2013 Annual Report

United Community Banks, Inc.

United Community Banks, Inc.

FINANCIAL HIGHLIGHTS

($ in millions, except per share data)	2013	2012
Core Earnings Summary		
Net interest revenue	$ 219.6	$ 229.8
Core fee revenue	53.9	53.4
Core operating expenses	163.5	166.0
Core earnings (pre-tax, pre-credit)	**110.0**	**117.2**
Provision for loan losses	(65.5)	(62.5)
Foreclosed property costs	(7.9)	(14.0)
Gain on bank-owned life insurance	1.5	-
Severance costs	(2.3)	(2.3)
Securities gains, net	.2	7.1
Loss on prepayment of borrowings	-	(6.7)
Provision for litigation settlement	-	(4.0)
Gain on sale of low income housing tax credits	.5	.7
Interest on federal tax refund	-	1.1
Income tax benefit (expense)	236.7	(2.7)
Net income	**273.2**	**33.9**
Preferred dividends and discount accretion	(12.1)	(12.2)
Net income available to common shareholders	$ 261.1	$ 21.7
Per Common Share		
Diluted earnings	$ 4.44	$ 0.38
Book value	11.30	6.67
Tangible book value	11.26	6.57
Performance Measures		
Net interest margin	3.30 %	3.51 %
Allowance for loan losses to loans	1.77	2.57
Tangible common equity to assets (year-end)	9.07	5.60
Tier I risk-based capital ratio (year-end)	12.74	14.16
As of Year-End		
Loans	$ 4,329	$ 4,175
Investment securities	2,312	2,079
Total assets	7,425	6,802
Deposits	6,202	5,952
Shareholders' equity	796	581
Common shares outstanding (thousands)	59,432	57,741
Beneficial owners	16,650	15,000
Employees	1,506	1,590
Banking offices	102	105

Letter to Shareholders

2013 was nothing less than a transformative year for United Community Banks. Before the year began, we had identified a number of critical initiatives that we believed we had to complete to put the last of the financial crisis behind us and execute our growth plans. We developed a thorough action plan to address each initiative and I am pleased to report that our bankers executed it flawlessly.

Credit quality was improving steadily, but incrementally, at the end of 2012. We could have continued at that pace and in time would have reached our targets, but not without significant ongoing costs including further delays in pursuing strategic growth initiatives. The continuing process of cleaning up the loan portfolio was carrying a heavy price in valuable resources and masking the benefit of expense reductions. Credit-related memorandums of understanding (MOUs) with regulators were restricting our ability to redeem preferred stock and expand into new markets. Because of the full valuation allowance on our deferred tax asset, our balance sheet and tangible book value were not reflecting the tremendous value of our income tax benefits. We were growing loans, but intense competitive pressures were contributing to a shrinking margin in a low interest rate environment.

We developed a thorough action plan to address each initiative and I am pleased to report that our bankers executed it flawlessly.

We identified several major goals to restore our superior credit quality and to remove the restrictions that were keeping us from executing growth plans and maximizing the value of your investment in United. These goals included reducing our classified assets to less than 30 percent of our tier 1 regulatory capital plus our allowance for loan losses; reversing the valuation allowance on our deferred tax asset; terminating the MOUs; and redeeming our TARP preferred stock. It is a pleasure to report that we have accomplished these goals and are now focused on growing the business.

Let me take a moment to describe our 2013 accomplishments in more detail, and how they affect us going forward.

Restoration of credit quality measures to among the industry's best

During the second quarter we completed sales of $172 million in classified assets, a momentous event for our company and the culmination of several quarters of planning and coordination with regulators. After these transactions our classified asset ratio (classified assets to tier 1 regulatory capital plus our allowance for loan losses) was below the 30 percent target, and our ratio of nonperforming assets to total assets was not only much improved but was among the lowest in the country among banks of similar size. Accompanying benefits were significantly lower costs from work-out related expenses including charge-offs, loan loss provisions, foreclosed property management, and legal and appraisal fees.

