	16,734	18,264	26,958	30,
Total non-performing assets (NPAs)	31,040	30,555	31,800	112,740	128,158	141,959	145
Allowance for loan losses	76,762	80,372	81,845	105,753	107,137	107,642	112
Net charge-offs	4,445	4,473	72,408	12,384	14,505	20,563	18,
Allowance for loan losses to loans	1.77 %	1.88 %	1.95 %	2.52 %	2.57 %	2.60 %	2.7
Net charge-offs to average loans (4)	.41	.42	6.87	1.21	1.39	1.99	1.8
NPAs to loans and foreclosed properties	.72	.72	.76	2.68	3.06	3.41	3.5
NPAs to total assets	.42	.42	.44	1.65	1.88	2.12	2.1

AVERAGE BALANCES ($ in millions)							
Loans	$4,315	$4,250	$4,253	$4,197	$4,191	$4,147	$4,1
Investment securities	2,280	2,178	2,161	2,141	2,088	1,971	2,1
Earning assets	6,823	6,615	6,608	6,547	6,482	6,346	6,6
Total assets	7,370	7,170	6,915	6,834	6,778	6,648	6,9
Deposits	6,190	5,987	5,983	5,946	5,873	5,789	5,8
Shareholders’ equity	856	846	636	588	585	582	583
Common shares - basic (thousands)	59,923	59,100	58,141	58,081	57,971	57,880	57,
Common shares - diluted (thousands)	59,925	59,202	58,141	58,081	57,971	57,880	57,
AT PERIOD END ($ in millions)							
Loans *	$4,329	$4,267	$4,189	$4,194	$4,175	$4,138	$4,1
Investment securities	2,312	2,169	2,152	2,141	2,079	2,025	1,9
Total assets	7,425	7,243	7,163	6,849	6,802	6,699	6,7
Deposits	6,202	6,113	6,012	6,026	5,952	5,823	5,8
Shareholders’ equity	796	852	829	592	581	585	576
Common shares outstanding (thousands)	59,432	59,412	57,831	57,767	57,741	57,710	57,

(1) Hedge ineffectiveness gains and losses were reclassified from fee revenue to interest revenue and interest expense in the fourth quarter of 2013 to correspond with the location where interest accruals on the hedged items are reported. All prior periods have been adjusted to reflect a consistent presentation. (2) Excludes effect of acquisition related intangibles and associated amortization. (3) Net income available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (4) Annualized. (5) Calculated as of period-end.
* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

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.

Operating earnings (loss) and operating earnings (loss) per diluted share are non-GAAP performance measures. United's management believes that operating performance measures are useful in analyzing the Company's financial performance trends since they exclude items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on pages 31 through 33.

United's financial condition improved considerably in 2013, as several of its strategic goals were achieved. We reduced nonperforming assets to pre-crisis levels, restored our deferred tax asset, and redeemed $75 million of our Series B Preferred Stock which was followed by the redemption of the remaining $105 million in early January 2014. Loans grew despite the fragile economic conditions in United's markets and intense competition for quality loans. United reported net income of $273 million in 2013 compared to net income of $33.9 million in 2012. Diluted earnings per common share was $4.44 for the year ended December 31, 2013, compared with diluted earnings per common share of $.38 for 2012. Net income and earnings per share for the year ended December 31, 2013 were elevated by the recognition of substantial tax benefits with the reversal of United's deferred tax valuation allowance in the second quarter of 2013. The effect of the tax benefit on net income was partially offset by higher net charge-offs resulting from the accelerated disposition of classified assets in the second quarter of 2013.

United's approach to managing through the challenging economic cycle has been to aggressively deal with credit problems and dispose of troubled assets quickly, taking losses as necessary. United's provision for credit losses was $65.5 million in 2013 compared with $62.5 million in 2012. Net charge-offs for 2013 were $93.7 million compared with $69.8 million in 2012. During the second quarter of 2013, in conjunction with a large bulk sale transaction, classified loans totaling approximately $131 million were sold for approximately $77.5 million, increasing net charge-offs by $53.5 million.

Since disposing of a significant amount of problem assets in the first quarter of 2011, United's allowance for loan losses analysis has indicated a lower allowance requirement each quarter than the previous quarter, resulting in provisions for loan losses being at or below the amount of net charge-offs. The only exception was the third quarter of 2011 due to the classification of United's then largest lending relationship. As United's historical loss experience and other credit measures have improved, the amount of estimated probable incurred losses in the loan portfolio, as measured by United's quarterly analysis of the allowance for credit losses, has decreased accordingly.

As of December 31, 2013, United's allowance for loan losses was $76.8 million, or 1.77% of loans compared to $107 million, or 2.57% of loans at the end of 2012. Nonperforming assets of $31.0 million, which excludes $3.00 million of assets that are covered by loss sharing agreements with the FDIC, were .42% of total assets at December 31, 2013, compared to 1.88% as of December 31, 2012.

Taxable equivalent net interest revenue was $220 million for 2013, compared to $230 million in 2012. The $10.1 million, or 4%, decrease in net interest revenue, was primarily the result of lower yields on the loan and securities portfolios, which were due to loan pricing competition and the reinvestment of maturing and called securities proceeds at lower interest rates. The decrease in interest revenue was partially offset by lower deposit interest expense.

Net interest margin decreased 21 basis points from 3.51% in 2012 to 3.30% in 2013 due primarily to lower yields on loans and securities. The 50 basis point decrease in the average loan yield and 25 basis point decrease in the average securities yield were partially offset by the 19 basis point reduction in the average rate paid on interest bearing deposits.

Fee revenue of $56.6 million was up $486,000, or 1%, from 2012. Overdraft fees declined $877,000, or 7%, which is consistent with the decline from 2011 to 2012. Overdraft fees have been on a declining trend. This decline was more than offset by a $1.40 million increase in ATM and debit card fee revenue. Mortgage loan and related fees decreased $558,000 compared to the prior year, due to lower origination volumes that were driven by interest rates. For 2013, brokerage fees increased $1.38 million, or 45%, compared to 2012, as United intensified its focus on growing this line of business.

For 2013, operating expenses of $174 million were down $12.5 million, or 7%, from 2012. United's focus on reducing costs and improving operating efficiency resulted in reductions of several expense categories in 2013. Foreclosed property costs of $7.87 million were $6.12 million lower in 2013, driven by decreased volumes partially due to the classified asset sales in the second quarter of 2013. Other expense of $15.2 million for 2013 was down $4.78 million compared to 2012 due to a $4.00 million litigation reserve established in 2012. Salaries and employee benefit costs of $96.2 million remained relatively flat year over year, as a lower headcount was offset by incentives paid for meeting financial targets and completing strategic initiatives.

Loans at December 31, 2013 were $4.33 billion, up $154 million from the end of 2012. A significant portion of the loan growth resulted from United's entrance into the Greenville, South Carolina and Nashville, Tennessee markets. These new markets added $88 million in loan growth in 2013. United's successful home equity line of credit promotion added another $56 million in new loans during the year. In addition, United purchased $202 million of indirect auto loans during 2013, which drove the increase in the consumer category. These increases more than offset the $131 million of classified loans sold in the second quarter bulk sale transaction. Deposits were up $249 million to $6.20 billion, as United focused on increasing low cost core transaction deposits which grew $224 million in 2013, excluding public funds deposits. At the end of 2013, total equity capital was $796 million, up $214 million from December 31, 2012, reflecting the earnings for the year and United's reversal of the deferred tax valuation allowance offset by the redemption of $75 million in preferred stock. At December 31, 2013, all of United's regulatory capital ratios were above well capitalized levels.

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 of America and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for the allowance for loan losses, fair value measurements and income taxes. 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 following accounting policies to be critical accounting policies:

Allowance for Credit Losses

The allowance for credit losses is an estimate and represents management's estimate of probable incurred credit losses in the loan portfolio and unfunded loan commitments. It consists of two components: the allowance for loan losses and the allowance for unfunded commitments. Estimating the amount of the allowance for credit 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, events 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 credit 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 is an estimate and consists of an allocated component and an unallocated component. The allocated component of the allowance for loan losses reflects probable incurred losses in the loan portfolio and is based on analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on impairment analyses of all nonaccrual loans over $500,000, accruing substandard loans in relationships over $2 million and troubled debt restructurings ("TDRs"), which are all considered impaired loans including certain primary home mortgages in the process of restructure. 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 weighted average of actual losses incurred over the prior eight quarters for each type of loan, updated quarterly. The weighted average is weighted toward the most recent quarters' loss experience. The historical loss experience is adjusted for known changes in economic trends, events and 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 quarterly. 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 incurred but unconfirmed 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. 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 losses incurred in the portfolio.

There are many factors affecting the allowance for credit losses; some are quantitative while others require qualitative judgment. Although management believes its processes for determining the allowance adequately considers 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 credit 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 Nonperforming Assets". Note 1 to the consolidated financial statements includes additional information on United's accounting policies related to the allowance for loan losses.

Fair Value Measurements

United's impaired loans and foreclosed assets may be measured and carried at fair value, the determination of which requires management to make assumptions, estimates and judgments. At December 31, 2013, the percentage of total assets measured at fair value was 25%. See Note 24 "Fair Value" in the consolidated financial statements herein for additional disclosures regarding the fair value of our assets and liabilities.

When a loan is considered individually impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost, fair value, less cost to sell, or listed selling price less cost to sell, following foreclosure. Fair value is defined by GAAP "as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets. It is not a forced transaction (for example, a forced liquidation or distress sale)." Although management believes its processes for determining the value of impaired loans and foreclosed properties are appropriate and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. In addition, because of subjectivity in fair value determinations, there may be grounds for differences in opinions, which may result in disagreements between management and the Bank's regulators, disagreements which could cause the Bank to change its judgments about fair value.

The fair values for available-for-sale and held-to-maturity securities are generally based upon quoted market prices or observable market prices for similar instruments. United utilizes a third-party pricing service to assist with determining the fair value of its securities portfolio. The pricing service uses observable inputs when available including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers. These values take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information. When market observable data is not available, which generally occurs due to the lack of liquidity for certain securities, the valuation of the security is subjective and may involve substantial judgment by management. As of December 31, 2013, United had $350,000 of available-for-sale securities valued using unobservable inputs. This amount represents less than .01% of total assets. United periodically reviews available-for-sale securities that are in an unrealized loss position to determine whether other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost-basis. The primary factors United considers in determining whether impairment is other-than-temporary are long term expectations and recent experience regarding principal and interest payments, and United's ability and intent to hold the security until the amortized cost basis is recovered.

United uses derivatives primarily to manage interest rate risk. The fair values of derivative financial instruments are determined based on quoted market prices, dealer quotes and internal pricing models that are primarily sensitive to market observable data. United mitigates the credit risk by subjecting counterparties to credit reviews and approvals similar to those used in making loans and other extensions of credit. In addition, certain counterparties are required to provide collateral to United when their unsecured loss positions exceed certain negotiated limits.

Income Tax Accounting

Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current or prior years. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of regulatory agencies and federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings.

At December 31, 2013, United reported a net deferred tax asset totaling $259 million, and a valuation allowance of $4.77 million. Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. United's management considers both positive and negative evidence. In making such judgments, significant weight is given to evidence that can be objectively verified.

Regulatory risk-based capital rules limit the amount of deferred tax assets that a bank or bank holding company can include in Tier 1 capital. Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the bank expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the bank's Tier 1 capital.

Mergers and Acquisitions

United selectively engages in the 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 markets with excellent opportunities for further organic growth.

United will continue to evaluate potential transactions as they are presented, including acquisitions of failed banks.

GAAP Reconciliation and Explanation

This Form 10-K contains non-GAAP financial measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others, the following: taxable equivalent interest revenue, taxable equivalent net interest revenue, operating provision for loan losses, operating fee revenue, total operating revenue, operating expense, operating income (loss), operating earnings (loss) per share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included on the tables on pages 31 through 33.

In 2010, United recorded a non-cash goodwill impairment charge of $211 million in the third quarter. Also in 2010, United received a partial recovery of $11.8 million, net of recovery costs, in the fourth quarter resulting from fraud losses incurred in 2007 relating to two failed real estate developments near Spruce Pine, North Carolina. In 2009, United recorded non-cash goodwill impairment charges of $25 million and $70 million during the third and first quarters, respectively. In addition, United recorded severance costs of $2.9 million during the first quarter of 2009 and a bargain purchase gain on the acquisition of Southern Community Bank in the amount of $11.4 million during the second quarter of 2009.

Net operating income (loss) excludes the effect of the goodwill impairment charge of $211 million and the $11.8 million fraud loss partial recovery in 2010; the goodwill impairment charges of $95 million, the $11.4 million bargain purchase gain on acquisition, and the $2.9 million in severance costs in 2009, because management believes that the circumstances leading to those items 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 loss 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 table contains a reconciliation of net operating income to GAAP net income.

