

UNITED COMMUNITY BANKS INC

Form S-4

August 31, 2017

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As filed with the Securities and Exchange Commission on August 31, 2017

File No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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.

125 Highway 515 East

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

125 Highway 515 East

Blairsville, Georgia 30512

(706) 745-2151

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

James W. Stevens

Troutman Sanders LLP

600 Peachtree Street NE, Suite 5200

Atlanta, Georgia 30308

(404) 885-3721

Geoffrey W. Adams

Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P.

Wells Fargo Capital Center

150 Fayetteville Street, Suite 2300

Raleigh, North Carolina 27601

(919) 821-6738

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

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.

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.

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

Large accelerated filer Accelerated filer
 Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)
 Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

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	4,184,041(1)	Not Applicable	\$ 107,005,247(2)	\$ 12,401.91(3)

(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 Four Oaks Fincorp, Inc., a North Carolina corporation, 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) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933 pursuant to Rules 457(c) and 457(f)(1) and (f)(3) of the Securities Act. The proposed maximum aggregate offering price of the Registrant’s common stock is the result of (i) \$119,872,967, the maximum number of shares of Four Oaks Fincorp, Inc. common stock (“Four Oaks common stock”) that may be received by the Registrant pursuant to the merger, including shares of Four Oaks common stock issuable pursuant to equity awards (6,772,484) multiplied by the market value of the shares of Four Oaks common stock expected to be exchanged for the Registrant’s common stock in connection with the merger, as established by the average of the high and low prices of Four Oaks common stock as reported on the OTC Market’s OTCQX tier on August 29, 2017 of \$17.70, minus (ii) \$12,867,720, the estimated amount in cash to be paid by the Registrant in the proposed merger.

(3) Computed pursuant to Rules 457(f)(1) and 457(c) of the Securities Act, based on a rate of \$115.90 per \$1,000,000 of the proposed maximum aggregate offering price.

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.

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The information in this document is not complete and may be changed. We may not sell the securities offered by this document until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities, and we are not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 31, 2017
PROXY STATEMENT/PROSPECTUS

MERGER PROPOSED — YOUR VOTE IS VERY IMPORTANT

These materials are a proxy statement of Four Oaks Fincorp, Inc. (“Four Oaks”) and a prospectus of United Community Banks, Inc. (“United”). They are furnished to you in connection with the notice of the special meeting of shareholders of Four Oaks to be held on [•], 2017. At the special meeting of Four Oaks shareholders, you will be asked to vote on (1) the merger of Four Oaks with and into United described in more detail herein, (2) the approval, on a non-binding advisory basis, of the compensation that certain executive officers of Four Oaks will receive in connection with the merger pursuant to existing agreements or arrangements with Four Oaks, and (3) the approval of a proposal to adjourn or postpone the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the merger agreement.

As of [•], 2017, the record date for the Four Oaks special meeting of shareholders, there were [•] shares of common stock issued and outstanding and entitled to vote at that meeting. Approval of the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Four Oaks common stock. Approval of the merger-related compensation proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. The proposal to adjourn or postpone the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the merger agreement, will be approved if the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal.

In connection with the merger, if approved and consummated, holders of Four Oaks common stock will be entitled to receive, in exchange for each share of Four Oaks common stock, consideration equal to 0.6178 shares of United common stock and \$1.90 in cash.

As a result, a maximum of 4,184,041 shares of United common stock will be issued to Four Oaks shareholders if the merger is approved and consummated. This document is a United prospectus with respect to the offering and issuance of such 4,184,041 shares of United common stock.

Based on United’s closing price of \$26.48 per share on June 23, 2017, the last trading day before the execution of the merger agreement, the merger consideration represented approximately \$18.26 for each share of Four Oaks common stock and approximately \$124 million on an aggregate basis. Based on United’s closing price of \$[•] per share on [•], 2017, the last practicable trading day before the date of the enclosed document, the merger consideration represented approximately \$[•] for each share of Four Oaks common stock and approximately \$[•] million on an aggregate basis. We encourage you to obtain current market quotations for United common stock and Four Oaks common stock before you vote. United’s common stock is traded on the NASDAQ Global Select Market under the symbol “UCBI,” and Four Oaks’ common stock is traded on the OTCQX tier of the OTC Markets Group Inc. under the symbol “FOFN.”

The accompanying materials contain information regarding the proposed merger and the companies participating in the merger, and the Agreement and Plan of Merger pursuant to which the merger will be consummated if approved. We encourage you to read the entire document carefully, including the “Risk Factors” section beginning on page 18, for a discussion of the risks related to the proposed merger.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of 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 is [•], 2017, and they are expected to be first mailed to shareholders on or about [•], 2017.

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WHERE YOU CAN FIND MORE INFORMATION

Both United and Four Oaks are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which means that they are both required to file certain reports, proxy statements, and other business and financial information with the Securities and Exchange Commission (“SEC”). You may read and copy any materials that either United or Four Oaks files with the SEC at the Public Reference Room of the SEC at 100 F. Street N.E., Washington, D.C. 20549. You may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at <http://www.sec.gov> where you can access reports, proxy, information and registration statements, and other information regarding registrants that file electronically with the SEC. Such filings are also available free of charge at United’s website at <http://www.ucbi.com> under the “Investor Relations” heading or from Four Oaks’ website at <http://www.fouroaksbank.com> under the “Investor Information” link under the “About Us” heading. Except as specifically incorporated by reference into this document, information on those websites or filed with the SEC is not part of this document.

United has filed a registration statement on Form S-4 of which this document forms a part. As permitted by SEC rules, this document does not contain all of the information included in the registration statement or in the exhibits or schedules to the registration statement. You may read and copy the registration statement, including any amendments, schedules and exhibits, at the addresses set forth below. Statements contained in this document as to the contents of any contract or other documents referred to in this document are not necessarily complete. In each case, you should refer to the copy of the applicable contract or other document filed as an exhibit to the registration statement. This document incorporates by reference documents that United has previously filed, and that United may file through the date of the special meeting of Four Oaks shareholders, with the SEC. They contain important information about United and its financial condition. For further information, please see the section entitled “Incorporation of Certain Documents by Reference.” These documents are available without charge to you upon written or oral request to United’s principal executive offices. The address and telephone number of United’s principal executive office is listed below.

United Community Banks, Inc.
125 Highway 515
East Blairsville, Georgia 30512
Attention: Investor Relations
(706) 781-2265

To obtain timely delivery of these documents, you must request the information no later than [•], 2017 in order to receive them before Four Oaks’ special meeting of shareholders.

United’s common stock is traded on the NASDAQ Global Select Market under the symbol “UCBI,” and Four Oaks’ common stock is traded on the OTCQX tier of the OTC Markets Group Inc. under the symbol “FOFN.”

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FOUR OAKS FINCORP, INC.

6114 U.S. 301 South

Four Oaks, North Carolina 27524

Notice Of Special Meeting Of Shareholders

To Be Held On [•], 2017

A special meeting of shareholders of Four Oaks Fincorp, Inc. will be held on [•], 2017, at [•] a.m., at [•] for the following purposes:

1.

To consider and vote on the Agreement and Plan of Merger, under which Four Oaks Fincorp, Inc. (“Four Oaks”) will merge with and into United Community Banks, Inc. (“United”), as more particularly described in the accompanying materials;

2.

To cast a non-binding advisory vote to approve the compensation that certain executive officers of Four Oaks will receive under existing agreements or arrangements with Four Oaks in connection with the merger; and

3.

To consider and vote upon a proposal to approve the adjournment or postponement of the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the merger agreement.

If Four Oaks shareholders approve the merger agreement, Four Oaks will be merged with and into United. Four Oaks shareholders will receive 0.6178 shares of United common stock and \$1.90 in cash in exchange for each of their shares of Four Oaks common stock in the merger.

Approval of the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Four Oaks common stock. Approval of the merger-related compensation proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. Approval of the adjournment proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. Only shareholders of record of Four Oaks common stock at the close of business on [•], 2017 will be entitled to vote at the special meeting or any adjournments thereof. Four Oaks’ 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 agreement, “FOR” the merger-related compensation proposal, and “FOR” the adjournment proposal.

Four Oaks has concluded that its shareholders are entitled to assert appraisal rights with respect to the proposal to approve the merger agreement. Your appraisal rights are conditioned on your strict compliance with the requirements of Article 13 of the North Carolina Business Corporation Act. The full text of that statute is attached as Appendix B to this document.