> Our improved asset quality and sustained profitability led to the release of our $272 million deferred tax asset valuation allowance which added $4.69 to our tangible book value.

Our improved asset quality and sustained profitability over several quarters led to the release of our $272 million deferred tax asset valuation allowance in the second quarter. This reversal allowed our substantial tax benefit to be reflected on the balance sheet and added $4.69 to our tangible book value, which was important to our stock valuation. Stock prices trade at multiples of tangible book value, so our stock price was understated as long as the valuation allowance was in place. During 2013 our stock price increased 88 percent.

Achieving our goals and laying the foundation for strong performance

Since mid-2010 we had been subject to two informal memorandums of understanding with regulators. The MOU with the Federal Deposit Insurance Corporation (FDIC) and Georgia Department of Banking and Finance (GDBF) was lifted in December 2013, and the MOU with the Federal Reserve Bank and the GDBF was lifted a month later. These were pivotal events that lowered our deposit insurance costs, freed us to expand into new markets through acquisitions and branching, removed other restrictions and reporting requirements, and allowed us to re-establish dividends from the bank to the holding company for the first time since 2008.

As we knew would be the case when we adopted our aggressive plan in late 2012, achieving one goal led to achieving another. The dramatic improvement in credit quality led to the lifting of the MOUs, which allowed us to re-establish the bank dividend to the holding company, which was critical to redeeming the preferred stock that we had issued in late 2008 under the U.S. Treasury's Troubled Asset Relief Program (TARP). Bank dividends, along with cash on hand and short-term debt, financed our redemption of $180 million in preferred stock in late 2013 and early 2014, shortly before the dividend rate was set to increase – another significant cost savings. In March 2014 we redeemed the remaining $16.6 million of outstanding preferred stock, marking the end of these costly obligations. The full $197 million redemption was accomplished without issuing common stock that would have diluted the holdings of our shareholders.

Redeeming the preferred stock was critical to maximizing earnings per share. So were reducing credit-related and FDIC insurance expenses, as we did significantly with our classified asset improvements and MOU releases, and finding other ways to lower costs. Our improved credit measures and stronger earnings performance led to lower borrowing costs, and in the third quarter we refinanced $35 million in subordinated debt with senior notes at a one and a half percent lower rate. These and other expense reductions contributed to an operating efficiency ratio of 60 percent at the end of 2013, compared to 72 percent a year before.

We have over the past year cited a goal of a one percent return on assets by the fourth quarter of 2014, but the timing may be delayed into 2015 due to the preferred stock redemption. Payment of preferred stock dividends is not included in the return on assets calculation, whereas borrowing costs for trust preferred securities are included. Redeeming our preferred stock had a tremendous impact on our top priority of improving earnings per share. With the preferred stock redemptions now behind us, we return our attention to improving return on assets, which at .86 percent in the fourth quarter is well down the path toward achieving our goal.

> As we knew would be the case when we adopted our aggressive plan in late 2012, achieving one goal led to achieving another.

While making significant headway in resolving credit quality, efficiency and regulatory challenges, we also focused on reinvesting in strategic business growth on four major fronts: quality loans, other strategic business growth, specialized revenue-producing talent, and outstanding service.

Strategic growth: talent, markets and products

In late 2012 we opened a loan production office in Greenville, South Carolina, where Lynn Harton has deep market knowledge and relationships from his years of financial services leadership in the state. Greenville and the state of South Carolina consistently rank high nationally for having a favorable business climate. During 2013 we opened a full-service office, added new commercial lenders, and by year-end produced outstanding loan balances of $61 million and unfunded loan commitments of another $132 million. In the second quarter of 2013 we entered Nashville, Tennessee with experienced lenders in that market's busy healthcare sector, and by year-end added $28 million in outstanding loan balances. Demographic trends are driving growth in healthcare, and we will leverage our new expertise in that sector across the United footprint.