(in thousands, except per share data; taxable equivalent)	2013	2012	For the Years Ended December 31, 2011	2010	2009
Interest revenue reconciliation					
Interest revenue - taxable equivalent	$ 247,323	$ 267,667	$ 304,308	$ 344,493	$ 404,961
Taxable equivalent adjustment	(1,483)	(1,690)	(1,707)	(2,001)	(2,132)
Interest revenue (GAAP)	$ 245,840	$ 265,977	$ 302,601	$ 342,492	$ 402,829
Net interest revenue reconciliation					
Net interest revenue - taxable equivalent	$ 219,641	$ 229,758	$ 238,670	$ 244,637	$ 244,834
Taxable equivalent adjustment	(1,483)	(1,690)	(1,707)	(2,001)	(2,132)
Net interest revenue (GAAP)	$ 218,158	$ 228,068	$ 236,963	$ 242,636	$ 242,702
Provision for credit losses reconciliation					
Operating provision for credit losses	$ 65,500	$ 62,500	$ 251,000	$ 234,750	$ 310,000
Partial recovery of special fraud-related loan loss	—	—	—	(11,750)	—
Provision for credit losses (GAAP)	$ 65,500	$ 62,500	$ 251,000	$ 223,000	$ 310,000
Fee revenue reconciliation					
Operating fee revenue	$ 56,598	$ 56,112	$ 44,907	$ 46,963	$ 51,357
Gain from acquisition	—	—	—	—	11,390
Fee revenue (GAAP)	$ 56,598	$ 56,112	$ 44,907	$ 46,963	$ 62,747
Total revenue reconciliation					
Total operating revenue	$ 210,739	$ 223,370	$ 32,577	$ 56,850	$ (13,809)
Taxable equivalent adjustment	(1,483)	(1,690)	(1,707)	(2,001)	(2,132)
Gain from acquisition	—	—	—	—	11,390
Partial recovery of special fraud-related loan loss	—	—	—	11,750	—
Total revenue (GAAP)	$ 209,256	$ 221,680	$ 30,870	$ 66,599	$ (4,551)
Expense reconciliation					
Operating expense	$ 174,304	$ 186,774	$ 261,599	$ 288,301	$ 217,050

Noncash goodwill impairment charge	—	—	—	210,590	95,000
Severance costs	—	—	—	—	2,898
Operating expense (GAAP)	$ 174,304	$ 186,774	$ 261,599	$ 498,891	$ 314,948
Income (loss) before taxes reconciliation					
Income (loss) before taxes	$ 36,435	$ 36,596	$ (229,022)	$ (231,451)	$ (230,859)
Taxable equivalent adjustment	(1,483)	(1,690)	(1,707)	(2,001)	(2,132)
Gain from acquisition	—	—	—	—	11,390
Noncash goodwill impairment charge	—	—	—	(210,590)	(95,000)
Severance costs	—	—	—	—	(2,898)
Partial recovery of special fraud-related loan loss	—	—	—	11,750	—
Income (loss) before taxes (GAAP)	$ 34,952	$ 34,906	$ (230,729)	$ (432,292)	$ (319,499)
Income tax expense (benefit) reconciliation					
Income tax expense (benefit)	$ (236,705)	$ 2,740	$ (2,276)	$ 73,218	$ (91,754)
Taxable equivalent adjustment	(1,483)	(1,690)	(1,707)	(2,001)	(2,132)
Gain from acquisition, tax expense	—	—	—	—	4,328
Severance costs, tax benefit	—	—	—	—	(1,101)
Income tax expense (benefit) (GAAP)	$ (238,188)	$ 1,050	$ (3,983)	$ 71,217	$ (90,659)

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UNITED COMMUNITY BANKS, INC.
Non-GAAP Performance Measures Reconciliation
Selected Financial Information - Continued

(in thousands, except per share data; taxable equivalent)	For the Years Ended December 31, 2013	2012	2011	2010	2009
Diluted earnings (loss) from continuing operations per common share reconciliation					
Diluted operating earnings (loss) from continuing operations per common share	$ 4.44	$ .38	$ (5.97)	$ (16.64)	$ (12.37)
Gain from acquisition	—	—	—	—	.58
Noncash goodwill impairment charge	—	—	—	(11.13)	(7.86)
Severance costs	—	—	—	—	(.15)
Partial recovery of special fraud-related loan loss	—	—	—	.62	—
Diluted earnings (loss) from continuing operations per common share (GAAP)	$ 4.44	$ .38	$ (5.97)	$ (27.15)	$ (19.80)
Book value per common share reconciliation					
Tangible book value per common share	$ 11.26	$ 6.57	$ 6.47	$ 14.80	$ 30.09
Effect of goodwill and other intangibles	.04	.10	.15	.60	11.69
Book value per common share (GAAP)	$ 11.30	$ 6.67	$ 6.62	$ 15.40	$ 41.78
Efficiency ratio from continuing operations reconciliation					
Operating efficiency ratio from continuing operations	63.14 %	65.43 %	92.27 %	98.98 %	73.97 %
Gain from acquisition	—	—	—	—	(2.77)
Noncash goodwill impairment charge	—	—	—	72.29	31.17
Severance costs	—	—	—	—	.95
Efficiency ratio from continuing operations (GAAP)	63.14 %	65.43 %	92.27 %	171.27 %	103.32 %
Average equity to assets reconciliation					
Tangible common equity to assets	7.55 %	5.54 %	3.74 %	6.52 %	6.15 %
Effect of preferred equity	2.76	2.84	3.88	2.36	2.18
Tangible equity to assets	10.31	8.38	7.62	8.88	8.33
Effect of goodwill and other intangibles	.04	.09	.13	1.89	2.79
Equity to assets (GAAP)	10.35 %	8.47 %	7.75 %	10.77 %	11.12 %

Tangible common equity to risk-weighted assets reconciliation										
Tangible common equity to risk-weighted assets	13.17	%	8.26	%	8.25	%	5.64	%	10.39	%
Effect of other comprehensive income	.39		.51		(.03	)	(.42	)	(.87	)
Effect of deferred tax limitation	(4.25	)	—		—		—		(1.27	)
Effect of trust preferred	1.04		1.15		1.18		1.06		.97	
Effect of preferred equity	2.38		4.24		4.29		3.53		3.19	
Tier I capital ratio (Regulatory)	12.73	%	14.16	%	13.69	%	9.81	%	12.41	%
Net charge-offs reconciliation										
Operating net charge-offs	$ 93,710		$ 69,831		$ 311,227		$ 215,657		$ 276,669	
Subsequent partial recovery of fraud-related charge-off	—		—		—		(11,750	)	—	
Net charge-offs (GAAP)	$ 93,710		$ 69,831		$ 311,227		$ 203,907		$ 276,669	
Net charge-offs to average loans reconciliation										
Operating net charge-offs to average loans	2.22	%	1.69	%	7.33	%	4.42	%	5.03	
Subsequent partial recovery of fraud-related charge-off	—		—		—		(.25	)	—	
Net charge-offs to average loans (GAAP)	2.22	%	1.69	%	7.33	%	4.17	%	5.03	

Table 1 (Continued) - Operating Earnings to GAAP Earnings Reconciliation - Quarterly Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2013 Fourth Quarter	2013 Third Quarter	2013 Second Quarter	2013 First Quarter	2012 Fourth Quarter	2012 Third Quarter	2012 Second Quarter	2012 First Quarter
Interest revenue reconciliation								
Interest revenue - taxable equivalent	$ 61,695	$ 61,426	$ 62,088	$ 62,114	$ 64,450	$ 66,092	$ 66,823	$ 70,302
Taxable equivalent adjustment	(380)	(370)	(368)	(365)	(381)	(419)	(444)	(446)
Interest revenue (GAAP)	$ 61,315	$ 61,056	$ 61,720	$ 61,749	$ 64,069	$ 65,673	$ 66,379	$ 69,856
Net interest revenue reconciliation								
Net interest revenue - taxable equivalent	$ 55,879	$ 54,257	$ 54,931	$ 54,574	$ 56,144	$ 57,979	$ 56,656	$ 58,979
Taxable equivalent adjustment	(380)	(370)	(368)	(365)	(381)	(419)	(444)	(446)
Net interest revenue (GAAP)	$ 55,499	$ 53,887	$ 54,563	$ 54,209	$ 55,763	$ 57,560	$ 56,212	$ 58,533
Total revenue reconciliation								
Total operating revenue	$ 66,398	$ 65,482	$ 22,374	$ 56,485	$ 56,789	$ 55,635	$ 51,703	$ 59,243
Taxable equivalent adjustment	(380)	(370)	(368)	(365)	(381)	(419)	(444)	(446)
Total revenue (GAAP)	$ 66,018	$ 65,112	$ 22,006	$ 56,120	$ 56,408	$ 55,216	$ 51,259	$ 58,797
Income (loss) before taxes reconciliation								
Income (loss) before taxes	$ 24,784	$ 25,385	$ (26,449)	$ 12,715	$ 6,063	$ 10,852	$ 7,393	$ 12,288

Taxable equivalent adjustment	(380)	(370)	(368)	(365)	(381)	(419)	(444)	(446)
Income (loss) before taxes (GAAP)	$ 24,404	$ 25,015	$ (26,817)	$ 12,350	$ 5,682	$ 10,433	$ 6,949	$ 11,842
Income tax expense (benefit) reconciliation								
Income tax expense (benefit)	$ 8,873	$ 9,885	$ (256,413)	$ 950	$ 802	$ 284	$ 894	$ 760
Taxable equivalent adjustment	(380)	(370)	(368)	(365)	(381)	(419)	(444)	(446)
Income tax expense (benefit) (GAAP)	$ 8,493	$ 9,515	$ (256,781)	$ 585	$ 421	$ (135)	$ 450	$ 314
Book value per common share reconciliation								
Tangible book value per common share	$ 11.26	$ 10.95	$ 10.82	$ 6.76	$ 6.57	$ 6.64	$ 6.48	$ 6.54
Effect of goodwill and other intangibles	.04	.04	.08	.09	.10	.11	.13	.14
Book value per common share (GAAP)	$ 11.30	$ 10.99	$ 10.90	$ 6.85	$ 6.67	$ 6.75	$ 6.61	$ 6.68
Average equity to assets reconciliation								
Tangible common equity to assets	8.99 %	9.02 %	8.79 %	5.66 %	5.67 %	5.73 %	5.45 %	5.33 %
Effect of preferred equity	2.60	2.74	2.74	2.87	2.88	2.93	2.79	2.75
Tangible equity to assets	11.59	11.76	11.53	8.53	8.55	8.66	8.24	8.08
Effect of goodwill and other intangibles	.03	.04	.04	.07	.08	.09	.09	.11
Equity to assets (GAAP)	11.62 %	11.80 %	11.57 %	8.60 %	8.63 %	8.75 %	8.33 %	8.19 %
Tangible common equity to risk-weighted								

assets reconciliation								
Tangible common equity to risk-weighted assets	13.17 %	13.34 %	13.16 %	8.45 %	8.26 %	8.44 %	8.37 %	8.21 %
Effect of other comprehensive income	.39	.49	.29	.49	.51	.36	.28	.10
Effect of deferred tax limitation	(4.25)	(4.72)	(4.99)	—	—	—	—	—
Effect of trust preferred	1.04	1.09	1.11	1.15	1.15	1.17	1.19	1.15
Effect of preferred equity	2.38	4.01	4.11	4.22	4.24	4.29	4.35	4.23
Tier I capital ratio (Regulatory)	12.73 %	14.21 %	13.68 %	14.31 %	14.16 %	14.26 %	14.19 %	13.69 %

Results of Operations

United reported net income of $273 million for the year ended December 31, 2013. This compared to net income of $33.9 million in 2012. Diluted earnings per common share for 2013 was $4.44. This compared to diluted earnings per common share for 2012 of $.38.

United's results for 2013 and 2011 included a few large items in operating earnings that are generally nonrecurring in nature that affect comparability between periods. Earnings for 2013 were significantly impacted by a large bulk sale of classified assets in the second quarter that resulted in a pre-tax loss of $26.8 million, which was more than offset by a $257 million credit to income tax expense resulting from the reversal of most of the valuation allowance on United's deferred tax assets. Additionally, in 2011, United's elevated provision for credit losses reflected the execution of a plan to dispose of a significant amount of problem assets following a recapitalization transaction completed in the first quarter. That plan included a bulk loan sale transaction which removed United's most challenging problem loans that resulted in a significant decrease in the level of problem assets. The disposition of problem assets in 2011 accelerated United's return to profitability.

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 optimal levels of revenue while balancing interest rate, credit, and liquidity risks. Taxable equivalent net interest revenue totaled $220 million in 2013, a decrease of $10.1 million, or 4%, from 2012. Taxable equivalent net interest revenue for 2012 decreased $8.91 million, or 4%, from 2011. The decrease in net interest revenue over the past two years was primarily due to lower yields on the securities and loan portfolios. Lower levels of average earning asset balances also contributed to the decrease in net interest revenue from 2011 to 2012. United continued its focus on loan and deposit pricing, in an effort to maintain a steady level of net interest revenue.

While average loans increased $88.6 million, or 2% from the prior year, the yield on loans for 2013 decreased 50 basis points from 2012, reflecting the continuing effect of the low interest rate environment and competition for a limited number of quality lending opportunities. Although residential real estate loans increased primarily as the result of the promotion of a new home equity line product that began in mid-2012 and the introduction of a new low-cost mortgage product in early 2013, the low introductory rate on these products also contributed to the lower yield on average loans.

Average interest-earning assets for the year increased $101 million, or 2%, from 2012 due primarily to the increase in average loans and securities. Average investment securities for 2013 increased $101 million from a year ago, however the average yield decreased 25 basis points as management was unable to reinvest the cash proceeds of maturing securities at yields comparable to those of the securities they replaced. To alleviate market and duration risk, United has focused on purchasing floating rate securities. The combined effect of lower loan and investment securities yields drove the average yield on interest-earning assets for 2013 to 3.72%, down 37 basis points from 4.09% in 2012. Partially offsetting the lower loan and securities yields was a higher average yield on other interest-earning assets, due primarily to the use of reverse repurchase agreements including collateral swap transactions where United enters into a repurchase agreement and reverse repurchase agreement simultaneously with the same counterparty subject to a master netting agreement. In these transactions, the offsetting balances are netted on the balance sheet.