Business and financial information about Four Oaks is available without charge to you upon written or oral request made to Four Oaks Fincorp, Inc., 6114 U.S. 301 South Four Oaks, North Carolina 27524, Attention: Corporate Secretary, telephone number (919) 963-2177. To obtain delivery of such business and financial information before the special meeting, your request must be received no later than [•], 2017.

YOUR VOTE IS VERY IMPORTANT. You can vote your shares over the internet or by telephone. You may also vote by signing, dating and returning your proxy card or voting instruction form that you received by mail. If you are the record holder of the shares, you may change your vote by: (1) if you voted over the internet or by telephone, voting again over the internet or by telephone by the applicable deadline described herein; (2) if you previously completed and returned a proxy card, submitting a new proxy card with a later date and returning it to Four Oaks prior to the vote at the special meeting; (3) submitting timely written notice of revocation to Four Oaks’ Corporate Secretary, (919) 963-2177, at Four Oaks Fincorp, Inc., 6114 U.S. 301 South, Four Oaks, North Carolina 27524, at any time prior to the vote at the special meeting; or (4) attending the special meeting in person and voting your shares at the special

meeting. If your shares

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are held in street name, you may change your vote by submitting new voting instructions to your brokerage firm, bank or other similar entity or, if you have obtained a legal proxy from your brokerage firm, bank, or other similar entity giving you the right to vote your shares, you may change your vote by attending the special meeting and voting in person.

By Order of the Board of Directors,

[•], 2017

Four Oaks, North Carolina

Ayden R. Lee, Jr., Chairman

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q:

What am I being asked to approve?

A:

Four Oaks shareholders are being asked to (1) approve the Agreement and Plan of Merger between Four Oaks and United, pursuant to which Four Oaks will be merged with and into United, (2) approve, on a non-binding advisory basis, the compensation that certain executive officers of Four Oaks will receive in connection with the merger pursuant to existing agreements or arrangements with Four Oaks, and (3) approve a proposal to adjourn or postpone the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the merger agreement. Approval of the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Four Oaks common stock. Approval of the merger-related compensation proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. Approval of the adjournment proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. The Four Oaks Board of Directors has unanimously approved and adopted the merger and the merger agreement and recommends voting “FOR” approval of the merger agreement, “FOR” approval of the merger-related compensation proposal, and “FOR” approval of the adjournment proposal.

Q:

When is the merger expected to be completed?

A:

We plan to complete the merger during the fourth quarter of 2017.

Q:

What will I receive in the merger?

A:

Holders of Four Oaks common stock will receive 0.6178 shares (which we refer to as the “exchange ratio”) of United common stock and \$1.90 in cash for each share of Four Oaks common stock. 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 in an amount equal to such fractional part of a share of United common stock multiplied by the purchase price per share of Four Oaks common stock as determined by multiplying (i) the exchange ratio by (ii) the closing price for United common stock on the NASDAQ Global Select Market trading day immediately preceding the effective time of the merger.

To review what you will receive in the merger in greater detail, including the treatment of any outstanding equity awards for Four Oaks common stock that you may hold, see “Proposal No. 1 — The Merger — The Merger Consideration” beginning on page 43.

Q:

What should I do now?

A:

After you have carefully read this document, please vote by proxy over the internet, by telephone or through the mail. If you hold shares of Four Oaks common stock in more than one account, you must separately vote the shares in each account over the internet, by telephone or through the mail. If you vote over the internet or by telephone, you do not need to return any documents through the mail.

If you vote using one of the methods described below, you will be designating Ayden R. Lee, Jr. and David H. Rupp as your proxies to vote your shares as you instruct. If you vote over the internet or by telephone or by signing and returning your proxy card without giving specific voting instructions, these individuals will vote your shares by following the recommendations of the Four Oaks Board of Directors. If any other business properly comes before the special meeting, these individuals will vote on those matters in a manner they consider appropriate.

Registered Holder: You do not have to attend the special meeting to vote. The Four Oaks Board of Directors is soliciting proxies so that you can vote before the special meeting. Even if you currently plan to attend the special meeting, we recommend that you vote by proxy before the special meeting so that your vote will be counted if you later decide not to attend. However, if you attend the special meeting and vote your shares by ballot, your vote at the special meeting will revoke any vote you submitted previously by proxy. If you are the record holder of your shares, there are three ways you can vote by proxy:

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By Internet: You may vote over the internet by going to [•] and following the instructions when prompted;

•
By Telephone: You may vote by telephone by calling toll free [•]; or

•
By Mail: You may vote by completing, signing, dating and returning the enclosed proxy card.

Street Holder: If your shares are held in street name, you may vote your shares before the special meeting by mail, by completing, signing, and returning the voting instruction form you received from your brokerage firm, bank or other similar entity. You should check your voting instruction form to see if any alternative method, such as internet or telephone voting, is available to you.

Q:
What constitutes a quorum for the special meeting?

A:
The presence at the special meeting, in person or by proxy, of holders of a majority of the outstanding shares of Four Oaks common stock entitled to vote at the special meeting will constitute a quorum for the transaction of business. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

Q:
What vote is required to approve each proposal?

A:
Approval of the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Four Oaks common stock. If you fail to vote, mark “ABSTAIN” on your proxy, or fail to instruct your brokerage firm, bank, or other similar entity giving you the right to vote your shares with respect to the merger proposal, it will have the same effect as a vote “AGAINST” the proposal. Approval of the merger-related compensation proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions and broker non-votes, if any, will not count as votes cast and will have no effect on the outcome of this proposal. Approval of the adjournment proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions and broker non-votes, if any, will not count as votes cast and will have no effect on the outcome of this proposal.

Q:
What impact will my vote have on the amounts that certain executive officers of Four Oaks may receive in connection with the merger?

A:
Certain of Four Oaks’ executive officers are entitled, pursuant to the terms of their existing employment agreements with Four Oaks, to receive certain payments in connection with the merger. If the merger is completed, Four Oaks is contractually obligated to make these payments to these executives under certain circumstances. Accordingly, even if the Four Oaks shareholders vote not to approve these payments, the compensation will be payable, subject to the terms and conditions of the agreements. Four Oaks is seeking your approval of these payments on a non-binding advisory basis in order to comply with Section 951 of the Dodd-Frank Act and Rule 14a-21(c) under the Exchange Act.

Q:

Why is my vote important?

A:

If you do not return your proxy, it will be more difficult for Four Oaks to obtain the necessary quorum to hold the special meeting. In addition, your failure to submit a proxy or vote in person, or failure to instruct your brokerage firm, bank, or other similar entity how to vote, or abstention will have the same effect as a vote "AGAINST" approval of the merger agreement. The merger agreement must be approved by the affirmative vote of a majority of the issued and outstanding shares of Four Oaks common stock. The Four Oaks Board of Directors unanimously recommends that you vote "FOR" the merger proposal.

Q:

What information should I consider?

A:

We encourage you to read carefully this entire document and the documents incorporated by reference herein. Among other disclosures, you should review the factors considered by each company's Board of

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Directors discussed in “Proposal No. 1 — The Merger — Background of the Merger” beginning on page 21 and “Proposal 1 — The Merger — Four Oaks’ Reasons for the Merger and Recommendation of the Four Oaks Board of Directors” beginning on page 29.

Q:

Will my ownership percentage and voting interest be reduced after the merger?

A:

Yes. Four Oaks shareholders currently have the right to vote in the election of the Four Oaks Board of Directors and on other matters affecting Four Oaks. Upon the completion of the merger, each Four Oaks shareholder receiving shares of United common stock in accordance with the merger agreement will be a shareholder of United with a percentage ownership of United that is smaller than such shareholder’s current percentage ownership of Four Oaks. It is currently expected that the former shareholders of Four Oaks as a group will receive shares in the merger constituting approximately [•]% of the outstanding shares of United’s common stock immediately after the merger. Because of this, Four Oaks shareholders will have less influence on the management and policies of United than they now have on the management and policies of Four Oaks.

Q:

What are the tax consequences of the merger to me?

A:

The merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Accordingly, Four Oaks’ shareholders generally will not recognize gain or loss for federal income tax purposes on the exchange of shares of Four Oaks common stock for United common stock, except with respect to cash received (i) on the exchange of shares of Four Oaks common stock, (ii) in lieu of fractional shares of United common stock, or (iii) upon the exercise of appraisal rights. The tax consequences to Four Oaks shareholders are described in greater detail in “Proposal No. 1 — The Merger — Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel” beginning on page 63. Your tax consequences will depend on your personal situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Q:

Are Four Oaks shareholders entitled to appraisal rights?

