UNITED COMMUNITY BANKS INC
Form S-4/A
October 20, 2006

As filed with the Securities and Exchange Commission on October 20, 2006

File No. 333-137868

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Pre-Effective Amendment No. 1
to
FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

Georgia	**6022**	**58-1807304**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

United Community Banks, Inc.
Post Office Box 398, 63 Highway 515
Blairsville, Georgia 30512
(706) 745-2151
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jimmy C. Tallent
Post Office Box 398, 63 Highway 515
Blairsville, Georgia 30512
(706) 745-2151
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

Richard R. Cheatham
Kilpatrick Stockton LLP
1100 Peachtree Street, Suite 2800
Atlanta, Georgia 30309-4530
(404) 815-6500

Kathryn L. Knudson
Powell Goldstein LLP
One Atlantic Center, 14th Floor
1201 West Peachtree Street
Atlanta, Georgia 30309
(404) 572-6600

Approximate date of commencement of proposed sale to the public: The exchange of Registrant's shares for shares of common stock of Southern Bancorp, Inc. will take place upon consummation of the merger of Southern Bancorp, Inc. into the Registrant.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities of an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ____________________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ____________________

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $1.00 per share	2,127,078(1)	Not Applicable	$22,028,513(2)	$2,357.05(2)(3)
Common Stock, par value $1.00 per share, to be issued upon the exercise of options	53,055(4)	$31.52	$1,672,294(5)	$178.94(5)

(1) The number of shares of the Registrant's common stock being registered hereunder is based upon the anticipated maximum number of such shares required to consummate the proposed merger of Southern Bancorp, Inc. into the Registrant. The Registrant will remove from registration by means of a post-effective amendment any shares being registered that are not issued in connection with such merger.

(2) In accordance with Rule 457(f)(2), the registration fee is based upon $22,028,513, the maximum number of shares of common stock of Southern Bancorp, Inc. that may be received by the Registrant pursuant to the merger (1,804,137) multiplied by the book value per share of Southern Bancorp, Inc. as of August 31, 2006 ($12.21).

(3) Previously paid.

(4) The number of shares of the Registrant's common stock being registered hereunder is based upon the number of shares issuable upon the exercise of all outstanding options to purchase Southern Bancorp, Inc. common stock. In addition, pursuant to Rule 416 this Registration Statement shall be deemed to cover any additional shares of common stock of the Registrant as may be issuable in the event of a stock dividend, stock split, recapitalization, or other similar change in the capital structure, merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation, or other distribution of assets, issuance of rights or warrants to purchase securities, or any other corporate transaction or event having an effect similar to any of the foregoing.

(5) Estimated solely for the purpose of calculating the registration fee pursuant to Rules 457(c) and (h) on the basis of $31.52, the average of the high and low prices per share of the Registrant's common stock on October 17, 2006, as reported by the Nasdaq Global Select Market.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

PROXY STATEMENT/PROSPECTUS

These materials are a proxy statement of Southern Bancorp, Inc. and a prospectus of United Community Banks, Inc. They are furnished to you in connection with the notice of special meeting of shareholders to be held on November 21, 2006 that they accompany. At the special meeting of Southern shareholders, you will be asked to vote on the merger of Southern with and into United described in more detail herein. As of October 19, 2006, the record date for the Southern shareholders meeting, there were 1,639,137 shares of common stock outstanding and entitled to vote at that meeting. Approval of the merger requires the affirmative vote of holders of a majority of those shares.

Unless reduced pursuant to the terms of the merger agreement, in connection with the merger if approved and consummated, each share of Southern common stock will be converted into 1.179 shares of United common stock (the "Conversion Ratio"). Up to an aggregate of 2,180,133 shares of United common stock may be issued to Southern shareholders if the merger is approved and consummated, all warrants and options to purchase Southern common stock are exercised at or prior to the closing as required under the merger agreement and there is no conversion ratio adjustment. This document is a prospectus of United with respect to such offering and issuance of United common stock.

United common stock is traded on the Nasdaq Global Select Market under the symbol "UCBI". The closing sales price of United common stock as of September 5, 2006, the date the merger agreement was executed, was $31.59. Assuming the Conversion Ratio remains 1.179, if the merger had been completed on September 5, 2006 at such Conversion Ratio, the implied value of your Southern shares would have been $37.24 based on United's closing stock on that date. The closing sales price of United common stock as of October 19, 2006, the most recent date feasible for including in these materials, was $30.84. On October 19, 2006, the implied value of your Southern shares would have been $36.36 per share based on the 1.179 Conversion Ratio.

The accompanying materials contain information regarding the proposed merger and the companies participating in the merger, and the Agreement and Plan of Reorganization pursuant to which the merger would be consummated if approved. **We encourage you to carefully read the entire document, and the related documents to which it refers. Investing in United common stock involves risks that you should consider that may affect the value of United common stock to be issued in the merger**.

These materials also incorporate important business and financial information about United that is not included in or delivered with them. This business and financial information is available without charge to you upon written or oral request made to Investor Relations, United Community Banks, Inc., at P.O. Box 398, 63 Highway 515, Blairsville, Georgia 30512, telephone number (706) 745-2151. To obtain delivery of such business and financial information before the special meeting, your request must be received no later than November 14, 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of these materials. Any representation to the contrary is a criminal offense. Shares of common stock of United are not savings accounts, deposits or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of these materials are October 20, 2006, and they are expected to be first mailed to shareholders on or about October 23, 2006.

Southern Bancorp, Inc.
200 Cherokee Street
Marietta, Georgia 30060

Notice Of Special Meeting Of Shareholders
To Be Held On November 21, 2006

A special meeting of shareholders of Southern Bancorp, Inc. will be held on November 21, 2006, at 5:00 p.m., at the main office of Southern National Bank, 200 Cherokee Street, Marietta, Georgia, for the following purposes:

1. to consider and vote on an Agreement and Plan of Reorganization, under which Southern Bancorp, Inc. will merge with and into United Community Banks, Inc., as more particularly described in the accompanying materials; and

2. to transact such other business as may properly come before the special meeting or any adjournments of the special meeting.

If Southern shareholders approve the merger, Southern will be merged with and into United. Unless reduced pursuant to the terms of the merger agreement, each share of Southern common stock will be converted into 1.179 shares of United common stock (the “Conversion Ratio”) in connection with the merger, all as more fully explained under the heading “Details of the Proposed Merger-The Merger Consideration” (page 14).

Approval of the merger will require the approval of the holders of at least a majority of the Southern common stock entitled to vote at the special meeting. Only shareholders of record of Southern common stock at the close of business on October 19, 2006 will be entitled to vote at the special meeting or any adjournments thereof. Southern’s board of directors has adopted a resolution approving the merger and the merger agreement and unanimously recommends that you vote for the proposal to approve the merger.

If the merger is completed, Southern shareholders who dissent with respect to the merger will be entitled to receive a cash payment for their shares of Southern common stock if they comply with certain statutory provisions of Article 13 of the Georgia Business Corporation Code regarding the rights of dissenting shareholders, all as more fully explained under the heading “Details of the Proposed Merger-Rights of Dissenting Shareholders” (page 23) and in Appendix B to the accompanying materials.

A form of proxy for use by you is enclosed. To ensure representation at the special meeting, each Southern shareholder is requested to sign, date, and return the proxy card promptly in the enclosed, stamped envelope. A previously submitted proxy may be revoked by notifying Priscilla D. Gamwell, Secretary of Southern, in writing, or by submitting an executed, later-dated proxy prior to the special meeting to Priscilla D. Gamwell, Secretary, Southern Bancorp, Inc., 200 Cherokee Street, Marietta, Georgia 30060. A previously submitted proxy also may be revoked by attending the special meeting and requesting the right to vote in person. A properly signed and returned proxy card, if not revoked, will be voted at the special meeting in the manner specified by the duly submitted proxy.

By Order of the Board of Directors,

October 20, 2006	/s/ J. Edward Mulkey, Jr.
Marietta, Georgia	J. Edward Mulkey, Jr., Chairman

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What am I being asked to approve?

A: You are being asked to approve the Agreement and Plan of Reorganization by and between Southern and United, pursuant to which Southern will be merged with and into United. Approval of the merger requires the affirmative vote of a majority of the outstanding shares of Southern common stock. **The Southern board of directors has unanimously approved and adopted the Agreement and Plan of Reorganization and recommends voting FOR approval of this merger agreement.**

Q: When is the merger expected to be completed?

A: We plan to complete the merger during the fourth quarter of 2006.

Q: What will I receive in the merger?

A: Unless reduced pursuant to the terms of the merger agreement, each share of Southern common stock will be converted into 1.179 shares of United common stock (the "Conversion Ratio") in connection with the merger. United will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of United common stock that you would otherwise be entitled to receive based on the Conversion Ratio.

For example:

Assuming the Conversion Ratio remains 1.179, if you own 100 shares of Southern common stock, you will be entitled to receive 117 shares of United (100 x 1.179, rounded down to the nearest whole share). In addition, you will be entitled to receive cash for your .9 fractional share of United. If closing sales price of United common stock on the closing date of the merger was the same as it was on the date the merger agreement was executed, $31.59, you will be entitled to receive $28.43 cash for your .9 fractional share (.9 x $31.59).

To review what you will receive in the merger in greater detail, see "Details of the Proposed Merger-The Merger Consideration" beginning on page 14.

Q: What will happen to Southern options I hold?

A: Each of the options to purchase shares of Southern common stock will, upon the effectiveness of the merger, become fully vested and immediately exercisable but will be converted into an option to purchase shares of United common stock calculated based on the Conversion Ratio, 1.179. The aggregate exercise price of each Southern option will remain the same, but the per share price for United shares will reflect the Conversion Ratio.

In the merger agreement, Southern agreed to seek and cause all Southern options that are being converted into options to purchase United common stock to be exercised immediately after the merger becomes effective. United and Southern will contact each Southern option holder before the closing date to facilitate that exercise. See "Details of the Proposed Merger-Conversion and Exercise of Southern Options", beginning on page 15, and "Prospectus Delivery for Option Exercises", beginning on page 42.

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Q: What should I do now?

A: Indicate on the enclosed proxy card how you want to vote with respect to the proposed merger, and sign and mail the proxy card in the enclosed envelope as soon as possible so that your shares will be represented at the meeting. If you sign and send in a proxy card but do not indicate how you want to vote, your proxy will be voted in favor of the proposal to approve the merger. A special shareholders meeting will take place on November 21, 2006, at 5:00 p.m. on at the main office of Southern National Bank, 200 Cherokee Street, Marietta, Georgia 30060, to vote on the merger proposal.

You may attend the special meeting and elect to vote your shares in person, rather than voting by proxy. In addition, you may withdraw your proxy up to and including the day of the special meeting by notifying Southern prior to the meeting, in writing, or by submitting an executed, later-dated proxy to: Priscilla D. Gamwell, Secretary, Southern Bancorp, Inc., 200 Cherokee Street, Marietta, Georgia 30060.

Q: What information should I consider?

A: We encourage you to read this entire document carefully. You should also review the factors considered by each company's board of directors discussed in "Details of the Proposed Merger-Background of and Reasons for the Merger" beginning on page 12.

Q: What are the tax consequences of the merger to me?

A: We expect that the exchange of shares of Southern common stock for United common stock by Southern shareholders generally will be tax-free to you for federal income tax purposes. However, you will have to pay taxes at either capital gains or ordinary income rates, depending upon individual circumstances, on cash received in lieu of fractional shares and on gain realized upon the exercise of Southern options. To review the tax consequences to Southern shareholders in greater detail, see "Details of the Proposed Merger-Material Federal Income Tax Consequences of the Merger and Opinion of Tax Counsel" beginning on page 25.

Your tax consequences will depend on your personal situation. You should consult your tax adviser for a full understanding of the tax consequences of the merger to you.

Q: Should I send in my stock certificates now?

A: **No**. After the merger is completed, you will receive written instructions from United for exchanging your Southern common stock certificates for United common stock certificates and cash.

Q: Who should I call with questions?

A: You should call Steven Holcomb, President of Southern at (770) 424-2000.

SUMMARY

This summary highlights selected information from these materials regarding the proposed merger. For a more complete description of the terms of the proposed merger, you should carefully read this entire document, and the related documents to which it refers. The Agreement and Plan of Reorganization, which is the legal document that governs the proposed merger, is included as Appendix A. In addition, the sections entitled "Where You Can Find More Information", on page 44, and "Incorporation of Certain Documents By Reference", on page 44, contain references to additional sources of information about United and Southern.

· **The Companies (see pages 34 and 39)**

United Community Banks, Inc.
63 Highway 515
Blairsville, Georgia 30512
(706) 745-2151

United is the third largest bank holding company based in Georgia with assets of approximately $6.3 billion, loans of approximately $4.8 billion, deposits of approximately $5.0 billion, and stockholders' equity of approximately $496.3 million as of June 30, 2006. United conducts substantially all of its operations through 25 separate "community banks" with 96 locations in north Georgia, metro Atlanta, coastal Georgia, western North Carolina, and east Tennessee through two wholly-owned state chartered bank subsidiaries: United Community Bank, Blairsville, Georgia, and United Community Bank, Murphy, North Carolina. United's 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.