Average interest bearing liabilities in 2013 decreased $152 million, or 3%, from the prior year as United was able to fund more of its balance sheet from noninterest bearing sources. Average noninterest bearing deposits increased $191 million from 2012 to 2013 allowing United to decrease interest bearing sources of funds. The average cost of interest bearing liabilities for 2013 was .56% compared to .75% for 2012, reflecting United's concerted efforts to reduce deposit pricing. Also contributing to the overall lower rate on interest bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United was able to reduce the effective rate on brokered deposits in 2013 to a negative .23% by swapping the fixed rate on longer-term brokered time deposits to LIBOR minus a spread.

The banking industry uses two key ratios to measure relative profitability of net interest revenue - the net interest spread and the net interest margin. The net interest spread measures the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and 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 overall balance sheet management activities 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.

During the fourth quarter 2013, United reclassified hedge ineffectiveness gains and losses from other fee revenue to the line within net interest revenue where interest on the related hedged item is reported. The reclassification of hedge ineffectiveness gains and losses added approximately 1 basis point to the margin for the year ended December 31, 2013. All prior amounts have been adjusted for a consistent presentation.

For 2013, 2012 and 2011, United's net interest spread was 3.16%, 3.34%, and 3.33%, respectively, while the net interest margin was 3.30%, 3.51%, and 3.52%, respectively. The decline in both ratios from 2012 to 2013 was due to lower yields on securities and loans, which were not completely offset by the decrease in rates paid for deposits and other interest bearing liabilities.

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)

	2013			2012			2011		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans (1)(2)	$4,254,159	$201,278	4.73%	$4,165,520	$217,705	5.23%	$4,307,111	$244,159	5.67%
Taxable securities (3)	2,169,024	40,331	1.86	2,065,162	43,657	2.11	1,973,678	55,251	2.80
Tax-exempt securities (1)(3)	21,228	1,354	6.38	23,759	1,565	6.59	25,693	1,651	6.43
Federal funds sold and other interest-earning assets	204,303	4,360	2.13	292,857	4,740	1.62	478,403	3,247	.68
Total interest-earning assets	6,648,714	247,323	3.72	6,547,298	267,667	4.09	6,784,885	304,308	4.49
Non-interest-earning assets:									
Allowance for loan losses	(95,411)			(114,647)			(145,656)		
Cash and due from banks	63,174			53,247			90,212		
Premises and equipment	167,424			172,544			178,061		
Other assets (3)	290,098			206,609			281,233		
Total assets	$7,073,999			$6,865,051			$7,188,735		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW	$1,285,842	$1,759	.14	$1,293,510	$2,049	.16	$1,348,493	$3,998	.30
Money market	1,315,385	2,210	.17	1,140,354	2,518	.22	993,871	5,456	.55
Savings deposits	244,725	133	.05	216,880	150	.07	195,468	234	.12
Time deposits less than $100,000	974,470	5,850	.60	1,170,202	9,788	.84	1,471,596	18,648	1.27

Time deposits greater than $100,000	654,102	5,115	.78	766,411	8,027	1.05	948,659	14,347	1.51
Brokered deposits	219,215	(501)	(.23)	155,902	1,282	.82	401,393	6,119	1.52
Total interest-bearing deposits	4,693,739	14,566	.31	4,743,259	23,814	.50	5,359,480	48,802	.91
Federal funds purchased, repurchase agreeements, and other short-term borrowings	66,561	2,071	3.11	80,593	2,987	3.71	102,727	4,250	4.14
Federal Home Loan Bank advances	32,604	68	.21	124,771	907	.73	47,220	2,042	4.32
Long-term debt	131,081	10,977	8.37	127,623	10,201	7.99	139,666	10,544	7.55
Total borrowed funds	230,246	13,116	5.70	332,987	14,095	4.23	289,613	16,836	5.81
Total interest-bearing liabilities	4,923,985	27,682	.56	5,076,246	37,909	.75	5,649,093	65,638	1.16
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	1,333,199			1,142,236			915,649		
Other liabilities	84,506			64,986			66,809		
Total liabilities	6,341,690			6,283,468			6,631,551		
Shareholders' equity	732,309			581,583			557,184		
Total liabilities and shareholders' equity	$7,073,999			$6,865,051			$7,188,735		
Net interest revenue		$219,641			$229,758			$238,670	
Net interest-rate spread			3.16%			3.34%			3.33%
Net interest margin (4)			3.30%			3.51%			3.52%

(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. Average pretax unrealized gains of $4.36 million, $23.6 million and $32.2 million in 2013, 2012 and 2011, 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)

	2013 Compared to 2012 Increase (decrease) due to changes in			2012 Compared to 2011 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	$ 4,552	$ (20,979)	$ (16,427)	$ (7,696)	$ (18,758)	$ (26,454)
Taxable securities	2,118	(5,444)	(3,326)	2,461	(14,055)	(11,594)
Tax-exempt securities	(163)	(48)	(211)	(127)	41	(86)
Federal funds sold and other interest-earning assets	(1,656)	1,276	(380)	(1,641)	3,134	1,493
Total interest-earning assets	4,851	(25,195)	(20,344)	(7,003)	(29,638)	(36,641)
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	(12)	(278)	(290)	(157)	(1,792)	(1,949)
Money Market	350	(658)	(308)	709	(3,647)	(2,938)
Savings deposits	18	(35)	(17)	23	(107)	(84)
Time deposits less than $100,000	(1,465)	(2,473)	(3,938)	(3,331)	(5,529)	(8,860)
Time deposits greater than $100,000	(1,067)	(1,845)	(2,912)	(2,430)	(3,890)	(6,320)
Brokered deposits	360	(2,143)	(1,783)	(3,028)	(1,809)	(4,837)
Total interest-bearing deposits	(1,816)	(7,432)	(9,248)	(8,214)	(16,774)	(24,988)
Federal funds purchased, repurchase agreements & other short-term borrowings	(477)	(439)	(916)	(851)	(412)	(1,263)
Federal Home Loan Bank advances	(427)	(412)	(839)	1,502	(2,637)	(1,135)
Long-term debt	281	495	776	(941)	598	(343)
Total borrowed funds	(623)	(356)	(979)	(290)	(2,451)	(2,741)
Total interest-bearing liabilities	(2,439)	(7,788)	(10,227)	(8,504)	(19,225)	(27,729)
	$ 7,290	$ (17,407)	$ (10,117)	$ 1,501	$ (10,413)	$ (8,912)

Decrease in net interest revenue	

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 Credit Losses

The provision for credit losses is based on management's evaluation of probable incurred losses in the loan portfolio and corresponding analysis of the allowance for credit losses at the end of each reporting period. The provision for credit losses was $65.5 million in 2013, compared with $62.5 million in 2012, and $251 million in 2011. As a percentage of average outstanding loans (excluding loans covered by loss sharing agreements with the FDIC), the provision for credit losses was 1.55%, 1.52% and 5.91%, respectively, in 2013, 2012 and 2011. The amount of provision recorded in each year was the amount required such that the total allowance for credit losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover incurred losses in the loan portfolio. The 2013 provision was higher than the 2012 provision due to the increase level of charge-offs associated with the second quarter 2013 classified asset disposition. The 2012 provision for loan losses was $189 million lower than the 2011 provision, primarily due to the improvement in credit trends during 2012 as well as the elevated level of charge-offs in 2011 resulting from the execution of a plan to dispose of a significant amount of problem assets. In addition, during the third quarter of 2011, United recorded an additional loan loss provision of $25.0 million specifically related to the classification of its then-largest lending relationship. The ratio of net loan charge-offs to average outstanding loans for 2013 was 2.22% compared with 1.69% for 2012 and 7.33% for 2011.

In the fourth quarter of 2013, United established an allowance for unfunded loan commitments which is included in other liabilities in the consolidated balance sheet. The allowance for unfunded loan commitments represents probable incurred losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded loan commitments was established through the provision for credit losses.

Over the past two years, United has experienced a significant improvement in credit quality and corresponding credit measures. During the second quarter of 2013, United sold classified assets totaling approximately $172 million, including a bulk sale of $131 million. The classified asset sales and a general improving trend reduced United's nonperforming assets to $31.0 million as of December 31, 2013. Additional discussion on credit quality and the allowance for loan losses is included in the "Asset Quality and Risk Elements" and "Critical Accounting Polices" sections of this report, as well as Note 1 to the consolidated financial statements.

Fee Revenue

Fee revenue was $56.6 million in 2013, compared with $56.1 million in 2012 and $44.9 million in 2011. The following table presents the components of fee revenue.

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

	2013	2012	2011	Change 2013-2012
Overdraft fees	$ 12,425	$ 13,302	$ 14,246	(7)%
ATM and debit card fees	14,509	13,108	12,079	11
Other service charges and fees	5,063	5,260	2,785	(4)
Service charges and fees	31,997	31,670	29,110	1
Mortgage loan and related fees	9,925	10,483	5,419	(5)
Brokerage fees	4,465	3,082	2,986	45
Customer derivatives	1,599	524	—	205
Securities gains, net	186	7,078	842	
Losses on prepayment of borrowings	—	(6,681)	(791)	
Other	8,426	9,956	7,341	(15)
Total fee revenue	$ 56,598	$ 56,112	$ 44,907	1

Service charges and fees of $32.0 million were up $327,000, or 1%, from 2012. The increase was primarily due to higher ATM and debit card interchange fees. Overdraft fees continue to decline as customer utilization of our courtesy overdraft services decreases. The increase in other service charges from 2011 to 2012 was due to new service fees on low balance demand deposit accounts that were initiated in January 2012.

Mortgage loan and related fees of $9.93 million were down $558,000, or 5%, from 2012. In 2013, United closed 1,918 mortgage loans totaling $297 million compared with 2,339 loans totaling $370 million in 2012. Mortgage refinancing activity slowed during the 2013 due to rising long-term interest rates. The volume of new purchase financings in 2013 was 48% compared with 33% in 2012. New purchase financings increased as a percentage of total production due to lower refinancing activity, but also due to an increase in volume of new purchase financings. United had $144 million of new purchase financing originations in 2013 compared to $118 million in 2012.

Brokerage fees of $4.47 million increased $1.38, or 45%, from 2012. A portion of United's brokerage fee revenue is derived from the value of assets under management which increased with the overall improvement in the market, further contributing to the increased revenue. In addition, continued low interest rates resulted in heightened customer demand for income products.

Fees from customer swap transactions earned under United's back-to-back customer swap program of $1.60 million were up $1.08 million in 2013 from 2012 due to an increase in transaction volume. United provides interest rate swaps to commercial customers who desire fixed rate loans. United makes a floating rate loan to those customers and enters into an interest rate swap contract with the customer to swap the floating rate to a fixed rate. United then enters into an offsetting swap with a swap dealer with terms that mirror the customer swap. The fixed and variable legs of the customer and dealer swaps offset leaving United with a variable rate loan.

United recognized net securities gains of $186,000 and $7.08 million during 2013 and 2012, respectively. United also recognized losses from the prepayment of FHLB advances and structured repurchase agreements totaling $6.68 million in 2012. The losses were part of the same balance sheet management activities that resulted in the securities gains.

Other fee revenue of $8.43 million for 2013 was down $1.53 million, or 15%, from 2012. Other fee revenue for 2012 included $1.10 million in interest on a prior year tax refund that resulted from a net operating loss carry back claim. Other fee revenue for 2013 and 2012 included gains from the sale of low income housing tax credits of $468,000 and $728,000, respectively.

Operating Expense

The following table presents the components of operating expenses.

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

	2013	2012	2011	Change 2013-2012
Salaries and employee benefits	$ 96,233	$ 96,026	$ 100,095	— %
Communications and equipment	13,233	12,940	13,135	2
Occupancy	13,930	14,304	15,645	(3)
Advertising and public relations	3,718	3,855	4,291	(4)
Postage, printing and supplies	3,283	3,899	4,256	(16)
Professional fees	9,617	8,792	9,727	9
Foreclosed property - foreclosure and carrying costs	3,163	5,118	10,499	(38)
Foreclosed property - writedowns and losses from sales	4,706	8,875	68,406	(47)
FDIC assessments and other regulatory charges	9,219	10,097	14,259	(9)
Amortization of intangibles	2,031	2,917	3,016	(30)
Other	15,171	19,951	18,270	(24)
Total operating expenses	$ 174,304	$ 186,774	$ 261,599	(7)

Operating expenses were $174 million in 2013 as compared to $187 million in 2012 and $262 million in 2011. The decrease mostly reflects lower foreclosed property losses and write downs associated with the declining volume of foreclosed properties following the classified asset sales in the second quarter of 2013.

Salaries and employee benefits expense for 2013 was $96.2 million, an increase of 207,000, or less than 1%, from 2012. A decrease in regular salaries was offset by higher incentive compensation due to performance targets that were met. Headcount totaled 1,506 at December 31, 2013 compared to 1,590 at December 31, 2012, a decrease of 84 positions.

Communications and equipment expense of $13.2 million for 2013 was up $293,000, or 2%, from 2012. The increase reflects higher software costs resulting from new technology solutions to improve operating efficiency and customer service as well as higher telecommunications charges.