A:

Yes. Four Oaks shareholders are entitled to appraisal rights under Article 13 of the North Carolina Business Corporation Act (the “NCBCA”), provided that they satisfy the special criteria and conditions set forth in Article 13 of the NCBCA. More information regarding these appraisal rights is provided in this document, and the provisions of the NCBCA that grant appraisal rights and govern such procedures are attached as Appendix B to this document. You should read these provisions carefully and in their entirety. See “Appraisal Rights” beginning on page 60.

Q:

Should I send in my stock certificates now?

A:

No. After the merger is completed, you will receive written instructions from United or its exchange agent, Continental Stock Transfer & Trust Company, for exchanging your Four Oaks common stock certificates for United common stock.

Q:

Who should I call with questions?

A:

You should call Wanda J. Blow, Corporate Secretary, Four Oaks Fincorp, Inc., at (919) 963-2177.

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SUMMARY

This summary highlights material 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 documents incorporated by reference into this document. The Agreement and Plan of Merger, which is the legal document that governs the proposed merger, is in Appendix A to these materials. In addition, the sections entitled “Where You Can Find More Information”, in the forepart of this document, and “Incorporation of Certain Documents By Reference”, on page 110, contain references to additional sources of information about United and Four Oaks.

•
The Companies (see pages 67 and 70)

United Community Banks, Inc.

125 Highway 515 East

Blairsville, Georgia 30512

(706) 745-2151

United is the third largest bank holding company headquartered in Georgia. At June 30, 2017, United had total consolidated assets of \$10.8 billion, total loans of \$7.04 billion, total deposits of \$8.74 billion and shareholders' equity of \$1.13 billion. These amounts do not take into account United's acquisition of HCSB Financial Corporation, which closed on July 31, 2017. At June 30, 2017, HCSB Financial Corporation had total consolidated assets of \$390 million, total loans of \$233 million, total deposits of \$322 million, and shareholders' equity of \$37.6 million. United conducts substantially all of its operations through its wholly-owned Georgia bank subsidiary, United Community Bank (the “Bank”), which as of August 1, 2017, operated at 142 offices in Georgia, North Carolina, South Carolina and Tennessee. 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, and are led by local bank presidents and management with significant experience in, and ties to, their communities. Each of the local bank presidents has authority, alone or with other local officers, to make most credit decisions. 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 the Bank. The Bank owns an insurance agency, United Community Insurance Services, Inc., known as United Community Advisory Services. United also owns a captive insurance subsidiary, United Community Risk Management Services, Inc., that provides risk management services for United's subsidiaries. Another subsidiary of the Bank, United Community Payment Systems, LLC, provides payment processing services for the Bank's commercial and small business customers. Additionally, United provides retail brokerage services through a third party broker/dealer.

United was incorporated in 1987, as a Georgia corporation. Its principal executive offices are located at 125 Highway 515 East, Blairsville, Georgia 30512, and its telephone number is (706) 781-2265. Its website is <http://www.ucbi.com>. Information on United's website is not incorporated into this document by reference and is not a part hereof.

For a complete description of United's business, financial condition, results of operations and other important information, please refer to United's filings with the SEC that are incorporated by reference in this document, including its Annual Report on Form 10-K for the year ended December 31, 2016 and its quarterly report on Form 10-Q for the quarter ended June 30, 2017. For instructions on how to find copies of these documents, see “Where You Can Find More Information.”

Four Oaks Fincorp, Inc.

6114 U.S. 301 South

Four Oaks, North Carolina 27524

(919) 963-2177

Four Oaks Bank & Trust Company (“Four Oaks Bank”) was incorporated under the laws of the State of North Carolina in 1912. On February 5, 1997, Four Oaks Bank formed Four Oaks for the purpose of serving as a holding company for Four Oaks Bank. At June 30, 2017, Four Oaks had total consolidated assets of \$739.8 million, total loans of \$497.8 million, total deposits of \$158.2 million, and shareholders' equity of \$71.3 million.

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Four Oaks Bank offers a broad range of financial services through its fourteen offices in eastern and central North Carolina. Four Oaks Bank is a community-focused bank engaging in general consumer and commercial banking business to the communities it serves. Four Oaks Bank provides a full range of banking services, including offering deposit accounts including checking, savings, money market, and certificates of deposit (CD); loan products including mortgage, equity line of credit, commercial/business, real estate, and consumer loans; wealth management and financial planning services; commercial services including debit cards, automated clearing house (ACH) origination, and prepaid and payroll cards; and other services including cashier's checks and wire services.

Four Oaks Bank's wealth management services are made available through an arrangement with Lincoln Financial Services Corporation acting as a registered broker-dealer performing the brokerage services.

Residential mortgages are originated by Four Oaks Mortgage Company, a division of Four Oaks Bank. Upon closing, these loans, together with their servicing rights, are sold to mortgage loan investors under prearranged terms.

Four Oaks' website is www.fouroaksbank.com. Information on Four Oaks' website is not incorporated into this document by reference and is not a part hereof.

For a complete description of Four Oaks' business, financial condition, results of operations and other important information, please refer to "Information about Four Oaks Fincorp, Inc." beginning on page 70. Additional information is included in Four Oaks' filings with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2016 and its quarterly report on Form 10-Q for the quarter ended June 30, 2017. For instructions on how to find copies of these documents, see the section entitled "Where You Can Find More Information" in the forepart of this document.

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The Merger Agreement (see page 43)

If Four Oaks shareholders approve the merger agreement, subject to receipt of the required regulatory approvals and satisfaction of the other closing conditions, Four Oaks will be merged with and into United. Holders of Four Oaks common stock will receive 0.6178 shares (which we refer to as the "exchange ratio") of United common stock and \$1.90 in cash for each share of Four Oaks common stock.

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 in an amount equal to such fractional part of a share of United common stock multiplied by the closing price for United common stock on the NASDAQ Global Select Market trading day immediately preceding the effective time of the merger.

The merger agreement also includes provisions that address the treatment of the outstanding equity awards of Four Oaks in the merger. See "Proposal No. 1 — The Merger — The Merger Consideration" beginning on page 43.

Following the merger, Four Oaks' wholly-owned North Carolina bank subsidiary, Four Oaks Bank, will be merged with and into the Bank, United's wholly-owned Georgia bank subsidiary, and the Bank will be the surviving bank. Four Oaks' Reasons for the Merger and Recommendation of the Four Oaks Board of Directors (see page 29)

The Four Oaks Board of Directors supports the merger and believes that it is in the best interests of Four Oaks and its shareholders. The Four Oaks Board of Directors believes that the merger will allow Four Oaks to better serve its customers and markets and that the merger will permit Four Oaks shareholders to have an equity interest in a resulting financial institution with greater financial resources, more significant economies of scale, and a larger shareholder base, which will increase the liquidity of the Four Oaks shareholders' common stock. The Four Oaks Board of Directors believes that the terms of the merger are fair to and in the best interest of Four Oaks and its shareholders.

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Accounting Treatment (see page 59)

The merger will be accounted for as a purchase of a business for financial reporting and accounting purposes under generally accepted accounting principles in the United States.

Conditions, Termination, and Effective Date (see pages 43 and 45)

The merger will not occur unless certain conditions are met, and United or Four Oaks can terminate the merger agreement if specified events occur or fail to occur. Following the merger, Four Oaks' North Carolina bank subsidiary, Four Oaks Bank, will be merged into United's Georgia bank subsidiary, the Bank.

The merger and the bank merger must be approved by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Department of Banking and Finance of the State of Georgia and the North Carolina Office of the Commissioner of Banks. As of the date of this document, we have received the approval of the Board of Governors of the Federal Reserve System and, with respect to the merger only, the Department of Banking and Finance of the State of Georgia.

The closing of the merger will not occur until after the merger is approved by the foregoing regulators and by the Four Oaks shareholders, the other conditions to closing have been satisfied and the certificate of merger and articles of merger are filed as required under Georgia law and North Carolina law, respectively.