United also operates United Community Mortgage Services, a full-service retail mortgage lending operation approved as a seller/servicer for Fannie Mae and the Federal Home Mortgage Corporation, as a division of its Georgia bank subsidiary, and Brintech, Inc., a New Smyrna Beach, Florida based consulting firm for the financial services industry. Additionally, United provides retail brokerage services through a third party broker/dealer.

Southern Bancorp, Inc.
200 Cherokee Street
Marietta, Georgia 30060
(770) 424-2000

Southern is a bank holding company based in Marietta, Georgia with assets of approximately $328.8 million, loans of approximately $245.4 million, deposits of approximately $293.4 million, and shareholders' equity of approximately $18.7 million as of June 30, 2006. Southern is the parent company of Southern National Bank, a full service bank with its main office in Marietta, Georgia. Southern National Bank operates a branch location in Canton, Cherokee County, Georgia. The bank offers a full range of lending products and traditional banking products and services, including commercial, real estate, and consumer loans, cash management services, and savings and time deposit accounts.

· **The Terms of the Merger (see page 15)**

If Southern shareholders approve the merger, Southern will be merged with and into United. Unless reduced pursuant to the terms of the merger agreement, in connection with the merger each share of Southern common stock will be converted into 1.179 of United common stock, which is referred to herein as the Conversion Ratio.

You will also receive a cash payment, without interest, for the value of any fraction of a share of United common stock that you would otherwise be entitled to receive based on the Conversion Ratio.

Following the merger, Southern's subsidiary, Southern National Bank, will be merged with and into United Community Bank, a wholly-owned Georgia bank subsidiary of United, and United Community Bank will be the surviving bank.

· **The Reasons Management of Both Companies Support the Merger (see page 12)**

The boards of directors of Southern and United support the merger and believe that it is in the best interests of both companies and their respective shareholders. The board of directors of Southern believes that the merger presents Southern with the chance to better service its market and that the merger will permit Southern shareholders to have an equity interest in a resulting financial institution that has greater financial resources with significant economies of scale and a larger shareholder base, which will increase liquidity and marketability of the equity investment of Southern shareholders. The board of directors of United believes that Southern provides United with an expansion opportunity in an attractive market area. Both boards of directors believe that the terms of the merger are fair and equitable and that following the merger the combined bank will maintain the competitive advantage of a community banking business model.

· **Shareholders' Meeting**

The special meeting of shareholders of Southern will be held on November 21, 2006 at 5:00 p.m., at the main office of Southern National Bank, 200 Cherokee Street, Marietta, Georgia 30060, for the purpose of voting on approval of the merger.

· **Record Date**

You are entitled to vote at the shareholders' meeting if you owned shares of Southern common stock on October 19, 2006.

· **Vote Required (see page 18)**

Approval by holders of a majority of the Southern common stock outstanding on October 19, 2006, is required to approve the merger. As of such date, 1,639,137 shares of Southern common stock were issued and outstanding, each of which is entitled to one vote per share. All of the directors and executive officers of Southern have agreed to vote their shares in favor of the merger. There are 489,715 shares, or 35.6%, of Southern common stock beneficially owned (excluding warrants and options) by its directors and executive officers.

· **Conditions, Termination, and Effective Date (see page 15)**

The merger will not occur unless certain conditions are met, and United or Southern can terminate the merger agreement if specified events occur or fail to occur. The merger must be approved by the Southern shareholders, the Board of Governors of the Federal Reserve System, and the Department of Banking and Finance of the State of Georgia. Following the merger, Southern's subsidiary, Southern National Bank, will be merged into United's Georgia bank subsidiary, United Community Bank. The bank merger must be approved by the Federal Deposit Insurance Corporation and the Department of Banking and Finance of the State of Georgia, and notice of the bank merger must be provided to the U.S. Office of the Comptroller of the Currency.

The closing of the merger will occur after the merger is approved by Southern shareholders and the foregoing regulators and after the certificate of merger is filed as required under Georgia law.

· **Rights of Dissenting Shareholders (see page 23)**

You are entitled to dissent from the merger and to receive a cash payment for your Southern common stock if you follow certain statutory provisions regarding the rights of dissenting shareholders under Article 13 of the Georgia Business Corporation Code.

· **Federal Income Tax Consequences (see page 25)**

Southern has received an opinion from Kilpatrick Stockton LLP stating that, assuming the merger is completed as currently anticipated, Southern will not recognize any gain or loss for federal income tax purposes, and shareholders of Southern to the extent they receive United stock will not recognize any gain or loss for federal income tax purposes. All cash you receive in lieu of fractional shares or as payment for exercising your right to dissent, will be treated as amounts distributed in redemption of your Southern common stock and that amount will be taxable under the Internal Revenue Code as either ordinary income or capital gain or loss, depending upon your particular circumstances. Neither United nor Southern has requested a ruling to this effect from the Internal Revenue Service.

Southern is a corporation that is taxed on a modified pass-through basis under Subchapter S of the Internal Revenue Code of 1986, as amended. In contrast, United is a corporation that is taxed at the corporate level under Subchapter C of the Internal Revenue Code of 1986, as amended. As a result, United is subject to taxation on income realized from its operations. There is no "pass-through" of any items of income or loss to the shareholders of United.

· **Accounting Treatment (see page 22)**

The merger will be accounted for as a purchase for financial reporting and accounting purposes.

· **Opinion of Southern's Financial Advisor (see page 26)**

The Carson Medlin Company has rendered an opinion to Southern that based on and subject to the procedures, matters, and limitations described in its opinion and other matters it considered relevant, as of the date of its opinion, the merger consideration is fair from a financial point of view to the shareholders of Southern. A summary of Carson Medlin's opinion begins on page 26 and the full opinion is attached as Appendix C to these materials.

· **Markets for Common Stock**

United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI". The following table sets forth, for the periods indicated, the high, low and closing sales prices per share of United's common stock as quoted on Nasdaq. Amounts have been restated to reflect the pro forma effect of United's three-for-two split effective April 28, 2004:

	High	Low	Close
2006			
Fourth Quarter (through October 19)	$ 32.00	$ 29.03	$ 30.84
Third Quarter	33.10	27.51	30.05
Second Quarter	31.26	27.02	30.44
First Quarter	29.64	26.02	28.15
2005			
Fourth Quarter	30.50	25.32	26.66
Third Quarter	29.36	25.75	28.50
Second Quarter	26.44	21.70	26.02
First Quarter	27.92	23.02	23.73
2004			
Fourth Quarter	29.60	23.17	26.93
Third Quarter	25.45	21.75	24.27
Second Quarter	25.36	21.89	25.18
First Quarter	24.62	21.37	23.73

The closing sales price of United common stock as of September 5, 2006, the date the merger agreement was executed, was $31.59. The closing sales price of United common stock as of October 19, 2006, the most recent date feasible for including in these materials, was $30.84.

There has been no public trading market for Southern common stock. Since 2004, there are two transactions involving a total of 15,000 shares in which Southern common stock was transferred between third parties, and management of Southern has no knowledge of the price at which such transactions took place. The following table sets forth certain information regarding sales of Southern common stock by Southern in private offerings:

Year	Number of Trades	Aggregate Shares	Size of Trades (Shares) Smallest	Largest	Price of Trades Lowest	Highest
2006	3	28,777	216	16,413	$20.25	$21.54
2005	50	148,550	86	22,144	$14.25	$21.54
2004	22	187,207	257	31,464	$10.50	$15.72

We believe the last sale of Southern common stock between shareholders in a private transaction occurred in May 2004 and involved the sale of 10,000 shares.

Assuming the Conversion Ratio remains 1.179, if the merger had been completed on September 5, 2006, the implied value of one share of Southern common stock would have been $37.24 based on United's closing sales price on that date, and, on October 19, 2006, the implied value of one share of Southern common stock would have been $36.36.

There were 62 shareholders of record of Southern common stock as of October 19, 2006.

· **Dividends (see page 21)**

United has declared aggregate cash dividends of $.24 per share in 2006 and declared aggregate cash dividends of $.28 per share in 2005 and $.24 per share in 2004. United intends to continue paying cash dividends, but the amount and frequency of cash dividends, if any, will be determined by United's board of directors after consideration of earnings, capital requirements, and the financial condition of United, and will depend on cash dividends paid to it by its subsidiary banks. The ability of United's subsidiary banks to pay dividends to it is restricted by certain regulatory requirements.

Because of Southern's status as an "S corporation" under federal tax laws, Southern has regularly distributed 35% of its estimated taxable earnings to its shareholders to satisfy the quarterly tax liabilities of its shareholders. As a result, Southern has declared aggregate cash dividends of $.99 per share in 2006 and declared aggregate cash dividends of $1.02 per share in 2005 and $.28 per share in 2004. Southern has agreed pursuant to the merger agreement that it will not pay any cash dividends other than its regular distribution of 35% of estimated taxable earnings without the written consent of United.

· **Differences in Legal Rights Between Shareholders of Southern and United (see page 20)**

Following the merger you will no longer be a Southern shareholder and, if you receive shares of United common stock following the merger, your rights as a shareholder will no longer be governed by Southern's articles of incorporation and bylaws. You will be a United shareholder, and your rights as a United shareholder will be governed by United's articles of incorporation and bylaws. Your former rights as a Southern shareholder and your new rights as a United shareholder are different in certain ways, including the following:

- Southern's bylaws provide for a board of directors consisting of between five and 25 members, while United's bylaws provide for a board of directors consisting of between eight and 14 members.
- The bylaws of Southern set forth different requirements for removal of directors than do the articles of incorporation and bylaws of United.
- Southern and United have different special procedures in their articles of incorporation requiring supermajority approval and disinterested shareholder approval of some business transactions.
- The articles of incorporation of United require a supermajority vote to amend most provisions of its articles of incorporation and bylaws. In some cases, Southern's articles of incorporation and bylaws do not.

- United is subject to filing requirements provided for under the Securities and Exchange Act. Southern is not subject to such requirements.

Interests of Management in the Merger (see page 19)

Some of the directors and officers of Southern have interests in the merger in addition to their interests as shareholders generally, including the following:

- As a condition to closing merger, Steven Holcomb, President and Chief Executive Officer of Southern, will terminate his change in control agreement with Southern for a payment of three times his annual salary and most recent bonus and twelve times his monthly automobile allowance as required by such agreement upon a change in control. Paul Kirtley, Chief Financial Officer of Southern, and Henley Vansant, Executive Vice President of Southern will each terminate their change in control agreements with Southern for a payment to each of one times their annual salary and most recent bonus and, in the case of Mr. Vansant, twelve times his monthly automobile allowance, as required by such agreements upon a change in control.

- As a condition to closing the merger, Steven Holcomb will be provided a change in control agreement by United that will provide him a payment approximately two times his annual salary and bonus in certain circumstances after a change in control of United Community Bank. United will also grant Mr. Holcomb options to purchase 6,000 shares of common stock of United. The options vest in four equal installments over four years beginning on the first anniversary of the closing of the merger and will have an exercise price equal to the fair market value of United common stock on the day the options are granted.

- As a condition to closing the merger, Henley Vansant will be provided a change in control agreement by United that will provide him a payment approximately equal to his annual salary and bonus in certain circumstances after a change in control of United Community Bank. United will also grant Mr. Vansant options to purchase 4,000 shares of common stock of United. The options vest in four equal installments over four years beginning on the first anniversary of the closing of the merger and will have an exercise price equal to the fair market value of United common Stock on the day the options are granted.

- United has agreed to provide J. Edward Mulkey, Jr., Chairman of the Board of Southern, with $100,000 per year for two years in exchange for Mr. Mulkey’s consulting services. In addition, Mr. Mulkey will be provided with an automobile.

- United will generally indemnify and provide liability insurance to the present directors and officers of Southern for actions taken by such directors and officers in such capacities.

- In connection with the merger, United has agreed to provide to officers and employees of Southern who continue employment with United or its subsidiaries employee benefits under employee benefit plans, on terms and conditions substantially similar to those currently provided to similarly situated United officers and employees.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF UNITED

We are providing the following information to help you analyze the financial aspects of the merger. The following tables set forth summary historical operations and financial condition data and summary performance, asset quality and other information of United at and for the periods indicated. You should read this data in conjunction with United's Consolidated Financial Statements and notes thereto incorporated herein by reference into from United's Annual Report on Form 10-K for the year ended December 31, 2005 and Quarterly Report on Form 10-Q for the six months ended June 30, 2006, both of which are incorporate herein by reference. United's "net operating income" is determined by methods other than in accordance with generally accepted accounting principles, or GAAP. Please see "GAAP Reconciliation and Explanation" below for a reconciliation of the difference between United's non-GAAP net operating income and its GAAP net income. Per share amounts and weighted average shares outstanding have been restated to reflect the three-for-two stock split effective April 28, 2004 and the two-for-one stock split effective May 29, 2002.