Occupancy expense of $13.9 million for 2013 was down $374,000, or 3%, compared to 2012. The decrease was primarily related to lower utilities and maintenance charges partially due to the closing of underperforming branches.

Advertising and public relations expense for 2013 was $3.72 million, a decrease of $137,000, or 4%, from 2012. The decrease was due to continued efforts to reduce discretionary spending.

Postage, printing and supplies expense for 2013 was $3.28 million, a decrease of $616,000, or 16%, from 2012. The decrease was primarily due to lower expenditures on office supplies and printing, as well as lower outside courier expenses reflecting further use of electronic statements and technology.

Professional fees were $9.62 million for 2013, increased $825,000, or 9%, from 2012. The increase was primarily due to consulting services related to several efficiency and revenue enhancement projects that were in process in 2013.

Foreclosed property expenses include foreclosure and carrying costs and realized losses and write-downs of foreclosed properties. Foreclosure and carrying costs for 2013 were $3.16 million, a decrease of $1.96 million from 2012. The foreclosure and carrying costs category includes legal fees, property taxes, marketing costs, utility services, and maintenance and repair charges. Realized losses and write-downs on foreclosed property totaled $4.71 million for the year ended December 31, 2013, compared to $8.88 million for 2012. Foreclosed property costs declined in 2013 as the balance of foreclosed properties has stabilized following the accelerated sales of classified assets in the second quarter of 2013.

FDIC assessments and other regulatory charges expense for 2013 was $9.22 million, a decrease of $878,000, or 9%, from 2012. Amortization of intangibles continues to decrease as core deposit intangibles related to past acquisitions become fully amortized.

Other expenses totaled $15.2 million for 2013, a decrease of $4.78 million, or 24%, from 2012. The decrease is primarily due to a $4.00 million charge in 2012 to establish litigation reserves for potential losses related to threatened litigation.

Income Taxes

Income tax benefit was $238 million in 2013, compared to income tax expense of $1.05 million in 2012 and income tax benefit of $3.98 million in 2011, respectively. The 2013 tax benefit was primarily due to the second quarter reversal of $272 million of the deferred tax valuation allowance. The 2011 tax benefit included the reversal of previously established reserves for uncertain tax positions of $4.59 million as a result of the tax returns upon which the tax positions were claimed no longer being subject to audit as a result of statute expiration and due to the settlement of a state tax dispute. The effective tax rates (as a percentage of pre-tax earnings) were not meaningful for 2013, 2012 and 2011 due to the valuation allowance on United's deferred tax asset and the subsequent reversal of the valuation allowance in the second quarter of 2013. The tax rate for 2014 is expected to be approximately 37.5 percent reflecting the mix of taxable and tax-exempt income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax bases including operating losses and tax credit carryforwards. Net deferred tax assets (deferred tax assets net of deferred tax liabilities and valuation allowance) are reported in the consolidated balance sheet as a component of total assets.

Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence with more weight given to evidence that can be objectively verified. Each quarter, management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

At December 31, 2012 and 2011, United reported no net deferred tax assets due to a full valuation allowance of $270 million and $273 million, respectively. United remains in a three-year cumulative loss position that resulted from significant credit losses incurred during the recent financial crisis. A three-year cumulative loss position is considered to be negative evidence that is difficult to overcome. However, during the second quarter of 2013, based on the weight of all the positive and negative evidence, management concluded that it was more likely than not that $272 million of the net deferred tax assets will be realized based upon future taxable income and therefore, reversed $272 million of the valuation allowance. Thus, at December 31, 2013, United reported a net deferred tax asset of $259 million, which reflects a valuation allowance of $4.10 million related to specific state income tax credits that have short carryforward periods and therefore are expected to expire before they can be utilized.

The deferred tax asset valuation allowance was reversed in the second quarter of 2013 following the achievement of six consecutive quarters of positive operating results. These positive earnings results and improving credit measures provided an objective basis for a conclusion that profitability was considered sustainable and improving. In addition, the second quarter of 2013 sale of classified assets improved United's ability to predict credit costs and forecast profitability going forward by removing the assets that were most likely to drive future credit losses. As a result of this discretionary distressed asset sale, United's classified asset ratio (classified assets as a percentage of Tier 1 capital and the allowance for loan losses) improved to 27% at December 31, 2013, compared with 50% at December 31, 2012.

Based on all evidence considered, as of December 31, 2013, management concluded it was still more likely than not that our net deferred tax asset would be realized. With continuous improvements in credit quality, quarterly earnings for the past nine quarters have closely followed management's forecast for these periods, excluding the impact of the discretionary sales of classified assets in the second quarter of 2013. The improvement in management's ability to produce reliable forecasts, continuous and significant improvements in credit quality, and a sustained period of profitability were given appropriate weighting in our analysis, and such evidence was considered sufficient to overcome the weight of the negative evidence related to the significant operating losses in prior years.

In addition to such positive evidence at December 31, 2013, United has also reduced the amount of credit risk inherent in its loan portfolio by reducing its concentration of construction loans and improving its overall loan portfolio diversification. These changes place United in a strong position to manage through the ongoing weakness in the economy. United also has a long record of positive earnings and accurate earnings forecasts prior to the economic downturn and is currently in a strong capital position and conservatively expects to exit the three-year cumulative loss position in the first quarter of 2014.

Management expects to generate higher levels of future taxable income and believes this will allow for full utilization of United's net operating loss carryforwards within five to seven years, which is well within the statutory carryforward periods. In determining whether management's projections of future taxable income are reliable, management considered objective evidence supporting the forecast assumptions as well as recent experience demonstrating management's ability to reasonably project future results of operations. Further, while the banking environment is expected to remain challenging due to economic and other uncertainties, management believes that it can confidently forecast future taxable income at sufficient levels over the future period of time that United has available to realize its December 31, 2013 deferred tax asset.

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

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 17 to the consolidated financial statements.

Fourth Quarter 2013 Discussion

Taxable equivalent net interest revenue for the fourth quarter of 2013 decreased $265,000, or less than 1%, to $55.9 million from the same period a year ago, primarily due to lower yields on our investment securities and loan portfolios. The net interest margin decreased 19 basis points from the fourth quarter of 2012 to 3.26% for the fourth quarter of 2013. The lower yield on the loan portfolio for the fourth quarter of 2013 reflected the ongoing pricing pressure on new and renewed loans.

The fourth quarter of 2013 provision for credit losses was $3.00 million, compared to $14.0 million for the fourth quarter of 2012. Nonperforming assets totaled $31.0 million, down $97.1 million from a year ago. Nonperforming assets as a percentage of total assets were .42% at December 31, 2013, compared with 1.88% at December 31, 2012.

The following table presents the components of fee revenue from continuing operations for the fourth quarters of 2013 and 2012.

Table 6 - Quarterly Fee Revenue
(in thousands)

	Three Months Ended December 31,		
	2013	2012	Change
Overdraft fees	$ 3,199	$ 3,464	(8)%
ATM and debit card fees	3,691	3,701	—
Other service charges and fees	1,276	1,210	5
Service charges and fees	8,166	8,375	(2)
Mortgage loan and related fees	1,713	3,262	(47)
Brokerage fees	1,361	751	81
Securities gains, net	70	31	126
Other	2,209	2,226	(1)
Total operating fee revenue	$ 13,519	$ 14,645	(8)

Fee revenue for the fourth quarter of 2013 of $13.5 million decreased $1.13 million, or 8%, from $14.6 million for the fourth quarter of 2012. Service charges and fees on deposit accounts of $8.17 million decreased $209,000, or 2%, to

$8.17 million. The decrease was due to continued lower utilization of our courtesy overdraft services. Mortgage fees of $1.71 million decreased $1.55 million, or 47%, to $1.71 million due to a decrease in refinancing activities due to higher interest rates. United closed $55.5 million in mortgage loans in the fourth quarter of 2013, compared to $100 million in the fourth quarter of 2012. Brokerage fees of $1.36 million increased $610,000, or 81%, from the fourth quarter of 2012. Other fee revenue of $2.21 million decreased $17,000, or 1%, from the fourth quarter of 2012. In the fourth quarter of 2013, United recognized a gain of $300,000 on certain mutual fund holdings. In the fourth quarter of 2012, United recognized a gain of $200,000 from the sale of a closed branch facility and a $144,000 gain on an equity investment in a community bank that was sold during the quarter.

The following table presents operating expenses for the fourth quarters of 2013 and 2012.

Table 7 - Quarterly Operating Expenses
(in thousands)

	Three Months Ended December 31,		
	2013	2012	Change
Salaries and employee benefits	$ 24,817	$ 23,586	5
Communications and equipment	3,414	3,320	3
Occupancy	3,735	3,455	8
Advertising and public relations	781	987	(21)
Postage, printing and supplies	882	1,050	(16)
Professional fees	2,102	2,685	(22)
Foreclosed property - foreclosure and carrying costs	626	1,423	(56)
Foreclosed property - writedowns, (gains) losses from sales, net	(435)	3,188	(114)
FDIC assessments and other regulatory charges	1,804	2,505	(28)
Amortization of intangibles	408	727	(44)
Other	3,480	7,800	(55)
Total operating expenses	$ 41,614	$ 50,726	(18)

Operating expenses of $41.6 million decreased $9.11 million to $41.6 million, an 18% decrease from the fourth quarter of 2012, primarily due to lower foreclosed property costs and other expenses. Salaries and employee benefit costs of $24.8 million were up $1.23 million from the fourth quarter of 2012, due primarily to incentives paid for achieving strategic goals and financial targets. Communications and equipment expenses of $3.41 million were up $94,000, or 3%, to $3.41 million for the fourth quarter of 2013 compared to 2012 due to higher software and phone data circuits expense. Occupancy expense of $3.74 million was up $280,000 for the fourth quarter of 2013 compared to 2012, primarily due to a $400,000 write-off of leasehold improvements on a branch lease for a branch that was consolidated into another branch. Professional fees of $2.10 million decreased $583,000 to $2.10 million, due to lower legal fees. Foreclosed property - foreclosure and carrying costs of $626,000 decreased $797,000 from $1.42 million for the fourth quarter of 2012, due to a lower number of foreclosed properties held. Write-downs and net gains from sales of foreclosed property totaled a net gain of $435,000 for the fourth quarter of 2013, a decrease of $3.62 million, or 114%, also related to a lower volume of foreclosed property. FDIC assessments and other regulatory charges decreased from $2.51 million during the fourth quarter of 2012 to $1.80 million for the same period in 2013. Other expenses of $3.48 million were down $4.32 million from the fourth quarter of 2012. In the fourth quarter of 2012, United established a litigation reserve of $4.00 million for potential losses related to the Fletcher litigation.

Balance Sheet Review

Total assets at December 31, 2013 were $7.43 billion, an increase of $623 million, or 9%, from December 31, 2012. On a daily average basis, total assets increased $209 million, or 3%, from 2012 to 2013. Average interest earning assets for 2013 and 2012 were $6.65 billion and $6.55 billion, respectively.

Loans

Substantially all of United's loans are to customers located in the immediate market areas of its community banks in Georgia, North Carolina, South Carolina and Tennessee, including customers who have a seasonal residence in United's market areas. More than 80% of the loans are secured by real estate. Total loans averaged $4.25 billion in 2013, compared with $4.17 billion in 2012, an increase of 2%. At December 31, 2013, total loans, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, were $4.33 billion, an increase of $154 million, or 4%, from December 31, 2012. Despite the weak economy and lagging loan demand, United has continued to pursue lending opportunities. The rate of decrease in the loan portfolio dropped significantly following the disposition of problem loans in the first quarter of 2011 and has continued to stabilize, resulting in the modest growth in 2012 and 2013. Residential mortgage loans increased primarily due to a successful home equity line promotion that has gained traction in United's footprint and a new low closing cost mortgage product that began being offered in the first quarter of 2013. Consumer installment loans increases reflect purchases of indirect auto loans.

The following table presents the composition of United's loan portfolio for the last five years.

Table 8 - Loans Outstanding
As of December 31,
(in thousands)

	2013	2012	2011	2010	2009
Loans by Category					
Commercial (secured by real estate)	$1,756,710	$1,813,365	$1,821,414	$1,761,424	$1,779,398
Commercial & industrial	471,961	458,246	428,249	441,518	390,520
Commercial construction	148,903	154,769	164,155	296,582	362,566
Total commercial	2,377,574	2,426,380	2,413,818	2,499,524	2,532,484
Residential mortgage	1,315,964	1,214,203	1,134,902	1,278,780	1,427,198
Residential construction	328,579	381,677	448,391	695,166	1,050,065
Consumer installment	307,149	152,748	112,503	130,656	141,729
Total loans	$4,329,266	$4,175,008	$4,109,614	$4,604,126	$5,151,476

	2013	2012	2011	2010	2009
Loans by Market					
North Georgia	$1,240,234	$1,363,723	$1,425,811	$1,688,586	$1,883,880
Atlanta MSA	1,275,139	1,249,470	1,219,652	1,310,222	1,435,223
North Carolina	571,971	579,085	597,446	701,798	771,709
Coastal Georgia	423,045	400,022	346,189	335,020	405,689
Gainesville MSA	254,655	261,406	264,567	312,049	389,766
East Tennessee	279,587	282,863	255,949	256,451	265,209
South Carolina	88,531	—	—	—	—
Other (Indirect Auto)	196,104	38,439	—	—	—
Total loans	$4,329,266	$4,175,008	$4,109,614	$4,604,126	$5,151,476

As of December 31, 2013, United's 25 largest credit relationships consisted of loans and loan commitments ranging from $10 million to $50 million, with an aggregate total credit exposure of $438 million, including $155 million in unfunded commitments, and $283 million in balances outstanding, excluding participations sold. United had only eight lending relationships whose total credit exposure exceeded $20 million of which only four relationships were in excess of $25 million.