In 2012 we introduced a home equity line of credit with a low introductory rate for the first year, followed by a reset to prime plus. At the end of 2013 the product had over $196 million in balances, of which $84 million had reset. Early in 2013 we introduced SmarterMortgage, an in-house product that allows customers to refinance conveniently and with low closing costs, and by year-end had booked over 1,000 new loans totaling $141 million. Not only did these new products create new balances; they also, and even more importantly, brought us many new customer relationships. We are investing our strong deposit growth into these mostly variable-interest mortgage products, and they are helping diversify the loan portfolio and reduce exposure to rising interest rates.

Not only did these new products create new balances; they also, and even more importantly, brought us many new customer relationships.

We worked hard and successfully to improve operating efficiency, while at the same time making sensible and opportunistic strategic investments in our future. Our entry into Nashville and expansion in Greenville are examples of such opportunities, and we see more ahead including growing the mortgage business, particularly in our newer and more metropolitan markets. To that end, in the third quarter of 2013 we hired a 29-year mortgage banking veteran as president of United Community Mortgage Services. Under his leadership we will make mortgage banking an even stronger part of our relationship strategy. We also added new leadership in advisory and treasury services, and are already seeing tremendous progress. To support our retail banking focus and centralize consumer underwriting, we added a senior retail credit officer with over 30 years of experience in these disciplines. We have added seasoned bankers in many back office support functions. This new talent enhances our already solid banking team and provides a strong and dependable platform for growth.

Customer service

Products and delivery systems look much alike from bank to bank – but there is a difference in service, and that is an area where United Community Bank continues to excel. I know we aren't the only company to make such a claim, but don't take it from me; third-party research organizations have repeatedly verified our competitive service difference. In early 2012, Customer Service Profiles awarded United the highest customer satisfaction rating of all banks they studied nationwide. In early 2013 another well known and highly respected national market research company cited us as having the second-highest customer satisfaction score in the Southeast. With a score of 835, we missed the top spot by one point. In early 2014 it happened again, with United being recognized in the March issue of *Fortune* magazine as one of the top customer service champions across all industries. The countless ways that our people serve customers so well, with genuine care consistently day-in and day-out, is absolutely extraordinary. The story continues, and that speaks very well for our future.

Products and delivery systems look much alike from bank to bank – but there is a difference in service, and that is an area where United Community Bank continues to excel.

Looking forward

The achievements of 2013 have laid vital groundwork for the future. They are as important as they are long in coming – the culmination of five years of hard work and perseverance among our bankers. They stood their ground and executed through hard times, while adapting to changes in our industry along the way. They did more with less: 2013 total operating expenses were 7 percent or $12 million lower than in 2012; and 33 percent or $87 million lower than in 2011. They kept a steadfast focus on customers, who rewarded them – awarded all of us – by remaining loyal to our bank. A look back at these difficult years is encouraging in one very important sense; it shows what this team is capable of in years to come.

While the future looks brighter, it is not without challenges. The economic recovery continues, but on its own slow pace. Our industry is seeing loan growth, albeit gradual. Interest margins are narrow and regulations have increased. Pricing pressure will likely remain near-term from competition and the low interest rate environment.

A look back at these difficult years is encouraging in one very important sense; it shows what this team is capable of in years to come.

With credit quality under control, our attention is laser-focused on advancing the business and earnings. That means growth from targeted high-opportunity areas including commercial, SBA, asset-based and mortgage lending, and, on the fee revenue side, financial advisory and brokerage services. We look for continued solid performance from the mix of floating and fixed rate securities in our investment portfolio. Floating rate securities are part of our overall interest rate risk management program. We are well prepared for an eventual rise in interest rates. We are carefully managing expenses while strategically investing in markets, services and talent. With the release of the MOUs we are able to evaluate acquisition opportunities that can add value in and around our footprint.

Much has changed for the better. We leave behind the troubles of the financial crisis but carry forward the lessons learned and the valuable experience gained through the process. We move ahead with strong risk management practices, a well diversified loan portfolio and an exceptional team of bankers unmatched in the industry. I am grateful for the strong support of our customers, the wise counsel of our board members, and the remarkable character of our employees. As for our shareholders, the first priority, always and especially after these recent years, is to reward your loyalty by increasing the value of your investment in United Community Banks.