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(in thousands, except per share data; taxable equivalent)						
INCOME SUMMARY							
Interest revenue	$ 214,525	$154,350	$338,818	$ 239,386	$209,338	$195,932	$210,036
Interest expense	92,472	54,817	127,426	74,794	70,600	76,357	100,874
Net interest revenue	122,053	99,533	211,392	164,592	138,738	119,575	109,162
Provision for loan losses	7,200	5,200	12,100	7,600	6,300	6,900	6,000
Fee revenue	23,734	22,379	46,148	39,539	38,184	30,734	25,267
Total revenue	138,587	116,712	245,440	196,531	170,622	143,409	128,429
Operating expenses	85,705	73,587	155,401	122,568	107,900	91,124	83,906
Income before taxes	52,882	43,125	90,039	73,963	62,722	52,285	44,523
Income taxes	19,914	15,911	33,297	26,807	23,247	19,505	16,208
Net operating income	32,968	27,214	56,742	47,156	39,475	32,780	28,315
Merger-related charges, net of tax	—	—	—	565	1,357	—	1,084
Net income	$ 32,968	$ 27,214	$ 56,742	$ 46,591	$ 38,118	$ 32,780	$ 27,231
OPERATING PERFORMANCE							
Earnings per common share:							
Basic	$ .82	$ .71	$ 1.47	$ 1.31	$ 1.15	$ 1.02	$ .89
Diluted	.80	.69	1.43	1.27	1.12	.99	.87
Return on tangible equity(1)(2)(3)	17.67 %	19.52 %	18.99 %	19.74 %	19.24 %	17.88 %	18.19 %
Return on assets(3)	1.10	1.04	1.04	1.07	1.06	1.11	1.10
Efficiency ratio	58.79	60.36	60.15	60.05	60.89	60.66	62.52
Dividend payout ratio	19.51	19.72	19.05	18.32	17.39	16.34	14.98

GAAP PERFORMANCE							
Per common share:							
Basic earnings	$ .82	$ .71	$ 1.47	$ 1.29	$ 1.11	$ 1.02	$ .86
Diluted earnings	.80	.69	1.43	1.25	1.08	.99	.84
Cash dividends declared (rounded)	.16	.14	.28	.24	.20	.17	.13
Book value	12.34	10.86	11.80	10.39	8.47	6.89	5.98
Tangible book value(2)	9.50	7.85	8.94	7.34	6.52	6.49	5.40
Key performance ratios:							
Return on equity (1)(3)	13.33 %	13.57 %	13.46 %	14.39 %	14.79 %	16.54 %	16.08 %
Return on assets(3)	1.10	1.04	1.04	1.05	1.02	1.11	1.05
Net interest margin(3)	4.34	4.09	4.14	4.00	3.99	4.33	4.51
Dividend payout ratio	19.51	19.72	19.05	18.60	18.02	16.34	15.50
Equity to assets	7.99	7.68	7.63	7.45	7.21	7.01	6.81
Tangible equity to assets(2)(4)	6.23	5.60	5.64	5.78	6.02	6.60	6.18

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	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(in thousands, except per share data; taxable equivalent)						
ASSET QUALITY							
Allowance for loan losses	$ 58,508	$ 49,873	$ 53,595	$ 47,196	$ 38,655	$ 30,914	$ 27,124
Non-performing assets	8,805	13,495	12,995	8,725	7,589	8,019	9,670
Net charge-offs	2,287	2,523	5,701	3,617	4,097	3,111	4,578
Allowance for loan losses to loans	1.22%	1.22%	1.22%	1.26%	1.28%	1.30%	1.35%
Non-performing assets to total assets(3)	.14	.24	.22	.17	.19	.25	.35
Net charge-offs to average loans	.10	.13	.14	.11	.15	.14	.25
AVERAGE BALANCES							
Loans	$ 4,598,355	$3,870,177	$4,061,091	$3,322,916	$2,753,451	$2,239,875	$1,854,968
Investment securities	1,039,198	971,283	989,201	734,577	667,211	464,468	489,332
Earning Assets	5,667,213	4,903,610	5,109,053	4,119,327	3,476,030	2,761,265	2,419,080
Total Assets	6,060,526	5,251,913	5,472,200	4,416,835	3,721,284	2,959,295	2,585,290
Deposits	4,728,731	3,786,276	4,003,084	3,247,612	2,743,087	2,311,717	2,010,105
Stockholders' equity	484,420	403,286	417,309	329,225	268,446	207,312	176,144
Common shares outstanding							
Basic:	40,122	38,234	38,477	36,071	34,132	32,062	31,691
Diluted	41,259	39,412	39,721	37,273	35,252	33,241	32,624
AT PERIOD END							
Loans	$ 4,810,277	$4,072,811	$4,398,286	$3,734,905	$3,015,997	$2,381,798	$2,007,990
Investment securities	974,524	990,500	990,687	879,978	659,891	559,390	470,176
Earning assets	5,862,614	5,161,067	5,470,718	4,738,389	3,796,332	3,029,409	2,554,530
Total assets	6,331,136	5,540,242	5,865,756	5,087,702	4,068,834	3,211,344	2,749,257
Deposits	4,976,650	3,959,226	4,477,600	3,680,516	2,857,449	2,385,239	2,116,499
Stockholders' equity	496,297	415,994	472,686	397,088	299,373	221,579	194,665
Common shares outstanding	40,179	38,283	40,020	38,168	35,289	31,895	32,266

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

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

(3) Annualized.

(4) Based on average balances of tangible equity and tangible assets.

GAAP Reconciliation and Explanation

United's net operating income is determined by methods other than in accordance with GAAP and excludes merger-related and restructuring charges. For analysis purposes, United excludes these charges because its management believes that non-GAAP operating results provide a helpful measure for assessing United's financial performance because the excluded charges are non-recurring and operating income more closely reflects what United could expect to earn during periods of no acquisitions. United's net operating income should not be viewed as a substitute for net income determined in accordance with GAAP and is not necessarily comparable to non-GAAP performance measures that may be presented by other companies. The following is a reconciliation of United's net operating income to GAAP net income:

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(in thousands)						
Total merger-related charges	$ —	$ —	$ —	$ 870	$ 2,088	$ —	$ 1,617
Income tax effect of above charges	—	—	—	305	731	—	533
After-tax effect of merger-related charges	$ —	$ —	$ —	$ 565	$ 1,357	$ —	$ 1,084
Net Income Reconciliation							
Net operating income	$ 32,968	$ 27,214	$ 56,742	$ 47,156	$ 39,475	$ 32,780	$ 28,315
After-tax effect of merger-related charges	—	—	—	(565)	(1,357)	—	(1,084)
Net income (GAAP)	$ 32,968	$ 27,214	$ 56,742	$ 46,591	$ 38,118	$ 32,780	$ 27,231
Basic Earnings Per Share Reconciliation							
Basic operating earnings per share	$ .82	$ .71	$ 1.47	$ 1.31	$ 1.15	$ 1.02	$ .89
Per share effect of merger-related charges	—	—	—	(.02)	(.04)	—	(.03)
Basic earnings per share (GAAP)	$ .82	$ .71	$ 1.47	$ 1.29	$ 1.11	$ 1.02	$ .86
Diluted Earnings Per Share Reconciliation							
Diluted operating earnings per share	$ .80	$ .69	$ 1.43	$ 1.27	$ 1.12	$ .99	$ .87
	—	—	—	(.02)	(.04)	—	(.03)

Per share effect of merger-related charges														
Diluted earnings per share (GAAP)	$	.80	$	.69	$	1.43	$	1.25	$	1.08	$	.99	$	.84

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DETAILS OF THE PROPOSED MERGER

Background of and Reasons for the Merger

In exercising their fiduciary responsibilities to shareholders, Southern's management and board of directors regularly assess the local banking industry, including the regulatory and competitive environment for banking services. The board of directors has, over time, considered the possibility of a number of strategic options in evaluating ways to maximize the value of Southern common stock, to provide liquidity for the shareholders of Southern, and to diversify the Southern shareholders' exposure to a single market concentration. As a result of Southern's growth, during 2005 management and the board of directors began to consider the company's future strategic alternatives, including raising capital to adequately fund continuing growth, slowing the company's growth rather than raising capital, and pursuing a merger with a partner having adequate capital to fund Southern's expected growth.

In March 2006, Southern elected to engage an investment banking firm to advise it on general strategic financial matters including the potential sale of the company. After interviewing five different investment banking firms Southern decided to engage The Carson Medlin Company as its financial advisor based on its extensive merger advisory experience and other significant qualifications. Carson Medlin has detailed knowledge of Southern, is extremely familiar with the Southeastern U.S. banking market, and has significant knowledge of potential partners for a merger or sale of Southern.

In the following weeks, Carson Medlin obtained detailed reports regarding Southern including: company history, markets, management, past and current financial performance, projected financial performance, business plan, asset quality, and branch locations. Southern's executive officers regularly met with Carson Medlin and helped compile a confidential information memorandum on Southern to be used by Carson Medlin to provide to potential strategic partners. Carson Medlin also worked with the Southern's board to develop a list of potential strategic partners that Carson Medlin believed could have an interest in acquiring Southern.

In May and June 2006, Carson Medlin contacted five bank holding companies about potential interest in acquiring Southern. Four of these companies, including United, indicated an interest in learning more about Southern. Carson Medlin entered into confidentiality agreements on behalf of Southern with each of these companies and provided each with a confidential information memorandum.

Southern's executives met with the management teams of several of these interested parties, including United, in the second quarter of 2006 for the purpose of allowing Southern and the interested parties the opportunity to assess the merits of combining the respective organizations. During June and July 2006, Southern held multiple meetings with the management of United. Several members of Southern's management team have been acquainted with certain United executives for many years.

In late July 2006, Southern, United and Carson Medlin held a conference call in which the preliminary terms of an acquisition by United were discussed. United expressed its preliminary indication of interest as a range of values utilizing 100% stock. Carson Medlin and Southern considered the United offer as well as the timing and expectation of offers from the other interested parties. Southern discussed its obligations to give due consideration to all relevant factors, including the short-term and long-term interests of Southern's employees, customers, shareholders and other constituents. After extensive discussion, the parties agreed on a purchase price of $66.5 million, which equated to approximately 2.18 million shares of United common stock. The parties then scheduled their respective due diligence investigations of the other party, and counsel for each party began the preparation of a definitive merger agreement.

On September 5, 2006, the Southern board of directors met to evaluate and discuss the proposed Agreement and Plan of Reorganization between Southern and United. Carson Medlin rendered to the Southern board of directors its oral opinion (subsequently confirmed in writing) that, as of the date of its opinion and based upon and subject to the considerations described in its opinion and other matters that Carson Medlin considered relevant, the proposed merger consideration was fair, from a financial point of view, to holders of Southern common stock. Powell Goldstein LLP, legal counsel to Southern, discussed with the Southern board of directors the legal standards applicable to its decisions and actions with respect to the proposed transactions and reviewed the legal terms of the proposed merger and the related agreements.

Following review and discussion among the members of the Southern board of directors, the Southern board of directors voted to approve the Agreement and Plan of Reorganization with United at the meeting held on September 5, 2006. Southern and United and their counsel finalized, executed, and delivered the definitive agreements for the transaction on that date.

Without assigning any relative or specific weights, the board of directors of Southern considered the following material factors in approving the merger:

- The value and form of the consideration to be received by Southern shareholders relative to the book value and earnings per share of the Southern common stock;

- Information concerning the financial condition, results of operations and business prospects of Southern and of United;

- The financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the terms of the proposed transaction with United;

- A report and opinion presented by Carson Medlin as to the fairness, from a financial point of view, of the consideration to be paid thereunder to the company's shareholders;

- The liquidity of the consideration to be received by the Southern's shareholders in the merger, particularly in view of United's status as a Nasdaq-listed company;

- The alternatives to the merger, including remaining an independent institution;

- The competitive and regulatory environment for financial institutions generally; and

- The fact that the merger is structured as a tax-free reorganization.

The board of directors of Southern believes the merger is in the best interests of its shareholders because the merger will permit them to exchange their ownership in Southern for an equity interest in United, which has greater financial resources and a larger shareholder base than Southern. The board of directors of Southern also believes that the terms of the merger, including the basis of exchange of United common stock for Southern common stock, which was determined through arms-length negotiations between United and Southern, are fair and equitable and take into account the relative earning power of United and Southern, historic and anticipated operations, the economies of scale to be achieved through the merger, the trading prices of the shares of the respective companies, and other pertinent factors.

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The board of directors of Southern believes that in the current regulatory and competitive environment, larger organizations with greater economies of scale, including the ability to spread largely fixed costs over a larger revenue base and the ability to attract management talent able to compete in a more sophisticated financial services environment, will be more successful than smaller organizations. Management of United and Southern believe that there is a future for community banks in the banking industry, but that community banks will be required to achieve a critical size to maintain above-average economic performance.

The Merger Consideration

In connection with the merger, each share of Southern common stock will be converted into the number of shares of United common stock determined by dividing the final "purchase price", as defined by the merger agreement, by $30.50 and then dividing that quotient by 1,849,137, the number of shares of Southern common stock that would be outstanding if all outstanding warrants and options to purchase Southern common stock were exercised. The resulting number is referred to in these materials as the "Conversion Ratio".