The following table sets forth the maturity distribution of commercial and construction loans, including the interest rate sensitivity for loans maturing after one year.

Table 9 - Loan Portfolio Maturity
As of December 31, 2013
(in thousands)

	Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year	One through	Over Five		Fixed	Floating

	or Less	Five Years	Years	Total	Rate	Rate
Commercial (commercial and industrial)	$ 161,045	$ 220,526	$ 90,390	$ 471,961	$ 208,821	$ 102,095
Construction (commercial and residential)	207,253	194,541	75,688	477,482	185,220	85,009
Total	$ 368,298	$ 415,067	$ 166,078	$ 949,443	$ 394,041	$ 187,104

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit administration function is responsible for monitoring asset quality and Board of Directors approved portfolio limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banks. Additional information on United's credit administration function is included in Item 1 under the heading "Loan Review and Nonperforming Assets."

United classifies performing loans as "substandard" when there is a well-defined weakness or weaknesses that jeopardizes the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected.

United's home equity lines, which are a component of the residential mortgage portfolio, generally require the payment of interest only for a set period after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both principal and interest. At December 31, 2013 and 2012, the funded portion of home equity loans totaled $441 million and $385 million, respectively. Approximately 3% of the home equity loans at December 31, 2013 were amortizing. Of the $441 million in balances outstanding at December 31, 2013, $280 million, or 63%, were first liens. At December 31, 2013, 60% of the total available home equity lines were drawn upon.

United monitors the performance of its home equity loans and lines secured by second liens similar to other consumer loans and utilizes assumptions specific to these loans in determining the necessary allowance. United also receives notification when the first lien holder is in the process of foreclosure and upon that notification, United obtains valuations to determine if any additional charge-offs or reserves are warranted.

The table below presents performing substandard loans for the last five years.

Table 10 - Performing Substandard Loans
(dollars in thousands)

	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
By Category					
Commercial (secured by real estate)	$ 77,725	$ 117,543	$ 143,058	$ 156,765	$ 123,740
Commercial & industrial	9,589	18,477	15,753	16,767	33,974
Commercial construction	16,758	19,285	18,510	90,745	51,696
Total commercial	104,072	155,305	177,321	264,277	209,410
Residential mortgage	51,989	65,179	76,442	86,143	79,741
Residential construction	14,104	37,804	71,955	158,770	196,908
Consumer installment	2,538	3,653	2,751	2,957	3,553
Total	$ 172,703	$ 261,941	$ 328,469	$ 512,147	$ 489,612
By Market					
North Georgia	$ 69,510	$ 105,851	$ 134,945	$ 212,992	$ 256,178
Atlanta MSA	43,171	77,630	99,453	185,327	141,205
North Carolina	18,954	28,657	40,302	42,335	17,524
Coastal Georgia	18,561	17,421	24,985	29,223	40,930
Gainesville MSA	14,916	19,251	17,338	33,962	26,969
East Tennessee	7,591	13,131	11,446	8,308	6,806
South Carolina	—	—	—	—	—
Total loans	$ 172,703	$ 261,941	$ 328,469	$ 512,147	$ 489,612

At December 31, 2013, performing substandard loans totaled $173 million and decreased $89.2 million from December 31, 2012. The decrease from 2012 reflects a general declining trend as well as the second quarter 2013 classified asset sales. Performing substandard loans had been on a downward trend as credit conditions have continued to improve and problem credits are resolved. Most of the decrease from a year ago occurred in United’s Atlanta, north Georgia and western North Carolina markets. Commercial (secured by real estate) and residential construction showed the most significant decreases.

Reviews of substandard performing and non-performing loans, TDRs, past due loans and larger credits, are conducted on a regular basis and reported to management each quarter and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are presented by the responsible lending officers and specific action plans are discussed along with the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, the effect of prevailing economic conditions on the borrower and other factors specific to the borrower and its industry. In addition to United’s internal loan review, United also uses external loan review to ensure the independence of the loan review process.

The provision for credit losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb probable incurred losses in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the provision and the declining level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard loans, leading to an expectation that charge-off levels will continue to decline. Further, the declining balance of the allowance for loan losses over the last several quarters reflects an overall improving trend in the credit quality of the loan portfolio. A general improvement in economic conditions in United's market also contributed to the lower level of provision and allowance for loan losses.

The allocation of the allowance for credit losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. Due to the imprecise nature of the loss estimation process and the effects of changing conditions, these risk attributes may not be adequately captured in the data related to the formula-based loan loss components used to determine allocations in United's analysis of the adequacy of the allowance for loan losses. Consequently, management believes that the unallocated allowance is appropriate to reflect probable incurred but unconfirmed losses in the loan portfolio not otherwise captured by the formula-based loan loss components.

The following table summarizes the allocation of the allowance for credit losses for each of the past five years.

Table 11 - Allocation of Allowance for Credit Losses
As of December 31,
(in thousands)

	2013		2012		2011		2010		2009	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Commercial (secured by real estate)	$ 24,338	41	$ 27,847	43	$ 31,644	44	$ 31,191	38	$ 19,208	34
Commercial & industrial	6,573	11	5,537	11	5,681	10	7,580	10	6,892	8
Total commercial	30,911	52	33,384	54	37,325	54	38,771	48	26,100	42
Construction	16,155	11	35,051	13	36,476	15	99,351	21	99,446	27
Residential mortgage	20,974	30	26,642	29	29,076	28	22,305	28	17,266	28
Consumer installment	2,479	7	2,747	4	2,124	3	3,030	3	2,545	3
Unallocated	6,243		9,313		9,467		11,238		10,245	
Total allowance for loan losses	76,762	100	107,137	100	114,468	100	174,695	100	155,602	100
Allowance for unfunded commitments	2,165		—		—		—		—	
Total allowance for credit losses	$ 78,927		$ 107,137		$ 114,468		$ 174,695		$ 155,602	

* Loan balance in each category, expressed as a percentage of total loans.

The following table presents a summary of changes in the allowance for credit losses for each of the past five years.

Table 12 - Allowance for Credit Losses
Years Ended December 31,
(in thousands)

	2013	2012	2011	2010	2009
Balance beginning of period	$ 107,137	$ 114,468	$ 174,695	$ 155,602	$ 122,271
Charge-offs:					
Commercial (secured by real estate)	36,470	23,062	59,468	33,593	21,796
Commercial & industrial	18,914	2,424	24,890	10,837	11,322
Commercial construction	6,483	5,411	55,730	9,993	9,908

Residential mortgage	12,277	17,262	53,707	28,806	18,997
Residential construction	23,049	24,260	118,916	136,666	219,168
Consumer installment	2,461	2,214	3,594	4,828	5,115
Total loans charged-off	99,654	74,633	316,305	224,723	286,306
Recoveries:					
Commercial (secured by real estate)	1,945	692	448	1,167	520
Commercial & industrial	1,888	1,104	967	1,762	5,397
Commercial construction	69	111	203	431	12
Residential mortgage	715	799	738	867	411
Residential construction	173	1,272	1,678	15,370	2,253
Consumer installment	1,154	824	1,044	1,219	1,044
Total recoveries	5,944	4,802	5,078	20,816	9,637
Net charge-offs	93,710	69,831	311,227	203,907	276,669
Provision for loan losses	63,335	62,500	251,000	223,000	310,000
Allowance for loan losses at end of period	76,762	107,137	114,468	174,695	155,602
Allowance for unfunded commitments at beginning of period	—	—	—	—	—
Provision for unfunded commitments	2,165	—	—	—	—
Allowance for unfunded commitments at end of period	2,165	—	—	—	—
Allowance for credit losses	$ 78,927	$ 107,137	$ 114,468	$ 174,695	$ 155,602
Total loans (1):					
At year-end	$ 4,329,266	$ 4,175,008	$ 4,109,614	$ 4,604,126	$ 5,151,476
Average	4,228,235	4,123,530	4,244,305	4,884,330	5,501,165
Allowance for loan losses as a percentage of year-end loans	1.77 %	2.57 %	2.79 %	3.79 %	3.02 %
As a percentage of average loans:					
Net charge-offs	2.22	1.69	7.33	4.17	5.03
Provision for loan losses	1.50	1.52	5.91	4.57	5.64
Allowance for loan losses as a percentage of nonperforming loans	286	97	90	98	59

(1) Excludes loans acquired through the FDIC assisted acquisition of Southern Community Bank that are covered by loss sharing agreements.

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled $78.9 million at December 31, 2013 compared with $107 million at December 31, 2012. At December 31, 2013, the allowance for loan losses was $76.8 million, or 1.77% of total loans, compared with $107 million, or 2.57% of loans at December 31, 2012. The decrease in the allowance for credit losses is consistent with the overall improving trends in credit quality of the loan portfolio.

Management believes that the allowance for credit losses at December 31, 2013 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for credit losses cannot be determined with precision and may be subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values changes substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for credit losses in future periods if, in their opinion, the results of their review warrant such additions. See the "Critical Accounting Policies" section for additional information on the allowance for credit losses.

Nonperforming Assets

Nonperforming loans totaled $26.8 million at December 31, 2013, compared with $110 million at December 31, 2012. There were no accruing loans more than 90 days past due at December 31, 2013 and 2012. At December 31, 2013 and 2012, the ratio of nonperforming loans to total loans was .62% and 2.63%, respectively. Nonperforming loans have steadily decreased in dollar amount and as a percentage of total loans following the classification of United's largest lending relationship in the third quarter of 2011. In addition, the second quarter of 2013 sales of classified assets, which included United's largest lending relationship, further reduced nonperforming assets. Nonperforming assets, which include nonperforming loans and foreclosed properties, totaled $31.0 million at December 31, 2013, compared with $128 million at December 31, 2012. United sold $31.9 million and $40.8 million respectively, of foreclosed properties during 2013 and 2012, which lowered the balance of foreclosed properties by 77% compared to December 31, 2012.

United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection or restructure. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied to reduce outstanding principal.

There were no commitments to lend additional funds to customers whose loans were on nonaccrual status at December 31, 2013, although in certain isolated cases, United executed forbearance agreements whereby United will continue to fund construction loans to completion as long as the borrower meets the conditions of the forbearance agreement. United may also fund other amounts necessary to protect the Bank's collateral such as amounts to pay past due property taxes and insurance coverage. The table below summarizes nonperforming assets at year-end for the last five years. It excludes assets acquired through the acquisition of SCB in 2009 that are covered by loss-sharing agreements with the FDIC. These assets have been excluded from the review of nonperforming assets, as the loss-sharing agreements with the FDIC and purchase price adjustments to reflect credit losses, effectively eliminate the likelihood of recognizing losses on the covered assets.

Table 13 - Nonperforming Assets
As of December 31,
(in thousands)

	2013	2012	2011	2010	2009
Nonaccrual loans (NPLs)	$26,819	$109,894	$127,479	$179,094	$264,092
Foreclosed properties	4,221	18,264	32,859	142,208	120,770
Total nonperforming assets (NPAs)	$31,040	$128,158	$160,338	$321,302	$384,862
NPLs as a percentage of total loans	.62 %	2.63 %	3.10 %	3.89 %	5.13 %
NPAs as a percentage of loans and foreclosed properties	.72	3.06	3.87	6.77	7.30
NPAs as a percentage of total assets	.42	1.88	2.30	4.42	4.81

At December 31, 2013 and 2012 United had $87.0 million and $161 million, respectively, in loans with terms that have been modified in a TDR. Included therein were $8.25 million and $38.0 million, respectively, of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $78.7 million and $123 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At December 31, 2013 and 2012, there were $115 million and $253 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification including TDRs which are by definition considered impaired. Included in impaired loans at December 31, 2013 and 2012 were $38.9 million and $157 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at December 31, 2013 of $75.7 million had specific reserves that totaled $6.02 million and the balance of impaired loans at December 31, 2012 of $95.8 million had specific reserves that totaled $11.6 million. The average recorded investment in impaired loans for 2013, 2012 and 2011 was $115 million, $276 million and $127 million, respectively. During 2013, 2012 and 2011, United recognized $6.72 million, $9.53 million and $2.66 million in interest revenue on impaired loans. United's policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, Receivables, when a loan meets the criteria for nonaccrual status. Impaired loans decreased 55% from 2012 to 2013, primarily due to the second quarter 2013 classified asset sales.

The following table summarizes nonperforming assets by category and market by quarter. Assets covered by the loss-sharing agreement with the FDIC related to the acquisition of SCB are not included in this table.