Sincerely,

Jimmy Tallent

CONSOLIDATED STATEMENT OF OPERATIONS

(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)	237,140	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

CONSOLIDATED BALANCE SHEET

(in thousands, except per share data)	**2013**	**2012**
ASSETS		
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

SELECTED FINANCIAL DATA - QUARTERLY CORE SUMMARY

(in millions, except per share data; taxable equivalent)	2013 Q-4	2013 Q-3	2013 Q-2	2013 Q-1	2012 Q-4
CORE EARNINGS SUMMARY					
Net interest revenue	$ 55.9	$ 54.2	$ 54.9	$ 54.6	$ 56.1
Core fee revenue [1]	13.2	14.0	14.1	12.6	14.6
Core revenue [1]	69.1	68.2	69.0	67.2	70.7
Core operating expenses [2]	41.2	39.3	42.1	40.9	41.5
Core earnings (pre-tax, pre-credit) [1][2]	**27.9**	**28.9**	**26.9**	**26.3**	**29.2**
Provision for loan losses	(3.0)	(3.0)	(48.5)	(11.0)	(14.0)
Foreclosed property costs:					
Write downs and gains/losses from sales	.4	.3	(4.3)	(1.1)	(3.2)
Other expenses	(.6)	(.5)	(.8)	(1.2)	(1.4)
Severance costs	-	(.4)	(1.6)	(.4)	(.5)
Securities gains, net	.1	-	-	.1	-
Gain on bank-owned life insurance	-	.1	1.4	-	-
Provision for litigation settlement	-	-	-	-	(4.0)
Gain on sale of low income housing tax credits	-	-	.5	-	-
Income tax (expense) benefit	(8.9)	(9.9)	256.4	(.9)	(.8)
Net income	15.9	15.5	230.0	11.8	5.3
Preferred dividends and discount accretion	2.9	3.1	3.1	3.1	3.1
Net income available to common shareholders	$ **13.0**	$ **12.4**	$ **226.9**	$ **8.7**	$ **2.2**
PERFORMANCE MEASURES					
Per common share:					
Diluted earnings	$ .22	$ .21	$ 3.90	$ .15	$ .04
Book value	11.30	10.99	10.90	6.85	6.67
Tangible book value [3]	11.26	10.95	10.82	6.76	6.57
Key performance ratios:					
Net interest margin [4]	3.26 %	3.26 %	3.33 %	3.37 %	3.45 %
Return on assets [4]	.86	.86	13.34	.70	.31
Return on common equity [4][5]	7.52	7.38	197.22	8.51	2.15
Tangible equity to assets (period end) [3]	10.71	11.73	11.51	8.58	8.47
Tangible common equity to assets (period end) [3]	9.07	9.01	8.78	5.72	5.60
ASSET QUALITY*					
Nonperforming loans	$ 26.8	$ 26.1	$ 27.9	$ 96.0	$ 109.9
Foreclosed properties	4.2	4.5	3.9	16.7	18.3
Total nonperforming assets (NPAs)	31.0	30.6	31.8	112.7	128.2
Allowance for loan losses	76.8	80.4	81.8	105.8	107.1
Net charge-offs	4.4	4.5	72.4	12.4	14.5
Allowance for loan losses to loans	1.77 %	1.88 %	1.95 %	2.52 %	2.57 %
Net charge-offs to average loans [4]	.41	.42	6.87	1.21	1.39
NPAs to loans and foreclosed properties	.72	.72	.76	2.68	3.06
NPAs to total assets	.42	.42	.44	1.65	1.88
AT PERIOD END					
Loans*	$ 4,329	$ 4,267	$ 4,189	$ 4,194	$ 4,175
Investment securities	2,312	2,169	2,152	2,141	2,079
Total assets	7,425	7,243	7,163	6,849	6,802
Deposits	6,202	6,113	6,102	6,026	5,952
Shareholders' equity	796	852	829	592	581
Common shares outstanding	59.4	59.4	57.8	57.8	57.7