The initial "purchase price" used to determine the Conversion Ratio under the merger agreement is $66.5 million. In connection with its due diligence when evaluating the transaction, United determined that there was $4,771,806 in other real estate owned by Southern that United would require that Southern sell as a condition to the closing of the merger. As a result, the merger agreement provides that if Southern is unable to sell all of such other real estate for at least $4,771,806, the $66.5 million purchase price used to determine the Conversion Ratio will be adjusted by an amount equal to (1) 1 times any loss up to $300,000, plus (2) 3.5 times the amount of the loss, if any, that exceeds $300,000. The loss is the dollar amount of any of such other real estate that is owned by Southern as of the closing date of the merger, plus the dollar amount of any difference between the value of the consideration received by Southern upon the sale of the other real estate and $4,771,806, the value assigned to such other real estate in the disclosure memorandum to the merger agreement.

United will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of United common stock that you would otherwise be entitled to receive based on the Conversion Ratio.

Example 1: Assuming the Conversion Ratio remains 1.179, if you own 100 shares of Southern common stock, you will be entitled to receive 117 shares of United (100 x 1.179, rounded down to the nearest whole share). In addition, you will be entitled to receive cash for your .9 fractional share of United. If the closing sales price of United common stock on the closing date of the merger was the same as it was on the date the merger agreement was executed, $31.59, you will be entitled to receive $28.43 cash for your .9 fractional share (.9 x $31.59).

Example 2: Assume that all of Southern's other real estate was sold for $3,771,806. In such case, the total loss for purposes of evaluating a Conversion Ratio adjustment would be $1,000,000 as a result of the $1,000,000 difference between the value attributed to the other real estate and the $3,771,806 sale price for the other real estate.

In the event of such a $1,000,000 loss, the $66.5 million purchase price used to determine the Conversion Ratio would be adjusted by $2,750,000 (1 times the first $300,000 of the loss plus 3.5 times the remaining $700,000 of the loss). The resulting purchase price would equal $63,750,000 ($66,500,000 minus $2,750,000).

In such case, the Conversion Ratio would be 1.130 (($63,750,000/$30.50)/1,849,137). If you owned 100 shares of Southern common stock, you would be entitled to receive 113 shares of United (100 x 1.130, rounded down to the nearest whole share). Although you would be entitled to receive cash for your any resulting fractional share of United, in this case, there would not be a resulting fraction.

Conversion and Exercise of Southern Options

Each of the options to purchase shares of Southern common stock will, upon the effectiveness of the merger, become fully vested and immediately exercisable but will be converted into an option to purchase shares of United common stock calculated based on the Conversion Ratio, 1.179. As a result, those converted options, which presently provide for the purchase of an aggregate of 45,000 shares of Southern common stock, will be converted into options to purchase of an aggregate of 53,055 shares of United common stock. The aggregate exercise price of each Southern option will remain the same, but the per share price for United shares will reflect the Conversion Ratio.

In the merger agreement, Southern agreed to seek and cause all converted Southern options to be exercised immediately after the merger becomes effective. United and Southern will contact each Southern option holder before the closing date to facilitate that exercise. This document is also a prospectus of United with respect to the issuance of United common stock upon the exercise of such converted Southern options. See “Prospectus Delivery for Option Exercises” beginning on page 42.

The Merger Agreement

The material features of the merger agreement are summarized below:

Effective Date

The merger agreement provides that the merger will be effective upon the approval of the merger agreement by shareholders and the filing of the Certificate of Merger reflecting the merger with the Secretary of State of the State of Georgia. The merger is subject to approval by the Board of Governors of the Federal Reserve System and the Department of Banking and Finance of the State of Georgia and the approval of the subsidiary bank merger by the Federal Deposit Insurance Corporation and the Department of Banking and Finance of the State of Georgia. Notice of the bank merger must also be provided to the Office of the Comptroller of the Currency. Management of United and Southern anticipate that the merger will become effective during the fourth quarter of 2006.

Terms of the Merger

If Southern shareholders approve the merger, Southern will be merged with and into United. In connection with the merger, each share of Southern common stock will be converted into the number of whole shares of United common stock represented by the Conversion Ratio and the right to receive a cash payment, without interest, for the value of any fraction of a share of United common stock that you would otherwise be entitled to receive based on the Conversion Ratio.

United shareholders will continue to hold their existing shares of United common stock. If, prior to the merger closing, the outstanding shares of United common stock or Southern common stock are increased through a stock dividend, stock split, subdivision, recapitalization, or reclassification of shares, or are combined into a lesser number of shares by reclassification, reverse stock split, recapitalization, reduction of capital or other transaction, the number of shares of United common stock and cash to be delivered pursuant to the merger in exchange for a share of Southern common stock will be proportionately adjusted.

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If the merger is completed, Southern will be merged with and into United. Following the merger, the articles of incorporation, bylaws, corporate identity, and existence of United will not be changed, and Southern will cease to exist as a separate entity. Following the merger, Southern's subsidiary, Southern National Bank, will be merged with and into United Community Bank, Blairsville, Georgia, a wholly-owned Georgia bank subsidiary of United, and United Community Bank will be the surviving bank.

Registration of United Common Stock

As a condition to the merger, United agreed to register with the Securities and Exchange Commission the shares of United common stock to be exchanged for shares of Southern common stock and to maintain the effectiveness of such registration through the issuance of such shares in connection with the closing of the merger. However, such registration will not cover resales of United common stock by any former holders of Southern common stock and United is under no obligation to maintain the effectiveness of such registration, or to prepare and file any post-effective amendments to such registration, after the issuance of such shares in connection with the closing of the merger.

Termination and Conditions of Closing

The merger agreement may be terminated at any time either before or after approval of the merger agreement by the shareholders of Southern, but not later than the effective date of the merger:

- by either party, if a material adverse change in the financial condition or business of the other party has occurred, which change would reasonably be expected to have a material adverse effect on the market price of such party's common stock; or if material loss or damage to the other party's properties or assets has occurred, which change, loss or damage materially affects or impairs such party's ability to conduct its business;
- by either party, if the other party has not substantially complied with, or substantially performed, the terms, covenants or conditions of the merger agreement, and such non-compliance has not otherwise been waived;
- by either party, in the event of a material breach by the other party of any covenant, agreement or obligation contained in the merger agreement which breach cannot be cured or which has not been cured within 20 days after the giving of written notice of the breach;
- by either party, if the terminating party learns of any facts or conditions not disclosed by the other party in the merger agreement or financial statements, or by United if it learns of any facts or conditions not disclosed by Southern in its disclosure memorandum, which facts or conditions were required to be disclosed, and which materially and adversely affects the terminating party;
- by either party, if any action, suit or proceeding is instituted or threatened against either party seeking to restrain, prohibit or obtain substantial damages in respect of the merger agreement or the consummation of the merger, which, in the good faith opinion of the terminating party makes consummation of the merger inadvisable;
- by either party, if the merger has not occurred on or before February 28, 2007;
- by United, if the holders of more than 5% of the outstanding shares of Southern common stock elect to exercise statutory dissenters' rights; or
- by either party, if the Southern shareholders do not approve the merger agreement.

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Southern must pay to United a termination fee of $3.3 million, if, while a competing offer for Southern by a party other than United is outstanding or has been accepted by Southern:

- either party terminates the agreement because the Southern shareholders did not approve the merger,
- Southern terminates the agreement other than pursuant to one of the first five grounds for termination listed above; or
- United terminates the agreement pursuant to either the second, third or fourth grounds for termination listed above.

The following are some of the required conditions of closing:

- the accuracy of the representations and warranties of all parties contained in the merger agreement and related documents as of the date when made and the effective date;
- the performance of all agreements and the satisfaction of all conditions required by the merger agreement;
- the delivery of officers' certificates, secretary's certificates, and legal opinions to Southern and United by the other;
- approval of the merger by at least a majority of the shares held by Southern shareholders;
- approvals of governmental authorities, and the expiration of any regulatory waiting periods;
- effectiveness of the registration statement of United relating to the shares of United common stock to be issued to Southern shareholders in the merger, of which this document forms a part;
- the receipt by United of a letter from Mauldin & Jenkins Certified Public Accounts, LLC with respect to Southern's unaudited financial statements for 2006;
- all of the other real estate owned by Southern and listed on the disclosure memorandum to the merger agreement shall have been sold;
- all of the 165,000 outstanding warrants to purchase Southern common stock shall have been exercised at least 15 days prior to the closing date;
- all of the 45,000 outstanding options to purchase Southern common stock shall be exercised effective as of the closing date;
- the execution of a termination of the change in control agreements by and between Southern, Southern National Bank and Steven Holcomb, Henley Vansant and Paul Kirtley;
- and execution of a change in control agreement and stock option award agreement by and between United and Steven Holcomb and Henley Vansant; and
- the issuance of certificate of merger by the Secretary of State of the State of Georgia.

Surrender of Certificates

After the effective date of the merger, each shareholder of Southern common stock (as of that date) will be required to deliver the certificates representing such holder's shares of Southern common stock to United's exchange agent, Computershare Ltd., in order to receive payment of the consideration from United in connection with the merger. After such shares of Southern common stock, the shareholder will receive a stock certificate for the number of United common stock for each share of Southern common stock that such shareholder owned on the effective date of the merger. In lieu of a fractional share, a cash payment, without interest, will be paid for any fractional interest in United common stock.

Until a shareholder delivers shares of Southern common stock to United, such shareholder will not receive payment of any dividends or other distributions on shares of United common stock into which the shares of Southern common stock have been converted, if any, and will not receive any notices sent by United to its shareholders with respect to, or to vote, those shares. After delivering the shares to United, the shareholder will then be entitled to receive any dividends or other distributions, without interest, which become payable after the merger and prior to the holder's delivery of the certificates to United.

Required Shareholder Approval

The holders of a majority of the outstanding shares of Southern common stock entitled to vote at the special meeting must approve the merger agreement for the merger to be completed. Abstentions from voting and broker non-votes will be included in determining whether a quorum is present and will have the effect of a vote against the merger agreement.

As of October 19, 2006, the record date for determining the shareholders entitled to notice of and to vote at the special meeting, the outstanding voting securities of Southern consisted of 1,639,137 shares of Southern common stock, with each registered holder of Southern common stock being entitled to one vote per share. All of the directors and executive officers of Southern have agreed to vote their shares in favor of the merger. There are 489,715 shares, or 35.6%, of Southern common stock beneficially owned (excluding warrants and options) by its directors and executive officers.

Expenses

All expenses incurred by United in connection with the merger, including all fees and expenses of its agents, representatives, counsel and accountants and the fees and expenses related to filing these materials and all regulatory applications with state and federal authorities will be paid by United. All expenses incurred by Southern in connection with the merger agreement, including all fees and expenses of its agents, representatives, counsel and accountants for Southern will be paid by Southern. The cost of reproducing and mailing these materials will be shared by the parties, with each party paying 50%.

Conduct of Business of Southern Pending Closing

The merger agreement provides that, pending consummation of the merger, Southern will, except with the written consent of United:

- conduct its business in the ordinary course, without the creation of any indebtedness for borrowed money other than deposits and ordinary and customary accounts and credit arrangements;

- maintain its properties and assets in good operating condition, ordinary wear and tear excepted;
- maintain and keep in full force and effect all required insurance;
- preserve its capital structure and make no change in its authorized or issued capital stock or other securities, and grant no right or option to purchase or otherwise acquire any of its capital stock or securities;
- not pay cash dividends other than its regular distribution of 35% of estimated taxable earnings to satisfy the quarterly tax liabilities of its shareholders;
- make no amendment to its articles of incorporation or bylaws, and preserve its corporate existence and powers;
- acquire no business, corporation, partnership, association or other entity or division thereof, and no assets which are material, in the aggregate, to it;
- not sell, mortgage, lease, buy or otherwise acquire, transfer or dispose of any real property or interest therein, or any tangible or intangible asset (other than in the ordinary course of business);
- make no change in its banking and safe deposit arrangements;
- not enter into, renew or cancel any material contracts;
- maintain all books and records in the usual, regular and ordinary course;
- file all reports required to be filed with any regulatory or governmental agencies, and deliver copies of such reports to United promptly after they are filed;
- adopt no new severance plan and grant no severance or termination payments to any officer, director or employee, other than in accordance with existing agreements or the agreements that are conditions to the closing of the merger; and
- not enter into any loan participations or syndications.

In addition, the merger agreement provides that Southern will promptly advise United, orally and in writing, of any change or event having, or which the Southern management believes could have, a material adverse effect on the assets, liabilities, business, operations or financial condition of Southern.

Interest of Management in the Merger

Except as set forth below, no director or officer of Southern, or any of their associates, has any direct or indirect material interest in the merger other than owning shares of Southern common stock which will be converted in the merger into United common stock and cash. United and Southern do not anticipate that the merger will result in any material change in compensation to employees of Southern other than as set forth below.

As a condition to closing merger, Steven Holcomb, President and Chief Executive Officer of Southern, will terminate his change in control agreement with Southern for a payment of three times his annual salary and most recent bonus and twelve times his monthly automobile allowance as required by such agreement upon a change in control. Paul Kirtley, Chief Financial Officer of Southern, and Henley Vansant, Executive Vice President of Southern will each terminate their change in control agreements with Southern for a payment to each of one times their annual salary and most recent bonus and, in the case of Mr. Vansant, twelve times his monthly automobile allowance, as required by such agreements upon a change in control.