Table 14 - Nonperforming Assets by Quarter
(in thousands)

	December 31, 2013 (1)			September 30, 2013 (1)			June 30, 2013 (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY									
Commercial (sec. by RE)	$8,340	$832	$9,172	$8,015	$730	$8,745	$7,237	$547	$7,784
Commercial & industrial	427	—	427	609	—	609	548	—	548
Commercial construction	361	—	361	343	376	719	504	376	880
Total commercial	9,128	832	9,960	8,967	1,106	10,073	8,289	923	9,212
Residential mortgage	13,178	3,073	16,251	12,504	2,154	14,658	14,338	1,443	15,781
Residential construction	4,264	316	4,580	4,097	1,207	5,304	4,838	1,570	6,408
Consumer installment	249	—	249	520	—	520	399	—	399
Total NPAs	$26,819	$4,221	$31,040	$26,088	$4,467	$30,555	$27,864	$3,936	$31,800
Balance as a % of Unpaid Principal	65.3 %	44.5 %	61.4 %	61.6 %	41.5 %	57.6 %	62.6 %	31.6 %	55.8 %
BY MARKET									

North Georgia	$12,352	$2,494	$14,846	$13,652	$1,726	$15,378	$12,830	$1,617	$14,447
Atlanta MSA	2,830	684	3,514	3,096	1,026	4,122	3,803	1,197	5,000
North Carolina	6,567	683	7,250	5,680	762	6,442	6,512	295	6,807
Coastal Georgia	2,342	173	2,515	995	928	1,923	2,588	627	3,215
Gainesville MSA	928	—	928	1,036	—	1,036	1,008	—	1,008
East Tennessee	1,800	187	1,987	1,629	25	1,654	1,123	200	1,323
South Carolina	—	—	—	—	—	—	—	—	—
Total NPAs	$26,819	$4,221	$31,040	$26,088	$4,467	$30,555	$27,864	$3,936	$31,800

	December 31, 2012 (1)			September 30, 2012 (1)			June 30, 2012 (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY									
Commercial (sec. by RE)	$22,148	$5,479	$27,627	$25,896	$8,767	$34,663	$19,115	$10,586	$29,701
Commercial & industrial	31,817	—	31,817	32,678	—	32,678	34,982	—	34,982
Commercial construction	23,843	2,204	26,047	18,590	3,121	21,711	18,175	2,732	20,907
Total commercial	77,808	7,683	85,491	77,164	11,888	89,052	72,272	13,318	85,590
Residential mortgage	12,589	4,753	17,342	13,996	6,031	20,027	16,631	5,591	22,222
Residential construction	18,702	5,828	24,530	22,935	9,039	31,974	25,530	11,512	37,042
Consumer installment	795	—	795	906	—	906	907	—	907
Total NPAs	$109,894	$18,264	$128,158	$115,001	$26,958	$141,959	$115,340	$30,421	$145,761
Balance as a percentage of unpaid principal	69.5 %	39.7 %	62.8 %	68.8 %	36.4 %	58.8 %	68.8 %	39.3 %	59.4 %
BY MARKET									
North Georgia	$69,950	$8,219	$78,169	$72,211	$14,582	$86,793	$77,332	$13,546	$90,878
Atlanta MSA	18,556	3,442	21,998	21,349	5,926	27,275	17,593	8,651	26,244
North Carolina	11,014	2,579	13,593	9,622	2,771	12,393	10,657	3,287	13,944
Coastal Georgia	3,810	1,609	5,419	6,822	864	7,686	5,822	785	6,607

Gainesville MSA	903	556	1,459	840	1,328	2,168	991	2,998	3,989
East Tennessee	5,661	1,859	7,520	4,157	1,487	5,644	2,945	1,154	4,099
Total NPAs	$109,894	$18,264	$128,158	$115,001	$26,958	$141,959	$115,340	$30,421	$145,761

(1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to t
Community Bank.

During the second quarter of 2013, United executed a plan to accelerate the disposition of classified assets including performing classified loans, nonperforming loans and foreclosed properties. The purpose of the accelerated classified asset disposition plan was to clean up legacy credit problems remaining from the recent financial crisis and to accelerate the improvement of United's credit measures toward pre-crisis levels. The classified asset sales included individual note and foreclosed property sales and a large bulk sale of classified assets to a single investor. The bulk sale included performing and nonperforming classified loans and foreclosed properties. The assets were divided into four separate pools that were bid for separately by potential buyers. A single purchaser was the high bidder for each of the four pools.

Nonperforming assets in the residential construction category were $4.58 million at December 31, 2013, compared to $24.5 million at December 31, 2012, a decrease of $20.0 million, or 81%. Commercial nonperforming assets decreased from $85.5 million at December 31, 2012 to $9.96 million at December 31, 2013. Residential mortgage nonperforming assets of $16.3 million decreased $1.09 million from $17.3 million at December 31, 2012. Decreases in all categories reflect improving credit trends and the classified asset sales in the second quarter.

The following table summarizes activity in nonperforming assets by year.

Table 15 - Activity in Nonperforming Assets by Year
(in thousands)

	2013 (1)			2012 (1)			2011 (1)(3	
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclose Propertie
Beginning Balance	$109,894	$18,264	$128,158	$127,479	$32,859	$160,338	$179,094	$142,208
Loans placed on non-accrual (2)	43,867	—	43,867	112,547	—	112,547	239,681	—
Payments received	(60,035)	—	(60,035)	(31,076)	—	(31,076)	(17,131)	—
Loan charge-offs	(44,444)	—	(44,444)	(65,064)	—	(65,064)	(122,949)	—
Foreclosures	(22,463)	22,463	—	(33,992)	33,992	—	(65,732)	65,732
Capitalized costs	—	116	116	—	1,047	1,047	—	1,249
Property sales	—	(31,916)	(31,916)	—	(40,759)	(40,759)	(11,400)	(107,92
Loans transferred to held for sale	—	—	—	—	—	—	(74,084)	—
Write downs	—	(3,065)	(3,065)	—	(6,951)	(6,951)	—	(57,368
Net losses on sales	—	(1,641)	(1,641)	—	(1,924)	(1,924)	—	(11,038
Ending Balance	$26,819	$4,221	$31,040	$109,894	$18,264	$128,158	$127,479	$32,859

(1) Excludes non-performing loans and foreclosed properties covered by the loss-sharing agreement with the FDIC, related to the acquisition of SCB.
(2) Includes $76.6 million from United's largest loan relationship that was placed on nonaccrual in the third quarter of 2011.
(3) The NPA activity shown for 2011 is presented with all activity related to loans transferred to the held for sale classification on one line as if those loans were transferred to held for sale at the beginning of the period. During the first quarter of 2011, $27.1 million in loans transferred to held for sale were placed on nonaccrual, $1.1 million in payments were received on nonaccrual loans transferred to held for sale and $66.6 million in charge-offs were recorded on nonaccrual loans transferred to held for sale to write them down to the expected proceeds from the sale.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the lesser of fair value, less estimated costs to sell or the listed selling price, less the costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property expense. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with ASC 360-20, Real Estate Sales.

In 2013, 2012 and 2011, United transferred $22.5 million, $34.0 million and $65.7 million, respectively, of loans into foreclosed property. During 2013, 2012 and 2011, proceeds from sales of foreclosed properties were $31.9 million, $40.8 million, and $108 million, respectively, which includes $3.49 million, $9.40 million, and $21.1 million, respectively, of sales that were financed by United.

The gross additional interest income that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $2.11 million, $6.81 million and $13.6 million in 2013, 2012 and 2011, respectively. The gross additional interest income that would have been earned in 2013, 2012 and 2011 had performing TDRs performed in accordance with the original terms is immaterial.

Investment Securities

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet, while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits and borrowings, including repurchase agreements. Total investment securities at December 31, 2013 increased $233 million from a year ago.

At December 31, 2013 and December 31, 2012, United had securities held-to-maturity with a carrying value of $480 million and $244 million, respectively, and securities available-for-sale totaling $1.83 billion and $1.83 billion, respectively. At both December 31, 2013 and 2012, the securities portfolio represented approximately 31% of total assets. At December 31, 2013, the effective duration of the investment portfolio based on expected maturities was 2.96 years compared with 2.46 years at December 31, 2012.

The following table shows the carrying value of United's securities.

Table 16 - Carrying Value of Investment Securities
As of December 31,
(in thousands)

	December 31, 2013		
	Available-for-Sale	Held-to-Maturity	Total Securities
State and political subdivisions	$ 23,242	$ 51,733	$ 74,975
Mortgage-backed securities	1,145,347	428,009	1,573,356
Corporate bonds	250,296	—	250,296
Asset-backed securities	410,633	—	410,633
Other	2,699	—	2,699
Total securities	$ 1,832,217	$ 479,742	$ 2,311,959

	December 31, 2012		
	Available-for-Sale	Held-to-Maturity	Total Securities
State and political subdivisions	$ 29,052	$ 51,780	$ 80,832
Mortgage-backed securities	1,428,502	192,404	1,620,906
Corporate bonds	163,662	—	163,662
Asset-backed securities	210,556	—	210,556
Other	2,821	—	2,821
Total securities	$ 1,834,593	$ 244,184	$ 2,078,777

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

Management evaluates its securities portfolio each quarter to determine if any security is considered to be other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. Losses on United's fixed income securities at December 31, 2013 primarily reflect the effect of changes in interest rates. United did not recognize any other than temporary impairment losses on its investment securities in 2013, 2012 or 2011.

At December 31, 2013, United had 68% of its total investment securities portfolio in mortgage backed securities, compared with 78% at December 31, 2012. Due to a lack of loan demand, United continued to purchase mortgage-backed securities in order to obtain a favorable yield with low risk. United did not have securities of any issuer in excess of 10% of equity at year-end 2013 or 2012, excluding U.S. Government issues. Less than 1% of the securities portfolio is rated below “A” or unrated and 32% of non-government agency securities are rated “Aaa”. See Note 6 to the consolidated financial statements for further discussion of investment portfolio and related fair value and maturity information.

Intangible Assets

United’s core deposit intangibles representing the value of United’s acquired deposit base, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that lead management to believe that any impairment exists in United’s other intangible assets.

Deposits

United has initiated several deposit programs to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit accounts to improve its net interest margin and increase net interest revenue. The programs were successful in increasing core transaction deposit accounts and allowing for the reduction of more costly time deposit balances, as United’s funding needs decreased due to lower loan demand. United’s high level of service, as evidenced by its strong customer satisfaction scores, has been instrumental in attracting and retaining deposits.

Total customer deposits, excluding brokered deposits, as of December 31, 2013 were $5.78 billion, an increase of $69.7 million from December 31, 2012. Total core deposits (demand, NOW, money market and savings deposits, excluding public funds deposits) of $3.44 billion increased $224 million, or 7%, due to the success of core deposit incentive programs.

Total time deposits, excluding brokered deposits, as of December 31, 2013 were $1.48 billion, down $279 million from December 31, 2012. Time deposits less than $100,000 totaled $893 million, a decrease of $162 million, or 15%, from a year ago. Time deposits of $100,000 and greater totaled $589 million as of December 31, 2013, a decrease of $117 million, or 17%, from December 31, 2012. United continued to offer low rates on certificates of deposit, allowing balances to decline as United's funding needs declined due to weak loan demand and a shift to lower cost transaction account deposits.

Brokered deposits totaled $425 million as of December 31, 2013, an increase of $180 million from a year ago. United has actively added long-term deposits to diversify our funding base. These are typically swapped to LIBOR minus a spread, which achieves low cost funding within our interest rate risk parameters.

The following table sets forth the scheduled maturities of time deposits of $100,000 and greater and brokered time deposits.

Table 17 - Maturities of Time Deposits of $100,000 and Greater and Brokered Time Deposits
As of December 31,
(in thousands)

	2013	2012
$100,000 and greater:		
Three months or less	$ 116,875	$ 141,911
Three to six months	100,425	121,059
Six to twelve months	195,064	251,620
Over one year	176,325	190,968
Total	$ 588,689	$ 705,558
Brokered time deposits:		
Three months or less	$ —	$ 248
Three to six months	—	—
Six to twelve months	—	—
Over one year	273,166	154,641
Total	$ 273,166	$ 154,889

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank of Atlanta ("FHLB"). Through this affiliation, FHLB secured advances totaling $120 million and $40.1 million at December 31, 2013 and 2012, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at December 31, 2013 had fixed interest rates of .20% or less. During 2012, United prepaid $25 million of fixed-rate advances and incurred prepayment charges of $2.20 million. United will prepay advances from time to time as funding needs change. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 12 to the consolidated financial statements.

At December 31, 2013 and 2012, United had $53.2 million and $52.6 million in other borrowings outstanding. During the second quarter of 2012, United prepaid $50 million in structured repurchase agreements and incurred prepayment charges of $4.48 million. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

Liquidity Management

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

In addition, because United is a separate entity and apart from the Bank, it must provide for its own liquidity. United is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities. United currently has internal capital resources to meet these obligations. Substantially all of United's liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law. In recent years when the Bank was unable to pay dividends to United, liquidity was obtained from external sources (debt and equity issuances) to meet its needs.

Two key objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities to optimize interest revenue. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled $10.3 million at December 31, 2013, and typically turn over every 45 days as closed loans are sold to investors in the secondary market.

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

The table below presents a summary of United’s short-term borrowings over the last three years.