Federal Income Tax Consequences (see page 63)

The merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. Accordingly, Four Oaks' shareholders generally will not recognize gain or loss for federal income tax purposes on the exchange of shares of Four Oaks common stock for United common stock, except with respect to cash received (i) on the exchange of shares of Four Oaks common stock, (ii) in lieu of fractional shares of United common stock, or (iii) upon the exercise of appraisal rights. The tax consequences to Four Oaks shareholders are described in greater detail in "Proposal No. 1 — The Merger — Material Federal Income Tax Consequences and Opinion of Tax Counsel" beginning on page 63. Tax matters are complicated, and the tax consequences of the merger may vary among Four Oaks shareholders. We urge each Four Oaks shareholder to contact his or her own tax advisor to fully understand the tax implications of the merger.

Opinion of Four Oaks' Financial Advisor (see page 31)

At the June 26, 2017 meeting at which the Four Oaks Board of Directors considered and approved the merger agreement, Four Oaks' financial advisor, Sandler O'Neill & Partners, L.P. ("Sandler O'Neill") delivered its oral opinion to the Four Oaks Board of Directors, which was subsequently confirmed in writing, to the effect that, as of June 26, 2017 and based on and subject to the procedures followed, assumptions made, matters considered, and the qualifications and limitations on the review undertaken by Sandler O'Neill as described in its opinion, as of the date of its opinion, the merger consideration was fair from a financial point of view to the shareholders of Four Oaks common stock. A summary of Sandler O'Neill's opinion begins on page 31 and the full opinion is attached as Appendix C to these materials. The opinion outlines the procedures followed, assumptions made, matters considered and the qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. Holders of Four Oaks common stock are urged to read the entire opinion carefully in connection with their consideration of the proposed merger. Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion of Sandler O'Neill does not reflect any developments that may have occurred or may occur after the date of its opinion and prior to the completion of the merger. Four Oaks does not expect that it will request an updated opinion from Sandler O'Neill. Sandler O'Neill's opinion was directed to the Four Oaks Board of Directors in connection with its consideration of the merger agreement and the merger and does not constitute a recommendation to any shareholder of Four Oaks as to how any such shareholder should vote at any meeting of shareholders called to consider and vote upon the approval of the merger agreement and the merger. Sandler O'Neill's opinion is directed only to the fairness, from a financial point of view, of the merger consideration to the holders of Four

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Oaks common stock and does not address the underlying business decision of Four Oaks to engage in the merger, the form or structure of the merger, or any other transactions contemplated in the merger agreement, the relative merits of the merger as compared to any other alternative transactions or business strategies that might exist for Four Oaks or the effect of any other transaction in which Four Oaks might engage.

Markets for Common Stock

United's common stock trades on the NASDAQ Global Select Market under the ticker symbol "UCBI." Four Oaks' common stock trades on the OTCQX tier of the OTC Markets Group Inc. under the ticker symbol "FOFN." The following table sets forth, for the periods indicated, the high, low and closing sales prices per share of United's common stock and Four Oaks' common stock as quoted on NASDAQ and the OTCQX, respectively.

	United Common Stock			Four Oaks Common Stock		
	High	Low	Close	High	Low	Close
2017						
Third Quarter (through [•], 2017)	\$ [•]	\$ [•]	\$ [•]	\$ [•]	\$ [•]	\$ [•]
Second Quarter	28.57	25.39	27.80	18.64	13.01	18.60
First Quarter	30.47	25.29	27.69	18.25	13.10	14.04
2016						
Fourth Quarter	30.22	20.26	29.62	14.40	11.05	13.24
Third Quarter	21.13	17.42	21.02	11.85	10.35	11.39
Second Quarter	20.60	17.07	18.29	10.75	9.25	10.29
First Quarter	19.27	15.74	18.47	9.60	8.75	9.29
2015						
Fourth Quarter	22.23	18.61	19.49	9.15	8.00	8.74
Third Quarter	22.23	18.58	20.44	9.40	7.59	8.24
Second Quarter	21.23	17.91	20.87	8.35	7.10	7.59
First Quarter	19.53	16.48	18.88	8.60	7.00	7.49

The closing sales price of United common stock as of June 23, 2017, the last trading day before the merger agreement was announced, was \$26.48. The closing sales price of United common stock as of [•], 2017, the most recent date feasible for inclusion in these materials, was \$[•]. Trading in Four Oaks common stock is very limited and sporadic, with an average daily trading volume since January 1, 2017 of less than [•]% of the outstanding shares. The closing sales price of Four Oaks voting common stock as of June 23, 2017, the last trading day before the merger agreement was announced, was \$14.78. The closing sales price of Four Oaks voting common stock as of [•], 2017, the most recent date feasible for inclusion in these materials, was \$[•].

Assuming there is no adjustment in the merger consideration, if the merger had been completed on June 23, 2017, the last trading day before the merger agreement was announced, the implied value of one share of Four Oaks common stock exchanged for 0.6178 of a share of United common stock and \$1.90 in cash, would have been \$18.26 based on United's closing sales price on that date. If the merger had been completed on [•], 2017, the most recent date feasible for inclusion in these materials, the implied value of one share of Four Oaks common stock exchanged for 0.6178 of a share of United common stock and \$1.90 in cash, would have been \$[•].

There were [•] shareholders of record of Four Oaks common stock as of [•], 2017.

Dividends (see page 59)

United declared cash dividends of \$0.10 per share of common stock in the third quarter of 2017, \$0.09 per share of common stock in the second quarter of 2017, \$0.09 per share of common stock in the first quarter of 2017, \$0.30 per share in 2016, \$0.22 per share in 2015 and \$0.11 per share in 2014. United

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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 certain non-financial and financial factors including earnings, capital requirements, and the financial condition of United, and will depend on cash dividends paid to it by the Bank. The ability of the Bank to pay dividends to it is restricted by certain regulatory requirements.

Four Oaks declared cash dividends of \$0.02 per share of common stock in the third quarter of 2017 and \$0.01 per share of common stock in the second quarter of 2017. No cash dividends were declared on Four Oaks common stock in the first quarter of 2017 or in 2016, 2015 or 2014.

Differences in Legal Rights between Shareholders of Four Oaks and United (see page 56)

Following the merger you will no longer be a Four Oaks shareholder and your rights as a shareholder will no longer be governed by Four Oaks' articles of incorporation and bylaws and the NCBCA. You will be a United shareholder, and your rights as a United shareholder will be governed by United's articles of incorporation and bylaws and the Georgia Business Corporation Code. Your former rights as a Four Oaks shareholder and your new rights as a United shareholder are different in certain ways, including the following:

- The articles of incorporation of United authorize more shares of common stock and preferred stock than the articles of incorporation of Four Oaks.
- The bylaws of Four Oaks set forth different requirements for calling special meetings of shareholders than do the bylaws of United.
- The bylaws of United provide for advance notice requirements for shareholder proposals, while the bylaws of Four Oaks do not contain advance notice provisions for shareholder proposals.
- The bylaws of United provide that the number of directors may range between eight to fourteen directors while the bylaws of Four Oaks provide that the number of directors may range between five to 21.
- The bylaws of Four Oaks set forth different requirements for removal of directors than do the articles of incorporation of United.
- The articles of incorporation of Four Oaks set forth different requirements for approval of certain business combinations than do the articles of incorporation of United.
- The bylaws of Four Oaks provide for unanimous shareholder action by written consent in lieu of meeting while the bylaws of United require only the minimum number of votes necessary to authorize such action for shareholder action by written consent.
- The bylaws of Four Oaks provide that the exclusive forum for certain legal proceedings is North Carolina while the bylaws of United provide that the exclusive forum for certain legal proceedings is Georgia.
- The articles of incorporation and bylaws of Four Oaks set forth different requirements for amending such articles of incorporation and bylaws than do the articles of incorporation and bylaws of United.

Interests of Directors and Officers of Four Oaks in the Merger (see page 51)

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

-

After the closing of the merger, President and Chief Executive Officer David H. Rupp will perform consulting services on behalf of United and its subsidiaries.

-

After the closing of the merger, Executive Vice President and Chief Banking Officer Jeff D. Pope will continue employment with United and its subsidiaries.

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- Employment agreements that contain severance arrangements with each of Four Oaks' executive officers providing for certain severance benefits in the event such officers' employment is terminated following a change in control of Four Oaks.

- Settlement and release agreements between United and each of Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring in full and complete satisfaction of the obligations to Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring under their existing employment agreements with Four Oaks Bank.

- Each outstanding option to acquire shares of Four Oaks common stock with an exercise price greater than the "merger consideration price" will convert into the right to receive a cash payment.

- Each outstanding share of Four Oaks restricted stock will vest at the effective time of the merger and be converted into the right to receive the merger consideration.