As a condition to closing the merger, Steven Holcomb will be provided a change in control agreement by United that will provide him a payment approximately two times his annual salary and bonus in certain circumstances after a change in control of United Community Bank. United will also grant Mr. Holcomb options to purchase 6,000 shares of common stock of United. The options vest in four equal installments over four years beginning on the first anniversary of the closing of the merger and will have an exercise price equal to the fair market value of United common stock on the day the options are granted.

As a condition to closing the merger, Henley Vansant will be provided a change in control agreement by United that will provide him a payment approximately equal to his annual salary and bonus in certain circumstances after a change in control of United Community Bank. United will also grant Mr. Vansant options to purchase 4,000 shares of common stock of United. The options vest in four equal installments over four years beginning on the first anniversary of the closing of the merger and will have an exercise price equal to the fair market value of United common Stock on the day the options are granted.

United has agreed to provide J. Edward Mulkey, Jr., Chairman of the Board of Southern, with $100,000 per year for two years in exchange for Mr. Mulkey's consulting services. In addition, Mr. Mulkey will be provided with an automobile.

United will generally indemnify and provide liability insurance to the present directors and officers of Southern for actions taken by such directors and officers in such capacities.

In connection with the merger, United has agreed to provide to officers and employees of Southern who continue employment with United or its subsidiaries employee benefits under employee benefit plans, on terms and conditions substantially similar to those currently provided to similarly situated United officers and employees.

Differences in Legal Rights Between Shareholders of Southern and United

Following the merger you will no longer be a Southern shareholder and, if you receive shares of United following the merger, your rights as a shareholder will no longer be governed by Southern's articles of incorporation and bylaws. You will be a United shareholder and your rights as a United shareholder will be governed by United's articles of incorporation and bylaws. Your former rights as a Southern shareholder and your new rights as a United shareholder are different in certain ways, including the following:

Composition of Board of Directors

The bylaws of Southern provide that its board of directors will consist of no fewer than five and no more than 25 members. The bylaws of United provide that its board of directors will consist of no fewer than eight and no more than 14 members.

Removal of Directors

The bylaws of Southern provide that directors may be removed with or without cause. If the director is removed for cause, the affirmative vote of the holders of a majority of the issued and outstanding shares is required for removal. If the director is removed without cause, the affirmative vote of the holders of 80% of the issued and outstanding shares is required for removal.

The articles of incorporation of United provide that directors may be removed only for cause and only upon the affirmative vote of the holders of two-thirds of the issued and outstanding shares entitled to vote on the removal.

Approval of Business Transactions

The articles of incorporation of Southern provide that a merger; share exchange; or sale, lease, exchange or other disposition of all or substantially all of the assets of Southern must be approved by either (1) the affirmative vote of 80% of the directors and the holders of a majority of the outstanding shares of common stock of Southern, or (2) a majority of the directors and the holders of at least 70% of the outstanding shares of common stock.

Neither the articles of incorporation nor bylaws of United require any supermajority approval of business transaction generally. The articles of incorporation of United provide that in order to engage in a merger, consolidation, sale or transfer or disposition of all or substantially all of the assets of United, sale of $1 million or more in securities, a plan of liquidation, or any other transaction with any holder of 10% or more of the issued and outstanding shares of United that would increase the percentage ownership of such shareholder, such transaction must be approved by either a resolution adopted by at least three-fourths of the directors then in office, or the affirmative vote of the holders of at least 75% of the outstanding shares of common stock of United and the separate affirmative vote of at least 75% of the outstanding shares of common stock, excluding those shares held by such shareholder.

Amendments to Articles of Incorporation and Bylaws

Southern’s articles of incorporation provide that certain substantive provisions of the articles of incorporation may only be amended by the affirmative vote of the holders of 70% of the issued and outstanding common stock of Southern unless the proposed amendment is approved by the affirmative vote of 80% of the directors then in office. If 80% of the directors then in office approve the proposed amendment, the Georgia Business Corporation Code provides that the amendment must be approved by the affirmative vote of a majority of the issued and outstanding shares of Southern. The bylaws of Southern may be amended by its shareholders by an affirmative vote of the majority of Southern’s issued and outstanding shares or by its Board of Directors by the affirmative vote of a majority of the directors then in office.

The articles of incorporation of United provide that its articles of incorporation may be amended by a majority vote to increase its authorized shares. Otherwise, its articles of incorporation and bylaws may be amended only by the affirmative vote of holders of two-thirds of the shares of United capital stock then issued and outstanding and entitled to vote.

Dividends

United has declared aggregate cash dividends of $.24 per share in 2006 and declared aggregate cash dividends of $.28 per share in 2005 and $.24 per share in 2004. United intends to continue paying cash dividends, but the amount and frequency of cash dividends, if any, will be determined by United’s board of directors after consideration of earnings, capital requirements, and the financial condition of United, and will depend on cash dividends paid to it by its subsidiary banks. The ability of United’s subsidiary banks to pay dividends to it is restricted by certain regulatory requirements.

Because of Southern’s status as an “S corporation” under federal tax laws, Southern has regularly distributed 35% of its estimated taxable earnings to its shareholders to satisfy the quarterly tax liabilities of its shareholders. As a result, Southern has declared aggregate cash dividends of $.99 per share in 2006 and declared aggregate cash dividends of $1.02 per share in 2005 and $.28 per share in 2004. Southern has agreed pursuant to the merger agreement that it will not pay any cash dividends other than its regular distribution of 35% of estimated taxable earnings without the written consent of United.

Southern's dividends have been larger than United's dividends largely due to the"S corporation" status of Southern and the need to make distributions to shareholders to pay taxes on earnings. Dividends would not have been as high if Southern had been required to pay income taxes directly.

Accounting Treatment

The merger will be accounted for as a purchase for financial reporting and accounting purposes. After the merger, the results of operations of Southern will be included in the consolidated financial statements of United. The Merger Consideration will be allocated based on the fair values of the assets acquired and the liabilities assumed. Any excess of cost over fair value of the net tangible and identified intangible assets of Southern acquired will be recorded as goodwill. Any identified intangible asset may be amortized by charges to operations under generally accepted accounting principles.

Resales of United Common Stock by Directors, Executive Officers and Shareholders of Southern

Although United, through these materials, will register the United common stock to be issued in the merger under the Securities Act of 1933, the former directors, executive officers, and 10% or greater shareholders of Southern and certain other affiliates of United (as defined in Rule 405 of the Securities Act) may not resell the United common stock received by them unless those sales are made pursuant to an effective registration statement under the Securities Act, or under Rules 144 and 145 of the Securities Act, or another exemption from registration under the Securities Act. Rules 144 and 145 limit the amount of United common stock or other equity securities of United that those persons may sell during any three-month period, and require that certain current public information with respect to United be available and that the United common stock be sold in a broker's transaction or directly to a market maker in United common stock.

Regulatory Approvals

The Board of Governors of the Federal Reserve System will be required to approve the merger. In determining whether to grant that approval, the Federal Reserve will consider the effect of the merger on the financial and managerial resources and future prospects of the companies and banks concerned and the convenience and needs of the communities to be served.

The Georgia Department of Banking and Finance must also approve the merger. **The Department of Banking and Finance's review of the application will not include an evaluation of the proposed transaction from the financial perspective of the individual shareholders of Southern. Further, no shareholder should construe an approval of the application by the Department of Banking and Finance to be a recommendation that the shareholders vote to approve the proposal. Each shareholder entitled to vote should evaluate the proposal to determine the personal financial impact of the completion of the proposed transaction. Shareholders not fully knowledgeable in such matters are advised to obtain the assistance of competent professionals in evaluating all aspects of the proposal including any determination that the completion of the proposed transaction is in the best financial interest of the shareholder.**

Rights of Dissenting Shareholders

Georgia law confers rights upon shareholders of corporations organized under Georgia law, such as Southern, in certain circumstances, to demand payment for the fair value of all or a portion of their shares, and it establishes procedures for the exercise of those rights. These shareholder rights are referred to within this document as "dissenters' rights".

In general, if the merger is completed, under Article 13 of the Georgia Business Corporation Code, a Southern shareholder who dissents from the merger, and who otherwise complies with the provisions of Article 13, is entitled to demand and receive payment in cash of an amount equal to the fair value of all, but not less than all, of such shareholder's shares of Southern common stock.

For the purpose of determining the amount to be received in connection with the exercise of statutory dissenters' rights under the Georgia Business Corporation Code, Georgia law provides that the fair value of a dissenting Southern shareholder's common stock equals the value of the shares immediately before the effective date of the merger, excluding any appreciation or depreciation in anticipation of the merger.

A dissenting shareholder of Southern must exercise dissenters' rights with respect to all of the shares owned of record by such shareholder, other than those shares registered in the dissenting shareholder's name but beneficially owned by another person. Shares registered in the name of a dissenting shareholder but beneficially owned by another person, may be excluded from a dissenting shareholder's dissent only if the dissenting shareholder notifies Southern in writing of the name and address of each person on whose behalf dissenters' rights are being asserted and the number of shares owned beneficially by such person.

A Southern shareholder who choosing to dissent from the merger and to receive payment in cash of the fair value of shares of Southern common stock owned by such shareholder in accordance with the requirements of the Georgia Business Corporation Code must:

- deliver to Southern, prior to the time the shareholder vote on the merger agreement is taken, a written notice of such shareholder's intent to demand payment for those shares registered in the dissenting shareholder's name if the merger is completed; and
- not vote those shares in favor of the merger agreement.

Any filing of a written notice of intent to dissent with respect to the merger should be sent to: Priscilla D. Gamwell, Secretary, Southern Bancorp, Inc., 200 Cherokee Street, Marietta, Georgia 30060. **A vote against the merger agreement alone will not satisfy the requirements for compliance with Article 13 of the Georgia Business Corporation Code. A shareholder who wishes to dissent from the merger must, as an initial matter, separately comply with <u>all</u> of applicable conditions listed above.**

Within ten days after the vote of Southern shareholders is taken at the special meeting, Southern will provide to each shareholder who timely submitted a written notice of intent to dissent, and who did not vote in favor of the merger at the special meeting, a dissenters' notice that:

- states where the dissenting shareholder must send a payment demand, and where and when the certificates for the dissenting shareholder's shares, if any, are to be deposited;
-

informs holders of uncertificated shares of Southern common stock as to what extent transfer of the shares will be restricted after the payment demand is received;

- sets a date by which Southern must receive the dissenting shareholder's payment demand; and
- is accompanied by a copy of Article 13 of the Georgia Business Corporation Code.

Following receipt of the dissenters' notice from Southern, each dissenting Southern shareholder must deposit Southern share certificates representing the shares subject to the dissent with Southern, or its successor and demand payment from Southern in accordance with the terms of the dissenters' notice. **A dissenting shareholder who does not deposit those share certificate(s) and demand payment from Southern by the date set forth in the dissenters' notice will forfeit any right to payment under Article 13 of the Georgia Business Corporation Code.**

Within ten days after the later of the date that the vote of Southern shareholders is taken at the special meeting, or the date on which Southern receives a payment demand, Southern will send a written offer to each shareholder who complied with the provisions set forth in the dissenters' notice to pay each such shareholder an amount that Southern estimates to be the fair value of those shares, plus accrued interest. The offer of payment will be accompanied by:

- Southern's balance sheet as of the end of a fiscal year ending not more than 16 months before the date of making an offer, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any;
- an explanation of how any interest was calculated;
- a statement of the dissenting shareholder's right to demand payment of a different amount under Section 14-2-1327 of the Georgia Business Corporation Code; and
- a copy of Article 13 of the Georgia Business Corporation Code.

A dissenting shareholder choosing to accept Southern's offer of payment must do so by written notice to Southern within 30 days after receipt of Southern's offer of payment. A dissenting shareholder not responding to that offer within the 30-day period will be deemed to have accepted the offer of payment. Southern must make payment to each shareholder who responds to the offer of payment within 60 days after the making of the offer of payment, or the effective date of the merger, whichever is later. Upon payment, the dissenting shareholder will cease to have any interest in such shares of Southern common stock.

If a dissenting shareholder does not accept, within 30 days after Southern's offer, the estimate of fair value in payment for such shares and interest due thereon and demands payment of some other estimate of the fair value of the shares and interest due thereon, then Southern, within 60 days after receiving the payment demand of a different amount from a dissenting shareholder, must file an action in the Superior Court in Cobb County, Georgia, requesting that the fair value of those shares be determined. Southern must make all dissenting shareholders whose demands remain unsettled parties to the proceeding. If Southern does not commence the proceeding within that 60-day period, it will be required to pay each dissenting shareholder whose demand remains unsettled the amount demanded by the dissenting shareholder.

Southern urges its shareholders to read all of the dissenter's rights provisions of the Georgia Business Corporation Code, which are reproduced in full in Appendix B to these materials and which are incorporated herein by reference.