Table 18 - Short-Term Borrowings
As of December 31,
(in thousands)

	Period-end balance	Period end weighted-average interest rate	Maximum outstanding at any month-end	Average amounts outstanding during the year	Weighted-average rate for the year
December 31, 2013					
Federal funds purchased	$—	— %	$ 70,000	$ 13,327	.33 %
Repurchase agreements	53,241	4.00	54,164	53,234	3.81
	$53,241			$ 66,561	
December 31, 2012					
Federal funds purchased	$—	— %	$—	$ 5,000	.33 %
Repurchase agreements	52,574	4.00	103,551	75,593	3.93
	$52,574			$ 80,593	
December 31, 2011					
Federal funds purchased	$—	— %	$—	$ 137	.39 %
Repurchase agreements	102,577	4.12	103,666	102,590	4.14
	$ 102,577			$ 102,727	

At December 31, 2013, United had sufficient qualifying collateral to increase FHLB advances by $829 million and Federal Reserve discount window capacity of $614 million. United also has the ability to raise substantial funds through brokered deposits. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was $192 million for the year ended December 31, 2013. Net income of $273 million for the year included the deferred income tax benefit of $242 million, non-cash expenses for provision for credit losses of $65.5 million, non-cash depreciation, amortization and accretion of $26.4 million, and losses and write downs on foreclosed property of $4.71 million. Accrued expenses and other liabilities increased $42.5 million primarily due to the mark on hedge contracts. Net cash used in investing activities of $483 million consisted primarily of $827 million of purchases of securities, an increase in loans of $359 million, and purchases of premises and equipment of $8.14 million, that were offset by proceeds from sales of securities of $39.7 million, maturities and calls of investment securities of $541 million, proceeds from note sales of $91.9 million, and net proceeds from sales of other real estate of $28.4 million. Funds collected from the FDIC under loss sharing agreements were $5.88 million, providing another source of cash flows from investing activities. The $269 million of net cash provided financing activities consisted primarily of a net increase in deposits of $249 million and an $80.0 million net increase in FHLB advances. United also repaid $35.0 million in long-term debt which was offset by the issuance of $40.0 million in senior notes. Cash from financing activities was also increased by $19.4 million in proceeds from the issuance of common stock through a warrant exercise. This increase was offset by $75.2 million paid to retire preferred stock. In the opinion of management, United's liquidity position at December 31, 2013 was sufficient to meet its expected cash flow requirements.

The following table shows United's contractual obligations and other commitments.

Table 19 - Contractual Obligations and Other Commitments
As of December 31, 2013
(in thousands)

		Maturity By Years			
	Total	1 or Less	1 to 3	3 to 5	Over 5
Contractual Cash Obligations					
FHLB advances	$120,125	$120,000	$125	$—	$—
Long-term debt	129,865	—	—	75,000	54,865
Operating leases	6,310	1,852	1,956	936	1,566
Total contractual cash obligations	$256,300	$121,852	$2,081	$75,936	$56,431
Other Commitments					
Lines of credit	$747,170	$239,861	$161,924	$83,669	$261,716
Commercial letters of credit	19,846	18,553	1,283	10	—
Uncertain tax positions	4,503	682	1,074	351	2,396
Total other commitments	$771,519	$259,096	$164,281	$84,030	$264,112

The following table presents the contractual maturity of investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis). The composition and maturity / repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

Table 20 - Expected Maturity of Available-for-Sale and Held-to-Maturity Investment Securities
As of December 31, 2013
(in thousands)

		Maturity By Years			
	1 or Less	1 to 5	5 to 10	Over 10	Total
Available for Sale					
State and political subdivisions	$2,869	$16,881	$2,607	$885	$23,242
Corporate bonds	—	38,520	201,504	10,272	250,296
Asset-backed securities	—	89,438	271,418	49,777	410,633
Other securities (1)	5,462	662,269	238,934	241,381	1,148,046
Total securities available for sale	$8,331	$807,108	$714,463	$302,315	$1,832,217
Weighted average yield (2)	3.97 %	2.02 %	1.99 %	3.60 %	2.28 %
Held to Maturity					
State and political subdivisions	$—	$12,463	$26,062	$13,208	$51,733
Other securities (1)	639	212,792	204,302	10,276	428,009
Total securities available for sale	$639	$225,255	$230,364	$23,484	$479,742
Weighted average yield (2)	4.75 %	3.14 %	2.88 %	4.73 %	3.09 %
Combined Portfolio					

State and political subdivisions	$2,869		$29,344		$28,669		$14,093		$74,975	
Corporate bonds	—		38,520		201,504		10,272		250,296	
Asset-backed securities	—		89,438		271,418		49,777		410,633	
Other securities (1)	6,101		875,061		443,236		251,657		1,576,055	
Total securities available for sale	$8,970		$1,032,363		$944,827		$325,799		$2,311,959	
Weighted average yield (2)	4.03	%	2.27	%	2.21	%	3.68	%	2.45	%

(1) Includes mortgage-backed securities
(2) Based on amortized cost, taxable equivalent basis

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Off-Balance Sheet Arrangements

United is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers. These financial instruments include commitments to extend credit, letters of credit and financial guarantees.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Letters of credit and financial guarantees are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as extending loan facilities to customers. Those commitments are primarily issued to local businesses.

The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, letters of credit and financial guarantees is represented by the contractual amount of these instruments. United uses the same credit underwriting procedures for making commitments, letters of credit and financial guarantees, as it uses for underwriting on-balance sheet instruments. United evaluates each customer's creditworthiness on a case-by-case basis and the amount of the collateral, if deemed necessary, is based on the credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used. United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 20 to the consolidated financial statements for additional information on off-balance sheet arrangements.

At December 31, 2013 and 2012, United had $350 million and $265 million, respectively, in offsetting repurchase agreements / reverse repurchase agreements that were netted in the consolidated balance sheet. In addition, at December 31, 2012, United had $50 million in offsetting securities lending agreements that were netted in the consolidated balance sheet. United enters into these collateral swap arrangements from time to time as a source of additional revenue.

Capital Resources and Dividends

Shareholders' equity at December 31, 2013 was $796 million, an increase of $214 million from December 31, 2012. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available-for-sale, the unrealized gains and losses on derivatives qualifying as cash flow hedges, and unamortized prior service cost and actuarial gains and losses on United's modified retirement plan, is excluded in the calculation of regulatory capital ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity increased $218 million, or 39%, from December 31, 2012. Most of the increase results from the reversal of the valuation allowance on United's net deferred tax asset which resulted in the recognition of United's substantial tax benefits.

United accrued $12.1 million in dividends, including discount accretion, on its Series A Preferred Stock, Series B Preferred Stock, and Series D Preferred Stock, for the years ended December 31, 2013 and 2012.

On December 31, 2013, United redeemed all of its outstanding Series A Preferred Stock in the principal amount of $217,000. The redemption price for shares of the Series A Preferred Stock was the stated value of $10 per share, plus any accrued and unpaid dividends that had been earned thereon through the redemption date. Following the redemption, there are no shares of United's Series A Preferred Stock outstanding.

On December 27, 2013, United redeemed $75 million of its $180 million in outstanding Series B Preferred Stock. The redemption price for shares of the Series B Preferred Stock called for redemption was the stated liquidation value of $1,000 per share, plus any accrued and unpaid dividends that had been earned thereon to, but not including, the redemption date. As of December 31, 2013, $105 million of United's Series B Preferred Stock was outstanding. The remaining $105 million of United's Series B Preferred Stock was redeemed on January 10, 2014 on comparable terms. United funded both redemptions by utilizing cash on hand, cash dividends from the Bank and short-term debt.

In 2010, United granted warrants to Fletcher International Ltd. ("Fletcher") to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares, exercisable at a price equivalent to $21.25 per share. United has received purported partial warrant exercise notices from Fletcher with respect to its warrants that include incorrect calculations of the number of settlement shares Fletcher would receive upon exercise. On June 17, 2011, United completed a reclassification of its common stock in the form of 1-for-5 reverse stock split, or recombination. United believes that any current exercise of Fletcher's warrants would not result in the issuance of any settlement shares because the warrants may only be exercised for net shares via a cashless exercise formula, and the reverse stock split-adjusted market price component of that formula does not exceed the exercise price to yield any net shares. Fletcher has also claimed that it is entitled to penalties under its contracts with United for a "registration failure" it claims occurred in 2012. United also believes that no registration failure penalty is due. As a result, United has responded to Fletcher with United's calculations related to its warrants and denied any liability for any such penalty. United may consider repurchasing the warrants based on their fair value in connection with the resolution of any purported claims that Fletcher maintains. United has established litigation reserves associated with claims that may be made against United by Fletcher.

On August 12, 2013, certain holders elected to exercise warrants to purchase an aggregate 1,551,126 shares of United's common stock at a price of 12.50 per share. United recognized net proceeds of approximately $19.4 million as a result of the exercises.

The Federal Reserve has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off balance sheet. Under the guidelines, capital strength is measured in two tiers which are used in conjunction with risk-weighted assets to determine the risk-based capital ratios. The guidelines require an 8% Total risk-based capital ratio, of which 4% must be Tier 1 capital. However, to be considered well-capitalized under the guidelines, a 10% Total risk-based capital ratio is required, of which 6% must be Tier 1 capital.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the Company's total risk weighted assets. Risk-weighted assets for purposes of United's capital ratios are calculated under these guidelines.

Tier 1 capital consists of shareholders' equity, excluding accumulated other comprehensive income, intangible assets (goodwill and deposit-based intangibles), and disallowed deferred tax assets, plus qualifying capital securities. United's Tier 1 capital totaled $649 million at December 31, 2013. Tier 2 capital components include supplemental capital such as the qualifying portion of the allowance for loan losses and qualifying subordinated debt. Tier 1 capital plus Tier 2 capital is referred to as Total risk-based capital and was $713 million at December 31, 2013. The ratios, as calculated under the guidelines, were 12.74% and 13.99% for Tier 1 and Total risk-based capital, respectively, at December 31, 2013.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier 1 capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required, the Federal Reserve requires a bank holding company to maintain a leverage ratio of greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The Federal Reserve uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

United has outstanding junior subordinated debentures related to trust preferred securities totaling $54.9 million at December 31, 2013. The related trust preferred securities of $53.2 million (excluding common securities) qualify as Tier 1 capital under risk-based capital guidelines provided that total trust preferred securities do not exceed certain quantitative limits. At December 31, 2013, all of United's trust preferred securities qualified as Tier 1 capital. Further information on United's trust preferred securities is provided in Note 14 to the consolidated financial statements.

The following table shows United's capital ratios, as calculated under regulatory guidelines, at December 31, 2013 and 2012:

Table 21 - Capital Ratios
(dollars in thousands)

United Community Bank

	Regulatory Guidelines		United Community Banks, Inc. (Consolidated)			
		Well	As of December 31,		As of December 31,	
	Minimum	Capitalized	2013	2012	2013	2012
Risk-based ratios:						
Tier 1 capital	4.0 %	6.0 %	12.74 %	14.16 %	13.55 %	14.48 %
Total capital	8.0	10.0	13.99	15.73	14.80	15.74
Leverage ratio	3.0	5.0	9.08	9.64	9.61	9.86
Tier 1 capital			$649,162	$652,692	$686,687	$666,585
Total capital			713,063	724,915	750,216	724,738

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Effect of Inflation and Changing Prices

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Sensitivity Management

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

United's net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United limits its exposure to fluctuations in interest rates through policies established by its Asset/Liability Management Committee ("ALCO") and approved by the Board of Directors. ALCO meets periodically and has responsibility for formulating and recommending asset/liability management policies to the Board of Directors, formulating and implementing strategies to improve balance sheet positioning and/or earnings and reviewing United's interest rate sensitivity.

One of the tools management uses to estimate and manage the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit re-pricing characteristics and the rate of prepayments. ALCO periodically reviews the assumptions for accuracy based on historical data and future expectations, however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared to in order to measure the change in net interest revenue. Policy limits are based on immediate rate shock scenarios, as well as gradually rising and falling rate scenarios, which are compared to the base scenario. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the forward yield curve. Other scenarios analyzed may include delayed rate shocks, yield curve steepening or flattening or other variations in rate movements. While the primary policy scenarios focus on a twelve month time frame, longer time horizons are also modeled. All policy scenarios assume a static balance sheet.

United's policy is based on the 12-month impact on net interest revenue of interest rate shocks and ramps that increase or decrease from 100 to 300 basis points from the base scenario. In the shock scenarios, rates immediately change the full amount at the scenario onset. In the ramp scenarios, rates change by 25 basis points per month. United's policy limits the change in net interest revenue over the first 12 months to a 5% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. Historically low rates on December 31, 2013 and 2012 made use of the down scenarios problematic. The following table presents United's interest sensitivity position at December 31, 2013 and 2012.

Table 22 - Interest Sensitivity

	Increase (Decrease) in Net Interest Revenue from Base Scenario at December 31,			
	2013		2012	
Change in Rates	Shock	Ramp	Shock	Ramp
200 basis point increase	4.4 %	5.4 %	6.7 %	3.6 %
25 basis point decrease	(2.7)	(2.7)	1.2	1.2

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

United may have some discretion in the extent and timing of deposit repricing depending upon the competitive pressures in the markets in which it operates. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices. This is commonly referred to as basis risk.

In order to manage its interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate, (or fixed rate, as the case may be) and receives a fixed rate (or variable rate, as the case may be).

The following table presents United's outstanding derivative positions at December 31, 2013.