- United will indemnify and provide liability insurance to the present directors and officers of Four Oaks and Four Oaks Bank for a period of six years following the closing of the merger with respect to acts or omissions occurring prior to merger.

Appraisal Rights (see page 60)

Four Oaks shareholders are entitled to exercise appraisal rights with respect to the merger and, if the merger is completed and they perfect their appraisal rights, to receive payment in cash for the fair value of their shares of Four Oaks common stock. In general, to preserve their appraisal rights, holders of shares of Four Oaks common stock who wish to exercise these rights must:

- be entitled to vote on the merger;
- deliver to Four Oaks, at or before the special meeting of shareholders of Four Oaks, written notice of the shareholder's intent to demand payment if the merger is effectuated;
- not vote their shares for approval of the merger agreement; and
- comply with the other procedures set forth in Sections 55-13-01 through 55-13-31 of the NCBCA.

The text of Article 13 of the NCBCA governing appraisal rights is included with this document as Appendix B. Failure to comply with the procedures described in Appendix B will result in the loss of appraisal rights under the NCBCA. We urge you to carefully read Sections 55-13-01 through 55-13-31 of the NCBCA.

- **Special Shareholders' Meeting**

Date, Time, and Place

The special meeting of shareholders of Four Oaks will be held on [•], 2017 at [•] a.m., at [•]. At the special meeting, Four Oaks shareholders will be asked to:

- approve the Agreement and Plan of Merger between Four Oaks and United, pursuant to which Four Oaks will be merged with and into United;
- approve, on a non-binding advisory basis, the compensation that certain executive officers of Four Oaks will receive under existing agreements or arrangements with Four Oaks in connection with the merger; and
- approve the adjournment or postponement of the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the merger agreement.

Record Date and Shares Entitled to Vote

You are entitled to vote at the shareholders' meeting if you owned shares of Four Oaks common stock on [•], 2017. As of this date, [•] shares of Four Oaks common stock were issued and outstanding and entitled to vote at the special meeting.

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Support Agreement

Kenneth R. Lehman, a member of the Four Oaks Board of Directors, has agreed to vote 2,700,000 of his shares, which shares represent approximately 39.9% of the outstanding shares of Four Oaks common stock, in favor of the merger agreement; provided that such voting support agreement terminates in the event that the Four Oaks Board of Directors withdraws its recommendation in favor of the merger or approves or recommends an acquisition proposal from another party.

Vote Required (see page 48)

As of the record date, [•] shares of Four Oaks common stock were issued and outstanding, each of which is entitled to one vote per share.

Approval of the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Four Oaks common stock. Your failure to vote your shares (including your failure to instruct your broker to vote your shares) or your abstaining from voting will have the same effect as a vote “AGAINST” the merger agreement. The Four Oaks Board of Directors has unanimously adopted and approved the merger agreement and unanimously recommends that Four Oaks shareholders vote “FOR” the approval of the merger agreement.

As referenced above, Kenneth R. Lehman, a member of the Four Oaks Board of Directors, has agreed to vote 2,700,000 of his shares of Four Oaks common stock, which shares represent approximately 39.9%, of the outstanding shares of Four Oaks common stock, in favor of the merger agreement; provided that such voting support agreement terminates in the event that the Four Oaks Board of Directors withdraws its recommendation in favor of the merger or approves or recommends an acquisition proposal from another party.

As of the record date, the directors and executive officers of Four Oaks beneficially owned and were entitled to vote, in the aggregate, [•] shares of Four Oaks common stock (not including any shares of common stock deliverable upon exercise of any options), representing approximately [•]% of the outstanding shares of Four Oaks common stock.

The approval, on a non-binding advisory basis, of the proposal regarding compensation that certain executive officers of Four Oaks will receive under existing agreements or arrangements with Four Oaks in connection with the merger requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal. Abstentions and broker non-votes, if any, will not count as votes cast and will have no effect on the outcome of this proposal. The Four Oaks Board of Directors unanimously recommends that Four Oaks shareholders vote “FOR” the approval of the compensation payable under existing agreements that certain of its officers will receive from Four Oaks in connection with the merger.

Approval of the merger agreement and approval of the compensation payable under existing agreements that certain Four Oaks officers will receive in connection with the merger are subject to separate votes of the Four Oaks shareholders, and approval of the compensation is not a condition to completion of the merger.

The approval of the proposal to adjourn or postpone the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the merger agreement requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the number of votes cast against the proposal.

Abstentions and broker non-votes, if any, will not count as votes cast and will have no effect on the outcome of this proposal. The Four Oaks Board of Directors unanimously recommends that shareholders vote “FOR” this proposal.

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TABLE OF CONTENTS**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, which is derived from United's historical consolidated financial statements. You should read this data in conjunction with United's Consolidated Financial Statements and notes thereto incorporated herein by reference from United's Annual Report on Form 10-K for the year ended December 31, 2016 and United's quarterly report on Form 10-Q for the quarter ended June 30, 2017. Financial amounts as of and for the six months ended June 30, 2017 and 2016 are unaudited and are not necessarily indicative of the results of operations for the full year or any other interim period, and management of United believes that such amounts reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of its results of operations and financial position as of the dates and for the periods indicated. You should not assume the results of operations for past years and for the six months ended June 30, 2017 and 2016 indicate results for any future period. United's "net operating income" is determined by methods other than in accordance with generally accepted accounting principles ("GAAP"). Please see the following "Non-GAAP Performance Measures Reconciliation" below for a reconciliation of the difference between United's non-GAAP net operating income and its GAAP net income.

	At or for the Six Months Ended June 30,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
(in thousands, except per share data)							
INCOME SUMMARY							
Interest revenue	\$ 184,124	\$ 161,803	\$ 335,020	\$ 278,532	\$ 248,432	\$ 245,840	\$ 265,840
Interest expense	15,422	11,933	25,236	21,109	25,551	27,682	37,933
Net interest revenue	168,702	149,870	309,784	257,423	222,881	218,158	228,907
Provision for credit losses	1,600	(500)	(800)	3,700	8,500	65,500	62,500
Fee revenue	45,759	42,103	93,967	72,529	55,554	56,598	56,598
Total revenue	212,861	192,473	404,281	326,252	269,935	209,256	221,502
Expenses	126,055	115,945	241,289	211,238	162,865	174,304	186,500
Income before income tax expense	86,806	76,528	162,992	115,014	107,070	34,952	34,952
Income tax expense (benefit)	35,015	28,967	62,336	43,436	39,450	(238,188)	1,000
Net income	51,791	47,561	100,656	71,578	67,620	273,140	33,952
Preferred dividends	—	21	21	67	439	12,078	12,078
Net income available to common shareholders – GAAP	\$ 51,791	\$ 47,540	\$ 100,635	\$ 71,511	\$ 67,181	\$ 261,062	\$ 21,874
Merger-related and other charges	3,884	3,829	8,122	17,995	—	—	—
Income tax benefit of merger-related and other charges	(1,433)	(1,449)	(3,074)	(6,388)	—	—	—
Impairment of deferred tax asset on cancelled non-qualified	—	—	976	—	—	—	—

stock options

Release of disproportionate tax effect lodged in OCI	3,400	—	—	—	—	—	—
Net income available to common shareholders – operating(1)	\$ 57,642	\$ 49,920	\$ 106,659	\$ 83,118	\$ 67,181	\$ 261,062	\$ 21,7

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	At or for the Six Months Ended June 30,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
(in thousands, except per share data)							
PERFORMANCE MEASURES							
Per common share:							
Diluted net income – GAAP	\$.72	\$.66	\$ 1.40	\$ 1.09	\$ 1.11	\$ 4.44	\$.38
Diluted net income – operating(1)	.80	.69	1.48	1.27	1.11	4.44	.38
Cash dividends declared	.18	.14	.30	.22	.11	—	—
Book value	15.83	14.80	15.06	14.02	12.20	11.30	6.67
Tangible book value(3)	13.74	12.84	12.95	12.06	12.15	11.26	6.57
Key performance ratios:							
Return on common equity – GAAP(2)	9.27%	9.06%	9.41%	8.15%	9.17%	46.72%	5.43%
Return on common equity – operating(1)(2)	10.32	9.51	9.98	9.48	9.17	46.72	5.43
Return on tangible common equity – operating(1)(2)(3)	12.15	11.24	11.86	10.24	9.32	47.35	6.27
Return on assets – GAAP	.98	.98	1.00	.85	.91	3.86	.49
Return on assets – operating(1)	1.09	1.03	1.06	.98	.91	3.86	.49
Dividend payout ratio – GAAP	25.00	21.21	21.43	20.18	9.91	—	—
Dividend payout ratio – operating(1)	22.50	20.29	20.27	17.32	9.91	—	—
Net interest margin (fully taxable equivalent)	3.46	3.38	3.36	3.30	3.26	3.30	3.51
Efficiency ratio – GAAP	58.58	60.44	59.80	63.96	58.26	63.14	65.43
Efficiency ratio – operating(1)	56.77	58.45	57.78	58.51	58.26	63.14	65.43
	10.36	10.72	10.54	10.27	9.69	10.35	8.47