Material Federal Income Tax Consequences of the Merger and Opinion of Tax Counsel

Receipt of Merger Consideration

Southern has received an opinion from Kilpatrick Stockton, LLP to the effect that, assuming the merger is completed in accordance with the terms of the merger agreement:

- the merger and the issuance of shares of United common stock in connection with the merger, as described in the merger agreement, will constitute a tax-free reorganization under Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended;
- no gain or loss will be recognized by Southern as a result of the merger;
- no gain or loss will be recognized by holders of Southern common stock upon the exchange of Southern common stock for United common stock as a result of the merger;
- the receipt of cash in lieu of fractional shares by any Southern shareholders will be treated as if the fractional share were distributed as part of the exchange and then redeemed by United. Capital gain or loss will be recognized in an amount equal to the difference between the cash received and the basis of the fractional share of United common stock treated as surrendered;
- the aggregate tax basis of United common stock received by shareholders of Southern pursuant to the merger will be the same as the tax basis of the shares of Southern common stock exchanged, decreased by any portion of such tax basis allocated to fractional shares of United common stock that are treated as redeemed by United;
- the holding period of the shares of United common stock received by the shareholders of Southern will include the holding period of the shares of Southern common stock exchanged, provided that the common stock of Southern is held as a capital asset on the date of the consummation of the merger; and
- as a result of the subsidiary merger of Southern National Bank into United Community Bank, no gain or loss shall be recognized to any of Southern National Bank, United Community Bank, Southern, United or holders of Southern common stock.

No ruling will be requested from the Internal Revenue Service with respect to any Federal income tax consequences of the merger.

Southern is a corporation that is taxed on a modified pass-through basis under Subchapter S of the Internal Revenue Code of 1986, as amended. Upon the consummation of the merger, Southern will be required to file a final short-period S corporation corporate income tax return for the period ending on the closing date of the merger. The former holders of Southern common stock will include in their individual returns, as appropriate, the items of income, gain, loss, deduction or credit realized from Southern's final short period.

In contrast, United is a corporation that is taxed at the corporate level under Subchapter C of the Internal Revenue Code of 1986, as amended. As a result, United is subject to taxation on income realized from its operations. There is no "pass-through" of any items of income or loss to the shareholders of United. Shareholders of United are generally taxed on distributions received by United as ordinary dividend income. Under current law, dividends received from United are subject to U.S. federal income tax at ordinary income tax at graduating rates up to 15% if such a distribution occurs before January 1, 2011 and 35% if such a distribution occurs after December 31, 2010 unless current applicable rates on dividend income are changed. Each shareholder receiving United stock as a result of the merger will be required to retain records and file with the shareholder's federal income tax return a statement containing the facts relating to the merger.

Backup withholding at the rate of 28% may apply with respect to dividend or other payments from United to a shareholder unless the recipient (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (2) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. A shareholder who does not provide United with its correct taxpayer identification number may have to pay penalties to the IRS. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the shareholder's federal income tax liability provided that any required information is furnished to the IRS. United will report to its shareholders and to the IRS the amount of any "reportable payments" and any amount withheld with respect to the United common stock during each calendar year.

Conversion and Exercise of Southern Options

There will be no federal tax consequences upon the conversion of a Southern option as part of the merger, either to an option holder or to Southern or United. Upon the exercise of the converted Southern options, each of which is a non-qualified stock option for federal tax law purposes, the amount by which the fair market value of the United common stock received on the date of exercise exceeds the option exercise price will generally be taxable to the option holder as ordinary income and will generally be deductible for tax purposes by United. The option holder's tax basis in the United common stock received upon exercise of the non-qualified stock options will equal the fair market value of such stock on the exercise date.

The subsequent disposition of shares of United common stock acquired upon exercise of such options will generally result in a capital gain or loss (which may be long-term or short-term depending on the holding period) for the option holder calculated based on the difference between the disposition price and the tax basis of such shares.

The preceding discussion relates to the material federal income tax consequences of the merger to Southern shareholders generally. You are advised to consult your own tax advisors as to any state, local, or other tax consequences of the merger.

Opinion of Southern's Financial Advisor

Southern retained The Carson Medlin Company to act as its financial advisor in connection with a possible business merger. Carson Medlin is a nationally recognized investment banking firm that provides specialized corporate finance services to community financial institutions. In the ordinary course of its investment banking business, Carson Medlin is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. Southern selected Carson Medlin as its financial advisor based upon Carson Medlin's qualifications, expertise and reputation in such capacity. Neither Carson Medlin nor any of its affiliates has a material relationship with Southern or United or any material financial interest in Southern or United.

Carson Medlin acted as financial advisor to Southern in connection with the proposed merger with United and participated in certain negotiations leading to the merger agreement. In connection with Carson Medlin's engagement, Southern asked Carson Medlin to evaluate the fairness of the merger consideration to Southern's shareholders from a financial point of view. At the September 5, 2006 meeting of the board to evaluate the merger, Carson Medlin delivered to the Southern board its oral and written opinion that, based upon and subject to various matters set forth in its opinion, the merger consideration was fair to Southern's shareholders from a financial point of view. At this meeting, the Southern board voted to approve the merger and subsequently executed the merger agreement on September 5, 2006.

You should consider the following when reading the discussion of Carson Medlin's opinion in this document:

- The summary of the opinion of Carson Medlin set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion that is attached as Appendix C to this document. You should read the opinion in its entirety for a full discussion to the procedures followed, assumptions made, matters considered and qualification and limitation on the review undertaken by Carson Medlin in connection with its opinion.

- Carson Medlin's opinion does not address the merits of the merger relative to other business strategies, whether or not considered by Southern's board, nor does it address the decision by Southern's board to proceed with the merger.

- Carson Medlin's opinion to Southern's board of directors rendered in connection with the merger does not constitute a recommendation to any Southern shareholder as to how he or she should vote at the special meeting.

The preparation of a financial fairness opinion involves various determinations as to the most appropriate methods of financial analysis and the application of those methods to the particular circumstances. It is therefore not readily susceptible to partial analysis or summary description. In connection with rendering its opinion, Carson Medlin performed a variety of financial analyses. Carson Medlin believes that its analyses must be considered together as a whole and that selecting portions of its analyses and the facts considered in its analyses, without considering all other factors and analyses, could create an incomplete or inaccurate view of the analyses and the process underlying the rendering of Carson Medlin's opinion.

In performing its analyses, Carson Medlin made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of Southern and may not be realized. Any estimates contained in Carson Medlin's analyses are not necessarily predictive of future results or values, which may be significantly more or less favorable than the estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the prices at which the companies or their securities may actually be sold. Except as described below, none of the analyses performed by Carson Medlin was assigned a greater significance by Carson Medlin than any other. The relative importance or weight given to these analyses by Carson Medlin is not necessarily reflected by the order of presentation of the analyses herein (and the corresponding results). The summaries of financial analyses include information presented in tabular format. The tables should be read together with the text of those summaries.

Carson Medlin has relied, without independent verification, upon the accuracy and completeness of the information it reviewed for the purpose of rendering its opinion. Carson Medlin did not undertake any independent evaluation or appraisal of the assets and liabilities of Southern or United nor was it furnished with any appraisals.

Carson Medlin is not an expert in the evaluation of loan portfolios, including under-performing or non-performing assets, charge-offs or the allowance for loan losses; it has not reviewed any individual credit files of Southern or United; and it has assumed that the allowances of Southern and United are in the aggregate adequate to cover potential losses. Carson Medlin's opinion is necessarily based on economic, market and other conditions existing on the date of its opinion and on information as of various earlier dates made available to it which is not necessarily indicative of current market conditions.

In rendering its opinion, Carson Medlin made the following assumptions:

- that the merger will be accounted for as a purchase in accordance with generally accepted accounting principles;
- that all material governmental, regulatory and other consents and approvals necessary for the consummation of the merger would be obtained without any adverse effect on Southern, United or on the anticipated benefits of the merger;
- that Southern had provided it with all of the information prepared by Southern or its other representatives that might be material to Carson Medlin in its review; and
- that the financial projections it reviewed were reasonably prepared on a basis reflecting the best currently available estimates and judgment of the management of Southern as to the future operating and financial performance of Southern.

In connection with its opinion dated September 5, 2006, Carson Medlin reviewed:

- the merger agreement;
- the audited financial statements of United for the five years ended December 31, 2005;
- the audited financial statements of Southern for the five years ended December 31, 2005;
- the unaudited financial statements of United for the six months ended June 30, 2006;
- the unaudited financial statements of Southern for the six months ended June 30, 2006; and
- financial and operating information with respect to the business, operations and prospects of Southern and United.

In addition, Carson Medlin:

- held discussions with members of management of Southern and United regarding the historical and current business operations, financial condition and future prospects of their respective companies;
- reviewed the historical market prices and trading activity for the common stock of Southern and United;
- compared the results of operations of Southern and United with those of certain financial institutions which it deemed to be relevant;
- compared the financial terms of the merger with the financial terms, to the extent publicly available, of certain other recent business combinations of financial institutions; and
- conducted such other studies, analyses, inquiries and examinations as Carson Medlin deemed appropriate.

The following is a summary of all material analyses performed by Carson Medlin in connection with its written opinion provided to the Southern board of directors dated September 5, 2006. The summary does not purport to be a complete description of the analyses performed by Carson Medlin.

Summary of the Proposed Merger

United proposed a purchase price of $66.5 million, which translated into the issuance of up to 2,180,328 shares of United common stock for all the outstanding common stock, warrants and stock options of Southern. As of September 5, 2006, Southern had 1,619,137 common shares outstanding, 185,000 warrants outstanding (at a weighted average strike price of $10.00), and 45,000 outstanding stock options (at a weighted average strike price of $16.52). All stock options and warrants are expected to be exercised or otherwise exchanged at or prior to closing. Therefore, based on Southern's fully diluted shares, the exchange ratio was 1.179 which indicated a transaction value of approximately $69.116 million or $37.38 per fully diluted Southern share. Carson Medlin calculated the transaction value and per share value based upon the terms of the merger agreement and $31.70, United's stock price at a point during the day of the announcement of the merger (and prior to the Southern board meeting) on September 5, 2006. Utilizing Southern's publicly available financial information on September 5, 2006, which was June 30, 2006 unaudited financial information, Carson Medlin calculated the following ratios:

Deal Value and Multiples:(1)	
Aggregate Price / Fully Diluted Share	$37.38
Trnsaction Value / LTM(2) Net Income	20.8x
Transaction Value / Book Value	3.69x
Transaction Value / FD(3) Book Value (including exercise of warrants)	3.36x
Core Deposit Premium	23.9%

(1) Deal multiples based on June 30, 2006 unaudited financial results.
(2) Last twelve months.
(3) Fully diluted.

Analysis of Comparable Merger Transactions

<u>Southeastern Transactions</u>

Carson Medlin selected a group of comparable Southeastern merger and acquisition transactions and compared the pricing multiples to the multiples implied by the merger consideration. Specifically, Carson Medlin selected bank merger and acquisition transactions according to the following criteria:

- Merger and acquisition transactions announced after January 1, 2003.
- Seller located within the Southeastern United States - AL, FL, GA, NC, SC, TN, & VA.
- Seller assets between $250 million and $400 million.

Carson Medlin selected 19 transactions fitting the criteria listed above as being comparable to the proposed merger. Carson Medlin reviewed the multiples of transaction value to Southern's book value, fully diluted book value, twelve months' earnings (fully-taxed), total assets, total deposits and core deposits and computed minimum, maximum and median multiples and premiums for the transactions. These median multiples and premiums were applied to Southern's financial information for the period ended June 30, 2006 and were used to impute a transaction price. As illustrated in the following table, Carson Medlin derived a range of values per fully diluted share of Southern's common stock of $26.27 to $44.63 based upon the median multiples of the selected Southeastern transactions.

	Median Multiple	**Implied Value/Share**	**Southern Merger Consideration**
Transaction Value / Book Value	2.60x	$26.27	3.69x
Transaction Value / FD Book Value	2.60x	28.86	3.36x
Transaction Value / LTM E.P.S.	24.4x	43.97	20.8x
Transaction Value / Total Assets	25.1%	44.63	21.0%
Transaction Value / Total Deposits	27.3%	43.28	23.6%
Tangible Book Premium / Core Deposits	24.8%	38.40	23.9%
			Indicated Price 9/5/06
Average Valuation		**$37.57**	**$37.38**
Implied Range		**$26.27**	**$44.63**

The analysis showed that the merger consideration of $37.38 is within the range of values indicated by the median multiples of the comparable Southeastern transactions.

<u>Atlanta Transactions</u>

In addition to analyzing Southeast transactions Carson Medlin selected a group of comparable Atlanta area merger and acquisition transactions and compared the pricing multiples to the multiples implied by the merger consideration. Specifically, Carson Medlin selected bank merger and acquisition transactions according to the following criteria:

- Merger and acquisition transactions announced after August 1, 2003.
- Seller located within the Georgia counties of Cherokee, Cobb, Dawson, Fulton, Gwinnett, Hall, Henry, Lumpkin, Paulding, Rockdale and Union.

Carson Medlin selected 22 transactions fitting the criteria listed above as being comparable to the proposed merger. Carson Medlin reviewed the multiples of transaction value to Southern's book value, fully diluted book value, twelve months' earnings (fully taxed), total assets, total deposits and core deposits and computed minimum, maximum and median multiples and premiums for the transactions. These median multiples and premiums were applied to Southern's financial information for the period ended June 30, 2006 and were used to impute a transaction price. As illustrated in the following table, Carson Medlin derived a range of values per fully diluted share of Southern's common stock of $25.59 to $44.68 based upon the median multiples of the selected Southeastern transactions.