Table 23 - Derivative Financial Instruments
(in thousands)

Type of Instrument	Number of Contracts	Notional	Purpose	Fair Value (F) Asset	Fair Value (F) Liability
Fair value hedges of fixed rate brokered deposit (accounting hedge)					
Receive fixed cancellable swaps (1)	16	$199,000	Low cost funding	$—	$19,970
Fair value hedges of fixed rate corporate bonds (accounting hedge)					
Pay fixed swaps (2)	8	86,000	Protection from rising interest rates	3,939	2,308
Cash flow hedges of floating rate borrowings (accounting hedge)					
Pay fixed swaps (3)	3	200,000	Protection from rising interest rates	—	3,368
Cash flow hedges of LIBOR indexed money market deposits (accounting hedge)					
Pay fixed swaps (4)	3	375,000	Protection from rising interest rates	4,782	—
Customer swap positions					
Receive fixed swaps (5)	53	170,647	Provide customer with fixed rate loan	898	1,347
Dealer offset to customer swap positions					
Pay fixed swaps (5)	53	170,647	Protection from rising interest rates	1,347	915
Bifurcated derivatives embedded in hybrid host instruments					
Pay steepener rate cancellable swap (6)	3	99,509	Low cost funding	12,867	—
Interest rate swaps not designated as accounting hedges					
Receive steepener rate cancellable swap (6)	3	101,500	Low cost funding	—	18,324
		$1,402,303		$23,833	$46,232

(1) United uses these swaps as part of a program to provide a low cost non-collateralized source of funds. The swaps hedge fixed rate brokered deposits with step up rates that increase over time that are mirrored in the receive rate of the swaps. The variable pay rates on these swaps are based on three-month LIBOR at spreads of minus 20 to minus

65 basis points. The counterparties have the right to call the instruments at any time generally after six months to one year following inception. United has a similar option in the hedged brokered deposit.

(2) These swaps convert fixed rate corporate bonds to three-month LIBOR and are used for protection against rising interest rates. The pay rates match the fixed rates of the hedged corporate bonds.

(3) These swaps are forward starting and become effective in the first and second quarters of 2014. They convert three month LIBOR-based floating rate borrowings to fixed rates for a three-year term. They are used for protection against rising interest rates.

(4) These swaps are forward starting and become effective in the second and third quarters of 2014 and the second quarter of 2015. They convert one month LIBOR-based money market deposits to fixed rates for terms of three to eight years. They are used for protection against rising interest rates.

(5) United offers interest rate swaps to customers seeking fixed rate loans under a back to back swap program. United enters into offsetting swap positions with qualified dealers simultaneously with the customer swap. Customer swaps and the offsetting dealer swap positions are marked to market through other fee revenue.

(6) United offers market linked certificates of deposit through broker dealers. The rate paid on these hybrid instruments is based on a formula derived from the spread betweeen the long and short ends of the constant maturity swap (“CMS”) rate curve. This type of instrument is referred to as a steepener since it derives its value from the slope of the CMS curve. United has determined that these hybrid instruments contain an embedded swap contract which has been bifurcated from the host contract. United enters into a swap with a swap dealer simultaneously where the receive rate on the swap mirrors the pay rate on the brokered deposit. The bifurcated derivative and the stand alone swap are both marked to market through other fee revenue. Although these instruments are not treated as an accounting hedge, the swap acts as an effective economic hedge of the steepener index in the brokered deposit.

United's derivative financial instruments that are designated as accounting hedges are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize in earnings both the effect of the change in the fair value of the derivative financial instrument and the offsetting effect of the change in fair value of the hedged asset or liability associated with the particular risk of that asset or liability being hedged. United has other derivative financial instruments that are not designated as accounting hedges but are used for interest rate risk management purposes and as an effective economic hedge. Derivative financial instruments that are not accounted for as an accounting hedge are marked to market through earnings.

In addition to derivative instruments, United uses a variety of balance sheet instruments to manage interest rate risk such as Investment Portfolio holdings, wholesale funding and bank-issued deposits.

From time to time, United will terminate swap or floor positions when conditions change and the position is no longer necessary to manage United's overall sensitivity to changes in interest rates. In those situations where the terminated contract was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the contract, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. At December 31, 2013, United had no gains or losses from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. In addition, United's forward starting active cash flow hedges of floating rate liabilities will begin to become effective over the next twelve months. United expects that $3.59 million will be reclassified as an increase to deposit and wholesale borrowings interest expense over the next twelve months related to these cash flow hedges.

During the fourth quarter 2013, United reclassified hedge ineffectiveness gains and losses from other fee revenue to net interest revenue. This reclassification has been reflected in all prior period results.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the registrant and report of independent registered public accounting firm are included herein as follows:

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of United Community Banks, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of the company's principal executive and principal financial officers and affected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, management concluded that as of December 31, 2013, United Community Banks, Inc.'s internal control over financial reporting is effective based on those criteria.

Our independent registered public accountants have audited the effectiveness of the company's internal control over financial reporting as stated in their report, which is included in Item 8 of this Annual Report on Form 10-K.

Jimmy C. Tallent	Rex S. Schuette
President and Chief Executive Officer	Executive Vice President and
	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

of United Community Banks, Inc.

In our opinion, the accompanying consolidated balance sheet as of December 31, 2013 and the related consolidated statements of operations, of comprehensive income (loss), of changes in shareholders’ equity and of cash flows for the year then ended present fairly, in all material respects, the financial position of United Community Banks, Inc. and its subsidiaries at December 31, 2013, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

February 28, 2014

PricewaterhouseCoopers LLP, 1075 Peachtree St, Suite 2600, Atlanta, GA 30309
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and shareholders
United Community Banks, Inc.
Blairsville, Georgia

We have audited the accompanying consolidated balance sheets of United Community Banks, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Community Banks, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Atlanta, Georgia
March 1, 2013

235 Peachtree Street NE | Suite 1800 | Atlanta, Georgia 30303 | Phone 404.588.4200 | Fax 404.588.4222

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Operations
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands, except per share data)

	2013	2012	2011
Interest revenue:			
Loans, including fees	$200,893	$217,378	$244,020
Investment securities:			
Taxable	40,331	43,657	55,251
Tax exempt	827	956	1,009
Deposits in banks and short-term investments	3,789	3,986	2,321
Total interest revenue	245,840	265,977	302,601
Interest expense:			
Deposits:			
NOW	1,759	2,049	3,998
Money market	2,210	2,518	5,456
Savings	133	150	234
Time	10,464	19,097	39,114
Total deposit interest expense	14,566	23,814	48,802
Short-term borrowings	2,071	2,987	4,250
Federal Home Loan Bank advances	68	907	2,042
Long-term debt	10,977	10,201	10,544
Total interest expense	27,682	37,909	65,638
Net interest revenue	218,158	228,068	236,963
Provision for credit losses	65,500	62,500	251,000
Net interest revenue after provision for credit losses	152,658	165,568	(14,037)
Fee revenue:			
Service charges and fees	31,997	31,670	29,110
Mortgage loan and other related fees	9,925	10,483	5,419
Brokerage fees	4,465	3,082	2,986
Securities gains, net	186	7,078	842
Losses on prepayment of borrowings	—	(6,681)	(791)
Other	10,025	10,480	7,341
Total fee revenue	56,598	56,112	44,907
Total revenue	209,256	221,680	30,870
Operating expenses:			
Salaries and employee benefits	96,233	96,026	100,095
Occupancy	13,930	14,304	15,645
Communications and equipment	13,233	12,940	13,135
FDIC assessments and other regulatory charges	9,219	10,097	14,259
Professional fees	9,617	8,792	9,727
Postage, printing and supplies	3,283	3,899	4,256
Advertising and public relations	3,718	3,855	4,291
Amortization of intangibles	2,031	2,917	3,016
Foreclosed property	7,869	13,993	78,905
Other	15,171	19,951	18,270

Total operating expenses	174,304	186,774	261,599
Income (loss) before income taxes	34,952	34,906	(230,729)
Income tax expense (benefit)	(238,188)	1,050	(3,983)
Net income (loss)	273,140	33,856	(226,746)
Preferred stock dividends	12,078	12,148	11,838
Net income (loss) available to common shareholders	$261,062	$21,708	$(238,584)
Income (loss) per common share:			
Basic	$4.44	$.38	$(5.97)
Diluted	4.44	.38	(5.97)
Weighted average common shares outstanding:			
Basic	58,787	57,857	39,943
Diluted	58,845	57,857	39,943

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Comprehensive Income (Loss)
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands, except per share data)

	2013			2012			2011		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income (loss)	$34,952	$238,188	$273,140	$34,906	$(1,050)	$33,856	$(230,729)	$3,983	$(226,746)
Other comprehensive income (loss):									
Unrealized (losses) gains on available-for-sale securities:									
Unrealized holding gains (losses) arising during period	(22,421)	8,475	(13,946)	748	(273)	475	(1,275)	361	(914)
Reclassification of securities from available-for-sale to held-to-maturity	8,306	(3,119)	5,187	—	—	—	—	—	—
Reclassification adjustment for gains included in net income (loss)	(186)	72	(114)	(7,078)	2,753	(4,325)	(842)	328	(514)
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities and release of valuation allowance		(2,963)	(2,963)	—	(2,480)	(2,480)	—	(689)	(689)
Net unrealized losses	(14,301)	2,465	(11,836)	(6,330)	—	(6,330)	(2,117)	—	(2,117)
Amortization of gains included in	(731)	282	(449)	(1,988)	773	(1,215)	(2,177)	846	(1,331)

net income (loss) on available-for-sale securities transferred to held to maturity									
Reclassification of securities from available-for-sale to held-to-maturity	(8,306)	3,119	(5,187)	—	—	—	—	—	—
Adjustment of valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity and release of valuation allowance	—	1,293	1,293	—	(773)	(773)	—	(846)	(846)
Net unrealized losses	(9,037)	4,694	(4,343)	(1,988)	—	(1,988)	(2,177)	—	(2,177)
Amounts reclassified into net income on cash flow hedges	(904)	352	(552)	(3,712)	1,444	(2,268)	(15,116)	5,880	(9,236)
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	10,084	(3,923)	6,161	(8,739)	3,400	(5,339)	—	—	—
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income (loss)		13,698	13,698	—	(4,844)	(4,844)	—	(5,880)	(5,880)

on cash flow hedges and release of valuation allowance									
Net unrealized gains (losses)	9,180	10,127	19,307	(12,451)	—	(12,451)	(15,116)	—	(15,116)
Reclassification of unamortized prior service cost and actuarial losses	—	—	—	—	—	—	(4,750)	1,848	(2,902)
Net actuarial gain (loss) on defined benefit pension plan	561	(218)	343	(177)	69	(108)	—	—	—
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	532	(207)	325	615	(240)	375	—	—	—
Adjustment of valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses and release of valuation allowance	—	—	—	—	171	171	—	(1,848)	(1,848)
Net defined benefit pension plan activity	1,093	(425)	668	438	—	438	(4,750)	—	(4,750)
Total other comprehensive income (loss)	(13,065)	16,861	3,796	(20,331)	—	(20,331)	(24,160)	—	(24,160)
Comprehensive income (loss)	$21,887	$255,049	$276,936	$14,575	$(1,050)	$13,525	$(254,889)	$3,983	$(250,906)

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
As of December 31, 2013 and 2012
(in thousands, except share data)

Assets

	2013	2012
Cash and due from banks	$71,230	$66,536
Interest-bearing deposits in banks	119,669	124,613
Short-term investments	37,999	60,000
Cash and cash equivalents	228,898	251,149
Securities available-for-sale	1,832,217	1,834,593
Securities held-to-maturity (fair value $485,585 and $261,131)	479,742	244,184
Mortgage loans held for sale	10,319	28,821
Loans, net of unearned income	4,329,266	4,175,008
Less allowance for loan losses	(76,762)	(107,137)
Loans, net	4,252,504	4,067,871
Assets covered by loss sharing agreements with the FDIC	22,882	47,467
Premises and equipment, net	163,589	168,920
Bank owned life insurance	80,670	81,867
Accrued interest receivable	19,598	18,659
Intangible assets	3,480	5,510
Foreclosed property	4,221	18,264
Net deferred tax asset	258,518	—
Derivative financial instruments	23,833	658
Other assets	44,948	34,296
Total assets	$7,425,419	$6,802,259

Liabilities and Shareholders' Equity

Liabilities:		
Deposits:		
Demand	$1,388,512	$1,252,605
NOW	1,427,939	1,316,453
Money market	1,227,575	1,149,912
Savings	251,125	227,308
Time:		
Less than $100,000	892,961	1,055,271
Greater than $100,000	588,689	705,558
Brokered	424,704	245,033
Total deposits	6,201,505	5,952,140
Short-term borrowings	53,241	52,574
Federal Home Loan Bank advances	120,125	40,125
Long-term debt	129,865	124,805
Derivative financial instruments	46,232	12,543
Unsettled securities purchases	29,562	—

Accrued expenses and other liabilities	49,174	38,667
Total liabilities	6,629,704	6,220,854
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1 par value; 10,000,000 shares authorized;		
Series A, $10 stated value; 0 and 21,700 shares issued and outstanding	—	217
Series B, $1,000 stated value; 105,000 and 180,000 shares issued and outstanding	105,000	178,557
Series D, $1,000 stated value; 16,613 shares issued and outstanding	16,613	16,613
Common stock, $1 par value; 100,000,000 shares authorized;		
46,243,345 and 42,423,870 shares issued and outstanding	46,243	42,424
Common stock, non-voting $1 par value; 30,000,000 shares authorized;		
13,188,206 and 15,316,794 shares issued and outstanding	13,188	15,317
Common stock issuable; 241,832 and 133,238 shares	3,930	3,119
Capital surplus	1,078,676	1,057,951
Accumulated deficit	(448,091)	(709,153)
Accumulated other comprehensive loss	(19,844)	(23,640)
Total shareholders' equity	795,715	581,405
Total liabilities and shareholders' equity	$7,425,419	$6,802,259

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands except share data)

Preferred Stock	Common	Non-Voting Common	Common Stock	Capital	Retained Earnings	Accumulated Other