Average equity to average assets							
Average tangible equity to average assets(3)	9.09	9.42	9.21	9.74	9.67	10.31	8.38
Average tangible common equity to average assets(3)	9.09	9.38	9.19	9.66	9.60	7.55	5.54
Tangible common equity to risk-weighted assets(3)	12.44	12.87	11.84	12.82	13.82	13.17	8.26
ASSET QUALITY							
Non-performing loans	\$ 23,095	\$ 21,348	\$ 21,539	\$ 22,653	\$ 17,881	\$ 26,819	\$ 109,894
Foreclosed properties	2,739	6,176	7,949	4,883	1,726	4,221	18,264
Total non-performing assets (NPAs)	25,834	27,524	29,448	27,536	19,607	31,040	128,158
Allowance for loan losses	59,500	64,253	61,442	68,448	71,619	76,762	107,137
Net charge-offs	3,302	3,868	6,766	6,259	13,879	93,710	69,831
Allowance for loan losses to loans	.85%	1.02%	.89%	1.14%	1.53%	1.77%	2.57%
Net charge-offs to average loans	.10	.13	.11	.12	.31	2.22	1.69
NPAs to loans and foreclosed properties	.37	.44	.43	.46	.42	.72	3.06
NPAs to total assets	.24	.28	.28	.29	.26	.42	1.88

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	At or for the Six Months Ended June 30,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(\$ in millions)						
AVERAGE BALANCES							
Loans	\$ 6,942	\$ 6,077	\$ 6,413	\$ 5,298	\$ 4,450	\$ 4,254	\$ 4,166
Investment securities	2,798	2,733	2,691	2,368	2,274	2,190	2,089
Earning assets	9,885	8,956	9,257	7,834	6,880	6,649	6,547
Total assets	10,691	9,721	10,054	8,462	7,436	7,074	6,865
Deposits	8,626	7,922	8,177	7,055	6,228	6,027	5,885
Shareholders' equity	1,108	1,042	1,059	869	720	732	582
Common shares – basic (thousands)	71,798	72,187	71,910	65,488	60,588	58,787	57,857
Common shares – diluted (thousands)	71,809	72,191	71,915	65,492	60,590	58,845	57,857
AT PERIOD END							
Loans	\$ 7,041	\$ 6,287	\$ 6,921	\$ 5,995	\$ 4,672	\$ 4,329	\$ 4,175
Investment securities	2,787	2,677	2,762	2,656	2,198	2,312	2,079
Total assets	10,837	9,928	10,709	9,616	7,558	7,424	6,801
Deposits	8,736	7,857	8,638	7,873	6,335	6,202	5,952
Shareholders' equity	1,133	1,060	1,076	1,018	740	796	581
Common shares outstanding (thousands)	70,981	71,122	70,899	71,484	60,259	59,432	57,741

(1)

Excludes merger-related and other charges, a first quarter 2017 release of disproportionate tax effects lodged in OCI and a fourth quarter 2016 deferred tax asset impairment charge related to cancelled non-qualified stock options.

(2)

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

(3)

Excludes effect of acquisition related intangibles and associated amortization.

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This document and the documents incorporated by reference into this document contain financial information determined by methods other than in accordance with GAAP. Such non-GAAP financial information includes the following measures: “tangible book value per common share,” “average tangible equity to average assets,” “tangible equity to assets,” “average tangible common equity to average assets,” “tangible common equity to assets” and “tangible common equity to risk-weighted assets.” In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of United’s ongoing business operations. Operating performance measures include “expenses – operating,” “net income – operating,” “net income available to common shareholders – operating,” “diluted net income per common share – operating,” “return on common equity – operating,” “return on tangible common equity – operating,” “return on assets – operating,” “dividend payout ratio – operating” and “efficiency ratio – operating.” Management has developed internal processes and procedures to accurately capture and account for merger-related and other charges and those charges are reviewed with the audit committee of United’s Board of Directors each quarter. Management uses these non-GAAP measures because it believes they may provide useful supplemental information for evaluating United’s operations and performance over periods of time, as well as in managing and evaluating United’s business and in discussions about United’s operations and performance. Management believes these non-GAAP measures may also provide users of United’s financial information with a meaningful measure for assessing United’s financial results and credit trends, as well as a comparison to financial results for prior periods. These non-GAAP measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies.

The following is a reconciliation of these operating performance measures to GAAP performance measures.

	At or for the Six Months Ended June 30,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(in thousands, except per share data)						
Expense reconciliation							
Expenses (GAAP)	\$ 126,055	\$ 115,945	\$ 241,289	\$ 211,238	\$ 162,865	\$ 174,304	\$ 186,774
Merger-related and other charges	(3,884)	(3,829)	(8,122)	(17,995)	—	—	—
Expenses – operating	\$ 122,171	\$ 112,116	\$ 233,167	\$ 193,243	\$ 162,865	\$ 174,304	\$ 186,774
Net income reconciliation							
Net income (GAAP)	\$ 51,791	\$ 47,561	\$ 100,656	\$ 71,578	\$ 67,620	\$ 273,140	\$ 33,856
Merger-related and other charges	3,884	3,829	8,122	17,995	—	—	—
Income tax benefit of merger-related and other charges	(1,433)	(1,449)	(3,074)	(6,388)	—	—	—
Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	976	—	—	—	—

Release of disproportionate tax effects lodged in OCI	3,400	—	—	—	—	—	—
Net income – operating	\$ 57,642	\$ 49,920	\$ 106,680	\$ 83,185	\$ 67,620	\$ 273,140	\$ 33,856

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	At or for the Six Months Ended June 30,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(in thousands, except per share data)						
Net income available to common shareholders reconciliation							
Net income available to common shareholders (GAAP)	\$ 51,791	\$ 47,540	\$ 100,635	\$ 71,511	\$ 67,181	\$ 261,062	\$ 21,708
Merger-related and other charges	3,884	3,829	8,122	17,995	—	—	—
Income tax benefit of merger-related and other charges	(1,433)	(1,449)	(3,074)	(6,388)	—	—	—
Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	976	—	—	—	—
Release of disproportionate tax effects lodged in OCI	3,400	—	—	—	—	—	—
Net income available to common shareholders – operating	\$ 57,642	\$ 49,920	\$ 106,659	\$ 83,118	\$ 67,181	\$ 261,062	\$ 21,708
Diluted income per common share reconciliation							
Diluted income per common share (GAAP)	\$.72	\$.66	\$ 1.40	\$ 1.09	\$ 1.11	\$ 4.44	\$.38
Merger-related and other charges	.03	.03	.07	.18	—	—	—

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Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	.01	—	—	—	—
Release of disproportionate tax effects lodged in OCI	.05	—	—	—	—	—	—
Diluted income per common share – operating	\$.80	\$.69	\$ 1.48	\$ 1.27	\$ 1.11	\$ 4.44	\$.38
Book value per common share reconciliation							
Book value per common share (GAAP)	\$ 15.83	\$ 14.80	\$ 15.06	\$ 14.02	\$ 12.20	\$ 11.30	\$ 6.67
Effect on goodwill and other intangibles	(2.09)	(1.96)	(2.11)	(1.96)	(.05)	(.04)	(.10)
Tangible book value per common share	\$ 13.74	\$ 12.84	\$ 12.95	\$ 12.06	\$ 12.15	\$ 11.26	\$ 6.57
Return on tangible common equity reconciliation							
Return on common equity (GAAP)	9.27%	9.06%	9.41%	8.15%	9.17%	46.72%	5.43%
Merger-related and other charges	.44	.45	.48	1.33	—	—	—
Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	.09	—	—	—	—
Release of disproportionate tax effects lodged in OCI	.61	—	—	—	—	—	—
Return on common equity – operating	10.32	9.51	9.98	9.48	9.17	46.72	5.43