	Median Multiple	Implied Value/Share	Southern Merger Consideration
Transaction Value / Book Value	2.53x	$25.29	3.69x
Transaction Value / FD Book Value	2.53x	28.12	3.36x
Transaction Value / LTM E.P.S.	24.8x	44.68	20.8x
Transaction Value / Total Assets	24.6%	43.67	21.0%
Transaction Value / Total Deposits	28.0%	44.35	23.6%
Tangible Book Premium / Core Deposits	24.8%	38.46	23.9%
			Indicated Price 9/5/06
Average Valuation		**$37.48**	**$37.38**
Implied Range		**$25.59**	**$44.68**

The analysis showed that the merger consideration per share of $37.38 is within the range of values imputed by the mean and median multiples of the comparable U.S. transactions.

Contribution Analysis

Carson Medlin computed the contribution of United and Southern to various elements of the pro forma entity’s income statement (excluding estimated cost savings and operating synergies) and balance sheet. The following table compares the pro forma ownership in the combined company, based upon the exchange ratio, to each company’s respective contribution to each element of the analysis.

	Contribution	
	Southern	**United**
Pro Forma Fully Diluted	**5.1%**	**94.9%**
Earnings (6/30/06)		
Net Interest Income	4.7%	95.3%
Noninterest Income	2.1%	97.9%
Noninterest Expense	4.1%	95.9%
Core Earnings (Before Loan Loss Provisions)	4.6%	95.4%
Pre-tax Income	5.0%	95.0%
Balance Sheet (6/30/06)	**Southern**	**United**

Loans, net	4.9%	95.1%
Assets	4.9%	95.1%
Deposits	5.6%	94.4%
Equity	3.6%	96.4%
Tangible Equity	4.7%	95.3%

The contribution analysis indicated that the pro forma ownership of United common stock issuable to Southern shareholders in the merger was greater than the net interest income, noninterest income, noninterest expense, core earnings and pre-tax income contributed to United by Southern. The contribution analysis indicated that the pro forma ownership of United common stock issuable to Southern shareholders in the merger was greater than the loans, assets, equity and tangible equity contributed to United by Southern but slightly less than Southern's deposits contributed.

Discounted Cash Flow Analysis

Using a discounted cash flow analysis, Carson Medlin estimated the present value of the future stream of earnings and dividends that Southern could produce over the next five years based upon an internal earnings and balance sheet forecast for 2006 - 2010. Carson Medlin performed discounted cash flow analyses based upon terminal values to both earnings and tangible equity.

In order to derive the terminal value of Southern's earnings stream in 2010, Carson Medlin assumed terminal value multiples ranging from 18.0x to 22.0x of fiscal year 2010 net income. The dividend streams and terminal values were then discounted to present values using different estimated discount rates (ranging from 14.0% to 16.0%) chosen to reflect different assumptions regarding the required rates of return to holders or prospective buyers of Southern common stock. This discounted cash flow analysis indicated a value range between $31.51 and $42.01 per share of Southern common stock. Carson Medlin also applied terminal value multiples ranging from 2.50x to 3.50x fiscal year-end 2010 projected book value. The dividend streams and terminal values of equity were then discounted to present values using discount rates ranging from 14.0% to 16.0%.

The discounted cash flow analyses, based on terminal values of earnings and equity, yielded a range of $28.31 to $43.23 per share of Southern. The value of the consideration offered by United to Southern in the merger is $37.38 per share of United common stock, which is within the range of values indicated from the discounted cash flow analyses.

Selected Peer Group Analysis

Analysis of Southern

Carson Medlin used publicly available information to compare selected financial information for Southern and a group of financial institutions. Carson Medlin compared selected operating results of Southern to those of 76 traded community commercial banks in Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia, which are listed in the *Southeastern Independent Bank Review™*, a proprietary research publication prepared by Carson Medlin quarterly since 1991, the SIBR Peer Group. Carson Medlin considers this group of financial institutions more comparable to Southern than larger, more widely traded regional financial institutions and similar in scope of operations for purposes of this analysis. Carson Medlin compared, among other factors, profitability, capitalization, asset quality and operating efficiency of Southern to these financial institutions. Carson Medlin noted the following performance based on results at or for the twelve months ended March 31, 2006 (most recent available) for the SIBR peer group and June 30, 2006 for Southern.

	Balance Sheet Highlights				Performance Ratios					
	Assets	Loans	Deposits	Equity	ROA	ROE	Margin	Equity/ Assets	NPA Ratio	Effic. Ratio
	(dollars in millions)				%	%	%	%	%	%
SIBR Average	720	529	576	69	1.05	11.7	4.25	9.2	0.70	61.2
SIBR Median	510	379	399	43	1.03	11.7	4.15	9.1	0.52	61.7
Southern	329	245	293	19	1.18	19.9	4.40	5.7	2.24	56.2

Southern's performance is in line with the selected peer group.

Analysis of United

Carson Medlin used publicly available information to compare selected financial information for United and two groups of financial institutions. The first peer group (Southeast) consisted of six Southeastern bank holding companies of similar asset size (approximately $5-10 billion). The second peer group (Selected) consisted of 15 banks throughout the U.S. that United frequently compares its financial performance. These banks generally had assets from $5 to $8 billion.

The following table compares United to each peer group:

	United	Southeast Peer Group	Selected Peer Group
Trading Data			
Price/ Book	2.55x	2.25x	2.20x
Price/ Tangible Book	3.35x	2.84x	3.37x
Price/ 2006 EPS	19.1x	16.1x	15.7x
Price/ 2007 EPS	16.8x	14.6x	14.5x
Dividend Yield	1.0%	2.4%	2.8%
Market Cap ($ millions)	1,265.2	1,618.8	1,329.6
Avg Daily Volume	70,720	92,965	150,472
Financial Performance			
ROA(1)	1.09%	1.36%	1.30%
ROE(2), tangible	18.36%	20.75%	20.35%
Net Interest Margin	4.31%	3.89%	4.20%
Efficiency Ratio	58.0%	58.2%	57.5%
Equity/Assets	7.84%	8.89%	9.58%
Net Charge Off Ratio	0.10%	0.05%	0.09%
NPAs(3)/Assets	0.14%	0.16%	0.28%

(1) Return on assets.
(2) Return on equity.
(3) Non-performing assets.

United's common stock trading and liquidity characteristics are in line with the selected peer group.

Historical Stock Performance Analysis

Carson Medlin reviewed and analyzed the historical trading prices and volumes of United common stock over recent periods. United's stock trades on the Nasdaq Global Select Market under the symbol "UCBI" and closed at $31.49 per share on September 1, 2006 and was trading at $31.70 on the day of the merger announcement on September 5, 2006. Carson Medlin noted that United's stock returned 16% over the last twelve months as of September 1, 2006. United's Southeast and Selected peer groups increased 21% and 8% over the same period, respectively. The Nasdaq Bank Index increased 8% over the same period. United has traded in a range from $25.32 per share to $33.10 per share in the 52 weeks preceding September 1, 2006. United's stock trading volume has been strong over the period analyzed averaging 70,720 shares per day. United paid a quarterly dividend of $.08 per share in the first and second quarters of 2006.

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Based on the results of the various analyses described above, Carson Medlin concluded that the consideration to be received by Southern's shareholders under the merger agreement is fair, from a financial point of view, to the shareholders of Southern.

The opinion expressed by Carson Medlin was based upon market, economic and other relevant considerations as they existed and could be evaluated as of the date of the opinion. Events occurring after the date of issuance of the opinion, including but not limited to, changes affecting the securities markets, the results of operations or material changes in the assets or liabilities of Southern or United could materially affect the assumptions used in preparing the opinion.

Carson Medlin will receive a fee equal to one percent (1.00%) of the aggregate consideration received by the holders of the Southern's common stock and common stock equivalents for all services performed in connection with the sale of Southern and the rendering of the fairness opinion. In addition, Southern has agreed to indemnify Carson Medlin and its directors, officers and employees, from liability in connection with the transaction, and to hold Carson Medlin harmless from any losses, actions, claims, damages, expenses or liabilities related to any of Carson Medlin's acts or decisions made in good faith and in the best interest of Southern.

INFORMATION ABOUT UNITED COMMUNITY BANKS, INC.

General

Financial and other information about United is set forth on United's Form 10-K for the year ended December 31, 2005 (which includes certain provisions of United's Proxy Statement for its 2006 Annual Meeting) and Form 10-Q for the six months ended June 30, 2006, both of which are incorporated herein by reference.

Securities

The authorized capital stock of United currently consists of 100,000,000 shares of common stock, $1.00 par value per share and 10,000,000 shares of preferred stock, $1.00 par value per share. As of October 16, 2006, 40,289,908 shares of common stock were issued and outstanding, exclusive of 372,000 shares reserved for issuance upon conversion of United's prime plus one-quarter percent (¼%) Convertible Subordinated Debentures due December 31, 2006, 23,492 shares issuable to participants in United's Deferred Compensation Plan and 2,654,731 shares reserved for issuance upon the exercise of outstanding options and vesting of restricted stock. At that date, United had 32,200 shares of Series A Non-Cumulative Preferred Stock issued and outstanding.

Common Stock

All voting rights are vested in the holders of the common stock. Each holder of common stock is entitled to one vote per share on any issue requiring a vote at any meeting. The shares do not have cumulative voting rights. Subject to the right of holders of United's Series A Non-Cumulative Preferred Stock to receive dividends, all shares of United common stock are entitled to share equally in any dividends that United's board of directors may declare on United common stock from sources legally available for distribution. The determination and declaration of dividends is within the discretion of United's board of directors. Upon liquidation, holders of United common stock are entitled to receive on a pro rata basis, after payment or provision for payment of all debts and liabilities of United, and after all distributions payments are made to holders of United's Series A Non-Cumulative Preferred Stock, all assets of United available for distribution, in cash or in kind.

The outstanding shares of United common stock are, and the shares of United common stock to be issued by United in connection with the merger will be, duly authorized, validly issued, fully paid, and nonassessable.

Preferred Stock

United is authorized to issue 10,000,000 shares of preferred stock, issuable in specified series and having specified voting, dividend, conversion, liquidation, and other rights and preferences as United's board of directors may determine. The preferred stock may be issued for any lawful corporate purpose without further action by United shareholders. The issuance of any preferred stock that has conversion rights might have the effect of diluting the interests of United's other shareholders. In addition, shares of preferred stock could be issued with certain rights, privileges, and preferences which would deter a tender or exchange offer or discourage the acquisition of control of United.

United's board of directors has designated 287,411 of the 10,000,000 authorized shares of preferred stock as "Series A Non-Cumulative Preferred Stock", of which 32,200 remain outstanding. The Series A stock has a stated value of $10.00 per share, and holders of Series A stock are entitled to a preferential annual dividend of 6%, payable quarterly on each January 1, April 1, July 1 and October 1. The declaration of dividends with respect to the Series A stock is within the discretion of United's board of directors.

In addition, holders of the Series A stock are entitled to receive, on a pro rata basis, distributions upon liquidation prior to any payment by United to the holders of its common stock, in an amount equal to the stated value per share of the Series A stock, plus any accrued but unpaid dividends. The Series A stock has no voting rights, except as required under the Georgia Business Corporation Code, and is not convertible into shares of common stock or other securities of United. United may, at its option, redeem all or part of the Series A stock outstanding by paying cash for such shares in an amount equal to the stated value per share, plus any accrued but unpaid dividends.

6.75% *Subordinated Notes due 2012*

United has outstanding $31.5 million aggregate principal amount of 6.75% Subordinated Notes, due 2012. Interest is payable semi-annually in arrears in cash on June 15 and December 15 of each year. The notes may not be redeemed prior to their maturity. No sinking fund is provided for the notes. The notes are general unsecured obligations of United, subordinated to all existing and future secured and senior indebtedness, and payment of principal of the notes may be accelerated only in the case of bankruptcy, insolvency, receivership, conservatorship or reorganization of United or one of United's bank subsidiaries.

Subordinated Step-up Notes due 2015

United has outstanding $35 million aggregate principal amount of Subordinated Step-up Notes due 2015. The notes bear interest at a fixed rate of 6.25% through September 30, 2010, and at a fixed rate of 7.5% thereafter until maturity or earlier redemption. Interest is payable semi-annually in arrears in cash on March 31 and September 30 of each year. The notes are callable at par on September 30, 2010, and September 30 of each year thereafter until maturity on September 30, 2015. The notes are general unsecured obligations of United, subordinated to all existing and future secured and senior indebtedness, and payment of principal of the notes may be accelerated only in the case of bankruptcy, insolvency, receivership, conservatorship or reorganization of United or one of United's bank subsidiaries.

Convertible Subordinated Debentures

Debentures in the principal amount of $3.1 million that are due on December 31, 2006, were outstanding as of June 30, 2006. These debentures bear interest at the rate of one quarter of one percentage point over the prime rate per annum as quoted in *The Wall Street Journal*, payable on April 1, July 1, October 1, and January 1 of each year to holders of record at the close of business on the 15th day of the month immediately preceding the interest payment date. Interest is computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as applicable. Interest on the debentures is payable, at the option of the board of directors of United, in cash or in additional debentures with the same terms as the outstanding debentures.