(1) Excludes net securities gains and losses, losses from the prepayment of borrowings, gains from the sale of low income housing tax credits and gain on bank owned life insurance. (2) Excludes foreclosed property costs and severance costs. (3) Excludes the effect of acquisition related intangible assets. (4) Annualized. (5) Net income available to common shareholders, which is net of preferred dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). * Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

CORPORATE INFORMATION

Financial Information

Analysts and investors seeking financial information should contact:
Rex S. Schuette
Executive Vice President and
Chief Financial Officer
(706) 781-2265
rex_schuette@ucbi.com

This Annual Report contains forward-looking statements that involve risk and uncertainty and actual results could differ materially from the anticipated results or other expectations expressed in the forward-looking statements. A discussion of factors that could cause actual results to differ materially from those expressed in the forward-looking statements is included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

This Annual Report also contains financial measures that were prepared on a basis different from accounting principles generally accepted in the United States ("GAAP"). References to operating earnings, pre-tax, pre-credit earnings and core earnings are non-GAAP financial measures. Management has included such non-GAAP financial measures because such non-GAAP measures exclude certain non-recurring revenue and expense items and therefore provide a meaningful basis for analyzing financial trends. A reconciliation of these measures to financial measures determined using GAAP is included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

STOCK PRICE

	Quarter	High	Low	Close	Average Daily Volume
2012	4th	$ 9.49	$ 8.01	$ 9.44	202,871
2013	**1st**	$ 11.57	$ 9.59	$ 11.34	195,803
	2nd	12.94	10.15	12.42	184,922
	3rd	16.04	12.15	14.99	341,270
	4th	18.56	14.82	17.75	421,948

Investor Information

Investor information including this report, Form 10-K, quarterly financial results, press releases and various other reports are available online at www.ir.ucbi.com. Alternatively, shareholders may contact Investor Relations at (866) 270-5900 or investor_relations@ucbi.com.

Stock Exchange

United Community Banks, Inc. (Ticker: UCBI) common stock is listed for trading on the NASDAQ Global Select Market.

Registrar Transfer Agent

IST Shareholder Services
433 S. Carlton Ave.
Wheaton, Illinois 60187
(630) 480-0393
Email: info@ilstk.com
www.istshareholderservices.com

Independent Registered Public Accountants

PricewaterhouseCoopers LLP
Atlanta, Georgia

Legal Counsel

Troutman Sanders LLP
Atlanta, Georgia

Equal Opportunity Employer

United Community Banks is an equal opportunity employer. All matters regarding recruiting, hiring, training, compensation, benefits, promotions, transfers and other personnel policies will remain free from discriminatory practices.

Board of Directors

W.C. Nelson, Jr.
Chairman
Owner, *Nelson Tractor Co.*

Jimmy C. Tallent
President
Chief Executive Officer

Robert H. Blalock
Owner, *Blalock Insurance Agency, Inc.*

Clifford V. Brokaw
Managing Director
Corsair Capital

L. Cathy Cox
President, *Young Harris College*

Steven J. Goldstein
Retired Chief Financial Officer
Federal Home Loan Bank of Atlanta

Thomas A. Richlovsky
Retired Chief Financial Officer
Treasurer
National City Corporation

Tim R. Wallis
President
Chief Executive Officer
Wallis Printing Company

Robert L. Head, Jr.
Director Emeritus
Owner, *Head Westgate*

Executive Officers

Jimmy C. Tallent
President
Chief Executive Officer

H. Lynn Harton
Executive Vice President
Chief Operating Officer

Rex S. Schuette
Executive Vice President
Chief Financial Officer

David P. Shearrow
Executive Vice President
Chief Risk Officer

Bill M. Gilbert
Director of Banking

United Community Banks, Inc.
125 Highway 515 East | Blairsville, Georgia 30512
706.781.2265 | 866.270.7200 | ucbi.com

United Community Banks®

ucbi.com