Effect on goodwill and other intangibles	1.83	1.73	1.88	.76	.15	.63	.84
Return on tangible common equity – operating	12.15%	11.24%	11.86%	10.24%	9.32%	47.35%	6.27%

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	At or for the Six Months Ended June 30,		For the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(in thousands, except per share data)						
Return on assets reconciliation							
Return on assets (GAAP)	.98%	.98%	1.00%	.85%	.91%	3.86%	.49%
Merger-related and other charges	.05	.05	.05	.13	—	—	—
Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	.01	—	—	—	—
Release of disproportionate tax effects lodged in OCI	.06	—	—	—	—	—	—
Return on assets – operating	1.09%	1.03%	1.06%	.98%	.91%	3.86%	.49%
Dividend payout ratio reconciliation							
Dividend payout ratio (GAAP)	25.00%	21.21%	21.43%	20.18%	9.91%	—%	—%
Merger-related and other charges	(1.00)	(.92)	(1.02)	(2.86)	—	—	—
Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	(.14)	—	—	—	—
Release of disproportionate tax effects lodged in OCI	(1.50)	—	—	—	—	—	—
Dividend payout ratio – operating	22.50%	20.29%	20.27%	17.32%	9.91%	—%	—%
Efficiency ratio reconciliation							
Efficiency ratio (GAAP)	58.58%	60.44%	59.80%	63.96%	58.26%	63.14%	65.43%
Merger-related and other charges	(1.81)	(1.99)	(2.02)	(5.45)	—	—	—

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Efficiency ratio – operating	56.77%	58.45%	57.78%	58.51%	58.26%	63.14%	65.43%
Average equity to assets reconciliation							
Equity to assets (GAAP)	10.36%	10.72%	10.54%	10.27%	9.69%	10.35%	8.47%
Effect of goodwill and other intangibles	(1.27)	(1.30)	(1.33)	(.53)	(.02)	(.04)	(.09)
Tangible equity to assets	9.09	9.42	9.21	9.74	9.67	10.31	8.38
Effect of preferred equity	—	(.04)	(.02)	(.08)	(.07)	(2.76)	(2.84)
Tangible common equity to assets	9.09%	9.38%	9.19%	9.66%	9.60%	7.55%	5.54%
Tangible common equity to risk-weighted assets reconciliation							
Tier 1 capital ratio (Regulatory)	11.91%	11.44%	11.23%	11.45%	12.06%	12.74%	14.16%
Effect of other comprehensive income	(.15)	(.06)	(.34)	(.38)	(.35)	(.39)	(.51)
Effect of deferred tax limitation	.95	1.63	1.26	2.05	3.11	4.26	—
Effect of trust preferred	(.25)	(.08)	(.25)	(.08)	(1.00)	(1.04)	(1.15)
Effect of preferred equity	—	—	—	(.15)	—	(2.39)	(4.24)
Basel III intangibles transition adjustment	(.02)	(.06)	(.06)	(.10)	—	—	—
Basel III disallowed investments	—	—	—	.03	—	—	—
Tangible common equity to risk-weighted assets	12.44%	12.87%	11.84%	12.82%	13.82%	13.18%	8.26%

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The following table shows per common share data regarding basic and diluted earnings, cash dividends and book value for (i) United and Four Oaks on a historical basis, (ii) United and Four Oaks on a pro forma combined basis, and (iii) Four Oaks on a pro forma equivalent basis. The pro forma information has been derived from and should be read in conjunction with United's audited consolidated financial statements for the year ended December 31, 2016 and United's unaudited consolidated financial statements for the quarter ended June 30, 2017 incorporated herein by reference. This information is presented for illustrative purposes only. You should not rely on the pro forma combined or pro forma equivalent amounts as they are not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the dates indicated, nor are they necessarily indicative of the future operating results or financial position of the combined company. The pro forma information, although helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings, opportunities to earn additional revenue, the impact of restructuring and merger-related costs, or other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results.

Unaudited Comparative Per Common Share Data

	United	Four Oaks	United Pro Forma Combined	Four Oaks Pro Forma Equivalent Per Share(1)
Basic Earnings				
Year ended December 31, 2016	\$ 1.40	\$ 1.06	\$ 1.41	\$ 0.87
Six months ended June 30, 2017	\$ 0.72	\$ 0.38	\$ 0.71	\$ 0.44
Diluted Earnings				
Year ended December 31, 2016	\$ 1.40	\$ 1.04	\$ 1.41	\$ 0.87
Six months ended June 30, 2017	\$ 0.72	\$ 0.38	\$ 0.71	\$ 0.44
Cash Dividends Declared(2)				
Year ended December 31, 2016	\$ 0.30	\$ 0.00	\$ 0.30	\$ 0.19
Six months ended June 30, 2017	\$ 0.18	\$ 0.01	\$ 0.18	\$ 0.11
Book Value				
December 31, 2016	\$ 15.06	\$ 10.06	\$ 15.69	\$ 9.70
June 30, 2017	\$ 15.83	\$ 10.53	\$ 16.42	\$ 10.15

(1)
Computed by multiplying the United pro forma combined amounts by the exchange ratio of 0.6178.

(2)
United pro forma combined cash dividends paid are based only upon United's historical amounts.

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RISK FACTORS

In addition to the other information, including risk factors, incorporated by reference herein from United's Annual Report on Form 10-K for the year ended December 31, 2016, you should carefully read and consider the following factors in evaluating the merger.

Because the market price of United common stock will fluctuate, Four Oaks shareholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each share of Four Oaks common stock will be converted into the merger consideration consisting of shares of United common stock and cash. The market value of the merger consideration received by Four Oaks shareholders will vary with the price of United's common stock, and there will be no adjustment to the merger consideration for changes in the market price of either shares of United common stock or shares of Four Oaks common stock. United's stock price changes daily as a result of a variety of other factors in addition to the business and relative prospects of United, including general market and economic conditions, industry trends, and the regulatory environment. These factors are beyond United's control. Therefore, at the time of the special meeting, holders of Four Oaks common stock will not know the precise market value of the consideration they will receive at the effective time of the merger. Shareholders should obtain current market quotations for shares of United common stock and for shares of Four Oaks common stock.

Four Oaks' officers and directors have interests in the merger in addition to or different from the interests that they share with you as a Four Oaks shareholder.

Some of Four Oaks' executive officers participated in negotiations of the merger agreement with United, and the Four Oaks Board of Directors approved the merger agreement and is recommending that Four Oaks shareholders vote for the merger agreement. In considering these facts and the other information contained in these materials, you should be aware that certain of Four Oaks' executive officers and directors have economic interests in the merger that are different from or in addition to the interests that they share with you as a Four Oaks shareholder. These interests include, upon the completion of the merger, the payment of certain amounts to David H. Rupp, Lawrence F. DesPrés, Warren D. "Rocky" Herring, Jeff D. Pope, Deanna W. Hart and Lisa S. Herring under settlement and release agreements, the acceleration of vesting of outstanding Four Oaks equity awards held by these executive officers, other Four Oaks employees, and directors as well as the hiring of Mr. Pope as a non-executive employee and the engagement as a consultant of Mr. Rupp by United following completion of the merger. See "Proposal No.1 — The Merger — Interests of the Directors and Officers of Four Oaks in the Merger" on page 51.

United may be unable to successfully integrate Four Oaks Bank's operations and retain its key employees.

The merger involves the integration of two companies that previously operated independently. The difficulties of combining the companies' operations include integrating personnel, departments, systems, operating procedures and information technologies and retaining key employees. Failures in integrating operations or the loss of key personnel could have a material adverse effect on the business and results of operations of the combined company.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or cannot be met.

Before the transactions contemplated by the merger agreement, including the merger and the bank merger, may be completed, various approvals must be obtained from bank regulatory authorities. These governmental entities may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying completion of the merger or of imposing additional costs or limitations on United following the merger. The regulatory approvals may not be received at all, may not be received in a timely fashion, and may contain conditions on the completion of the merger that are not anticipated or cannot be met. If the consummation of the merger is delayed, including by a delay in receipt of necessary governmental approvals, the business, financial condition and results of operations of each company may also be materially adversely affected.

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If the merger is not completed, United common stock and Four Oaks common stock could be materially adversely affected.