The debentures may be redeemed, in whole or in part at the option of United upon at least 20 days and not more than 60 days notice, at a redemption price equal to 100% of the principal amount of the debentures to be redeemed plus interest accrued and unpaid as of the date of redemption. The holder of any debentures not called for redemption will have the right, exercisable at any time up to December 31, 2006, to convert those debentures at the principal amount thereof into shares of United common stock at the conversion price of $8.33 per share, subject to adjustment for stock splits and stock dividends. The debentures are unsecured obligations of United and are subordinate in right of payment to all obligations of United to its other creditors, except obligations ranking on a parity with or junior to the debentures. The debentures were not issued pursuant to an indenture, and no trustee acts on behalf of debenture holders.

Trust Preferred Securities

United has four wholly owned statutory trusts, which issued guaranteed preferred interests in United's junior subordinated deferrable interest debentures. The debentures represent the sole asset of each of the trusts. These debentures qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of the trusts are owned by United. United has entered into contractual arrangements which, taken collectively, fully and unconditionally, guarantee payment of: (1) accrued and unpaid distributions required to be paid on the securities; (2) the redemption price with respect to any securities called for redemption by the respective trust; and (3) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of the respective trust. The following is a description of each trust preferred security.

10.60% Trust Preferred Securities

In September 2000, United formed a wholly owned Connecticut statutory business trust, United Community Statutory Trust I ("United Statutory Trust"), which issued $5 million of guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures. The proceeds from the issuance of the securities were used by United Statutory Trust to purchase $5.2 million of junior subordinated debentures of United, which carry a fixed interest rate of 10.60%. The securities accrue and pay distributions semiannually at a fixed rate of 10.60% per annum of the stated liquidation value of $1,000 per capital security and are mandatorily redeemable upon maturity of the debentures on September 7, 2030, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Statutory Trust in whole or in part, on or after September 7, 2010. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 5.3% in 2010 to .53% beginning in 2019.

11.295% Trust Preferred Securities

In July 2000, United formed a wholly owned Delaware statutory business trust, United Community Capital Trust II ("United Trust II"), which issued $10 million of guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures. The proceeds from the issuance of the securities were used by United Trust II to purchase $10.3 million of junior subordinated debentures of United, which carry a fixed rate of 11.295%. The securities accrue and pay distributions at a fixed rate of 11.295% per annum of the stated liquidation value of $1,000 per capital security. The securities are mandatorily redeemable upon maturity of the debentures on July 19, 2030, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust II in whole or in part, on or after July 19, 2010. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 2.824% in 2010 to .565% beginning in 2019.

8.125% Trust Preferred Securities

In July 1998, United formed a wholly owned Delaware statutory business trust, United Community Capital Trust ("United Trust"), which issued $21 million of guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures. The proceeds from the issuance of the securities were used by United Trust to purchase $21.7 million of junior subordinated debentures of United that carry a fixed interest rate of 8.125%. The securities accrue and pay distributions semiannually at a fixed rate of 8.125% per annum of the stated liquidation value of $1,000 per capital security. The securities are mandatorily redeemable upon maturity of the debentures on July 15, 2028, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust: (1) in whole or in part, on or after July 15, 2008, and (2) in whole (but not in part) at any time within 90 days following the occurrence and during the continuation of a tax event, investment company event or capital treatment time (as defined in the indenture). As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 4.06% in 2008 to .41% in 2017.

Floating Rate Trust Preferred Securities

In June 2004, United acquired Fairbanco Holding Company, Inc. and its wholly owned Delaware statutory business trust, Fairbanco Capital Trust I ("Fairbanco Trust"), which issued $5 million of guaranteed preferred beneficial interests in Fairbanco's junior subordinated deferrable interest debentures. The proceeds from the issuance of the securities were used by Fairbanco Trust to purchase $5.2 million of junior subordinated debentures of Fairbanco that bear interest at the rate of 3.65% per annum over the three-day London Interbank Offered Rate, as calculated quarterly pursuant to the indenture. The securities accrue and pay distributions quarterly at the then applicable interest rate. The securities mature on July 30, 2032 unless the maturity date is accelerated pursuant to the indenture after June 30, 2007. United has the right to redeem the debentures purchased by Fairbanco Trust: (1) in whole or in part, on or after June 30, 2007 at par, and (2) in whole (but not in part) at any time before June 30, 2007 within 60 days following the occurrence and during the continuation of a tax event, investment company event or capital treatment time (as defined in the indenture) at a premium of 3.00%. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will include any accrued but unpaid interest.

Transfer Agent and Registrar

The Transfer Agent and Registrar for United's common stock and the debentures is Computershare Ltd., P.O. Box A3504, 2 LaSalle Street, Third Floor, Chicago, Illinois 60690.

Certain Provisions of United's Articles of Incorporation and Bylaws Regarding Change of Control

Ability to Consider Other Constituencies

United's articles of incorporation permit its board of directors, in determining what is believed to be in the best interest of United and its shareholders, to consider the interests of its employees, customers, suppliers and creditors, the communities in which its offices and establishments are located and all other factors that they consider pertinent, in addition to considering the effects of any actions on United and its shareholders. This provision permits United's board of directors to consider numerous judgmental or subjective factors affecting a proposal, including some non-financial matters, and on the basis of these considerations may oppose a business combination or some other transaction which, viewed exclusively from a financial perspective, might be attractive to some, or even a majority, of its shareholders.

Amendments to Articles of Incorporation and Bylaws

United's articles of incorporation specifically provide that neither the articles of incorporation nor the bylaws of United may be amended without the affirmative vote the holders of two-thirds of the shares issued and outstanding and entitled to vote thereon, except for provisions relating to increasing the number of authorized shares of common and preferred stock of United. This provision could allow the holders of 33.4% of the outstanding capital stock of United to exercise an effective veto over a proposed amendment to the articles or bylaws, despite the fact that the holders of 66.6% of the shares favor the proposal. This provision protects, among other things, the defensive measures included in United's articles of incorporation and bylaws by making more difficult future amendments to the articles of incorporation and bylaws that could result in the deletion or revision of such defensive measures.

Supermajority Approval of Interested Business Combinations

United's articles of incorporation provide that if a proposed business combination between United and any interested shareholder is not approved by three-fourths of all directors of United then in office, the business combination must be approved by the affirmative vote of the holders of at least 75% of the outstanding shares of United's common stock, including the affirmative vote of the holders of at least 75% of the outstanding shares of common stock held by shareholders other than the interested shareholder. This provision may discourage attempts by other corporations or groups to acquire control of United, without negotiation with management, through the acquisition of a substantial number of shares of United's stock followed by a forced merger. This provision may also enable a minority of the shareholders of United to prevent a transaction favored by a majority of the shareholders, and may discourage tender offers or other non-open market acquisitions of United's common stock because of the potentially higher vote requirements for shareholder approval of any subsequent business combination. Additionally, in some circumstances, United's board of directors could, by withholding its consent to such a transaction, cause the 75%/75% shareholder vote to be required to approve a business combination, thereby enabling management to retain control over the affairs of United and their present positions with United.

Removal of Directors

United's articles of incorporation provide that a member of United's board of directors may only be removed for cause, and only upon the affirmative vote of two-thirds of the outstanding shares of capital stock of United entitled to vote thereon. This provision may prevent a significant shareholder from avoiding board scrutiny of a proposed business combination by merely removing directors with conflicting views, and may encourage individuals or groups who desire to propose takeover bids or similar transactions to negotiate with the board of directors. However, outside of the context of an acquisition attempt, it may serve as an impediment to a more legitimate need to remove a director.

INFORMATION ABOUT SOUTHERN BANCORP, INC.

General

Southern is a Georgia corporation and a registered bank holding company under the Bank Holding Company Act of 1956, as amended. Southern was formed on April 2, 1998. It conducts its operations through its wholly owned subsidiary, Southern National Bank, a national banking association ("Southern National"). Southern also owns Southern Lending, LLC, which currently has no operations.

As of June 30, 2006, Southern had total assets of approximately $328.8 million and shareholders' equity of approximately $18.7 million. Net income for the year ended December 31, 2005 was approximately $3.7 million and was approximately $2.8 million for the six months ended June 30, 2006.

Business and Properties

Southern's business is conducted wholly through its subsidiary, Southern National. Southern National is a full-service commercial bank with its main office is located at 200 Cherokee Street, Marietta, Georgia. In addition, Southern National operates a branch office in Canton, Georgia. Southern National was established in December 1998 and offers a full range of lending products and traditional banking products and services, including commercial, real estate, and consumer loans, cash management services, and savings and time deposit accounts.

With an emphasis on responsive and customized service, Southern National offers a range of commercial and retail banking products and services including checking, savings and time deposits, individual retirement accounts, merchant bankcard processing, residential and commercial mortgages, home equity loans, consumer loans, investment loans, small business loans, commercial lines of credit and letters of credit. Southern National focuses on providing individual service and attention to its target customers, which include individuals and small- to medium-sized businesses. Southern National believes it responds to its customers credit requests more quickly and is more flexible in approving complex loans because of the bank's personal knowledge of its customers.

Southern's principal business is to accept deposits from the public and to make loans and other investments. The principal sources of funds for the bank's loans and investments are demand, time, savings and other deposits, repayment of loans and borrowings. The principal source of income for the bank is interest collected on loans and other investments. The principal expenses of the bank are interest paid on deposits, transaction processing costs, employee compensation, office expenses and other overhead expenses.

Lending Services

Southern National's primary lending activity is making real estate loans, particularly construction loans for new residential and commercial properties. Southern's loan portfolio consists primarily of construction and development loans, commercial real estate loans and residential real estate loans primarily in and around Cobb and Cherokee Counties. Southern National also makes non-real estate related commercial loans and consumer loans to individuals in and around Cobb and Cherokee Counties. These loans include certain commercial loans where the bank takes a security interest in real estate as supplemental, but not principal, collateral. Home equity loans and lines of credit are classified as consumer loans. The composition of Southern National's loan portfolio at June 30, 2006 was as follows:

Loan Category	Ratio
Real estate lending	92.6%
Commercial Lending	5.1%
Consumer lending	2.3%

Deposit Services

Southern National seeks to establish core deposits, including checking accounts, money market accounts, and a variety of certificates of deposit and IRA accounts. The primary sources of core deposits are residents of, and businesses and their employees located in, Southern's primary market area. Southern National also obtains deposits through personal solicitation by the bank's officers and directors, direct mail solicitations, and local advertising. Southern National makes deposit services accessible to customers by offering direct deposit, wire transfer, internet banking, night depository, and banking by mail.

Other Banking Services

Given client demand for increased convenience and account access, Southern National offers a range of products and services, including 24-hour telephone and internet banking, direct deposit, traveler's checks, and automatic account transfers. Southern National also participates in a shared network of automated teller machines and a debit card system that the bank's customers may use throughout Georgia and in other states.

Competition

Southern National competes with national and state banks, financial institutions, brokerage firms and credit unions for loans and deposits primarily in Cobb and Cherokee Counties and the northern metropolitan Atlanta area.

Southern National encounters competition in its market area from 36 other commercial banks with 239 branches. These competitors offer a full range of banking services and vigorously compete for all types of services, especially deposits. In addition, in certain aspects of its banking business, Southern National also competes with credit unions, small loan companies, consumer finance companies, brokerage firms, insurance companies, money market funds and other financial institutions. Many of Southern National's competitors enjoy competitive advantages, including greater financial resources, a wider geographic presence, more accessible branch office locations, the ability to offer additional services, more favorable pricing alternatives and lower origination and operating costs. Some of Southern National's competitors have been in businessfor many years and have an established customer base and name recognition. Southern National's competitors include larger national, super-regional and regional banks such as Bank of America, SunTrust, Wachovia, Synovus, BB&T and Regions. In addition, Southern National's competitors that are not depository institutions are generally not subject to the extensive regulations that apply to banks. However, Southern National believes that its competitive pricing, personalized service and community involvement enable it to effectively compete in the Cherokee/Cobb County area.

Employees

Southern National currently employs 52 persons on a full-time or part-time basis, including 16 officers. Southern has no employees that are not also employees of Southern National.

Legal Proceedings

From time to time, Southern National is involved in litigation relating to claims arising out of operations in the normal course of business. As of the date hereof, Southern National is not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material effect on the bank.

Share Ownership of Principal Shareholders, Management and Directors of Southern

The following table sets forth information with respect to the beneficial ownership, as of September 30, 2006, of shares of Southern common stock by (1) each person known by Southern to be the beneficial owner of more than 5% of Southern's issued and outstanding common stock, (2) each of Southern's directors and executive officers, and (3) all directors and executive officers as a group. Except as noted below, Southern believes that each person listed below has sole investment and voting power with respect to the shares included in the table. Because of the rules of beneficial ownership as defined by Rule 13d-3 under the Exchange Act, some shares are reported as being owned by multiple parties in the table below. Please see the footnotes to the table for further information.

Name	Number of Shares[1]	Number of Options or Warrants Exercisable within 60 Days	Percent of Total Outstanding
Joe H. Daniell	47,675(2)	—	2.9%
J.E. Harty	65,000	—	4.0
John B. Harwell	50,000	50,000	5.9
Linda N. Hasty	35,000(3)	—	2.1
Steven L. Holcomb	83,725(4)	10,000	