The merger is subject to customary conditions to closing, including the approval of the Four Oaks shareholders. In addition, United and Four Oaks may terminate the merger agreement under certain circumstances. If United and Four Oaks do not complete the merger, the market price of United common stock or Four Oaks common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the merger will be completed. Further, whether or not the merger is completed, United and Four Oaks will also be obligated to pay certain investment banking, legal and accounting fees and related expenses in connection with the merger, which could negatively impact results of operations when incurred. In addition, neither company would realize any of the expected benefits of having completed the merger. If the merger is not completed, United and Four Oaks cannot assure their respective shareholders that additional risks will not materialize or not materially adversely affect the business, results of operations and stock prices of United and Four Oaks.

The termination fee contained in the merger agreement may discourage other companies from trying to acquire Four Oaks.

Four Oaks has agreed to pay a termination fee of \$4.0 million to United if, under certain circumstances, the merger agreement is terminated and, at the time of termination, a competing offer is outstanding or such offer has been accepted by Four Oaks. This fee could discourage other companies from trying to acquire Four Oaks.

The market price of the United common stock after the merger may be affected by factors different from those affecting the shares of Four Oaks common stock currently.

Upon completion of the merger, holders of Four Oaks common stock will become holders of United common stock. United's business differs in important respects from that of Four Oaks, and, accordingly, the results of operations of the combined company and the market price of United common stock after the completion of the merger may be affected by factors different from those currently affecting the independent results of operations of Four Oaks.

Four Oaks shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Four Oaks shareholders currently have the right to vote in the election of the Four Oaks Board of Directors and on other matters affecting Four Oaks. Upon the completion of the merger, each Four Oaks shareholder receiving shares of United common stock in accordance with the merger agreement will be a shareholder of United with a percentage ownership of United that is smaller than such shareholder's current percentage ownership of Four Oaks. It is currently expected that the former shareholders of Four Oaks as a group will receive shares in the merger constituting approximately [•]% of the outstanding shares of United's common stock immediately after the merger. Because of this, Four Oaks shareholders will have less influence on the management and policies of United than they now have on the management and policies of Four Oaks.

Four Oaks is subject to a Consent Order with the Department of Justice, and there are no assurances that the Consent Order will be terminated prior to the effective time of the merger.

On May 20, 2013, the U.S. Department of Justice (the "DOJ") issued a subpoena to Four Oaks Bank requiring the production of documents in connection with an investigation of consumer fraud related to third party payment processing. In connection with this investigation, Four Oaks Bank negotiated a civil settlement with the DOJ (the "Consent Order"), which was filed with the United States District Court for the Eastern District of North Carolina (the "District Court") on January 8, 2014. The Consent Order was filed contemporaneously with the filing of a complaint by the DOJ alleging violation of a variety of laws, including money laundering laws. The Consent Order was approved by the District Court on April 26, 2014. As part of the terms of the Consent Order, Four Oaks Bank agreed to pay a civil monetary penalty in the amount of \$1 million, plus a civil forfeiture in the amount of \$200,000 and terminated its relationship with a certain third party payment processor ("TPPP") and ceased providing bank accounts and banking

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services to such TPPP's client originators. Four Oaks has maintained compliance with the terms of the Consent Order since entering into it in March 2014, and expects that it will remain in compliance going forward. However, should Four Oaks fail to remain in compliance, a material failure to comply with the terms of the Consent Order could subject Four Oaks to additional enforcement action and further restrictions on Four Oaks' business. Pursuant to the terms of the merger agreement, Four Oaks must use its commercially reasonable efforts, consistent with Four Oaks' past practice, to have the Consent Order terminated as promptly as possible or amended to provide that the Consent Order shall terminate at the effective time of the merger without any further action on the part of United or Four Oaks. However, there can be no assurances that the DOJ will agree to the termination of the Consent Order prior to the effective time of the merger.

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PROPOSAL NO. 1 — THE MERGER

Background of the Merger

The Four Oaks Board of Directors has periodically reviewed and discussed Four Oaks' business, strategic direction, performance, and prospects in the context of developments in the banking industry and competitive landscape, all with the goal of enhancing long-term value for its shareholders. Among other things, these discussions have included the possible strategic directions available to Four Oaks, including, from time to time, possible acquisitions or business combinations involving various other financial institutions. In this context, the Four Oaks Board of Directors has conducted periodic strategic planning meetings, during which outside advisors have provided reviews of factors influencing the banking industry generally and Four Oaks in particular (including the economic, interest rate, and regulatory environment); the competitive landscape of community banking participants in North Carolina, the Southeast region, and nationally; public trading prices of bank stocks; and bank merger and acquisition activity and valuations. These strategic planning meetings have included discussions regarding potential business considerations, economies of scale, increased client service, and shareholder value benefits that might be achieved if Four Oaks were to become a larger institution through acquisitions or a merger with a larger financial institution.

On November 1, 2016, the Four Oaks Board of Directors held a meeting in Raleigh, North Carolina to discuss strategic planning. Attending the meeting were the members of the Four Oaks Board of Directors, Four Oaks' executive officers, and, for the first portion of the meeting, representatives of Sandler O'Neill. Materials were presented by representatives of Sandler O'Neill that showed the state of the banking market and various strategic alternatives. After representatives of Sandler O'Neill left the meeting, the Four Oaks Board of Directors spent several hours discussing the progress of Four Oaks Bank, its prospects for growth, and its ability to achieve long-term operational and financial performance targets set by the Four Oaks Board of Directors. There was discussion about the need for growth and scale and the limitations placed on Four Oaks Bank by the Written Agreement that Four Oaks Bank had entered into with the Federal Reserve Bank of Richmond (the "FRB") in July 2015 (the "2015 Written Agreement"), which agreement had replaced the Written Agreement Four Oaks and Four Oaks Bank had entered into with the FRB and the North Carolina Office of the Commissioner of Banks in May 2011. At that time, it was determined that Four Oaks would continue to refine its strategic plan and keep all options open, with a focus on responsible growth and improving efficiency. The Four Oaks executive officers and Four Oaks Board of Directors also agreed to work to improve the risk posture of the operations of the organization and to continue to seek termination of the 2015 Written Agreement by the FRB. Finally, the Four Oaks Board of Directors directed Mr. David Rupp, CEO and President of Four Oaks, from time to time in the ordinary course of business, to contact various banks regarding potential strategic opportunities.

On January 19, 2017, Mr. Rupp met with the CEO of another bank holding company, which we refer to as "Institution A." The meeting was informal and included a general discussion of the need to gain size to compete and the merger and acquisition process generally.

On February 14, 2017, Mr. Rupp called the CEO of another bank holding company, which we refer to as "Institution B," to ask for a meeting. The CEO of Institution B indicated that they should meet promptly, and a meeting was set for February 16, 2017 in Raleigh, North Carolina. At the meeting, the CEO of Institution B indicated that he was exploring strategic alternatives and was fairly far along in the process. He noted that if Four Oaks was interested in being involved, then it should move quickly. The parties entered a confidentiality agreement on February 17, 2017, and promptly thereafter began to exchange financial information. Four Oaks engaged the bank consulting firm RP Financial, LC. on February 17, 2017 to prepare various financial models given the tight timeframe potentially involved in a potential transaction with Institution B. Mr. Rupp and the CEO of Institution B held a number of telephone discussions between February 18 and February 20, 2017. Although Institution B was approximately 40% larger in asset size, Institution B's CEO and its investment banker preferred a structure whereby Four Oaks would be the "acquiring entity" given that Four Oaks' common stock was trading at higher multiples of earnings and tangible book value per share as compared to Institution B at the time of such discussions, which in their view would allow Four Oaks to make a more attractive proposal to acquire Institution B than vice versa. Mr. Rupp expressed concern about this structure given the regulatory posture of Four Oaks, particularly with regard to the 2015 Written Agreement. Mr. Rupp also believed that the

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transaction consideration proposed by Institution B was higher than Four Oaks would be able to pay based on his preliminary understanding of the financial condition of Institution B. Shortly after the February 20, 2017 discussions, talks broke off without any agreement on preliminary terms.

During early March 2017, Mr. Rupp called Institution A's CEO to explore his strategic view regarding the future of Institution A. Mr. Rupp desired holding another meeting with Institution A's CEO, who made it clear that he was not interested in merging or selling Institution A.

On March 6, 2017, and then again on March 21, 2017, the Four Oaks executive team, as a part of its ongoing planning and management process, held meetings to review the financial projections for 2017 through 2020, and to discuss franchise improvements and Four Oaks' current risk profile. This discussion included a review of Four Oaks Bank's markets, growth prospects, balance sheet capacity to lend, loan portfolio concentration issues, and ability to expand by acquisition or new branch openings given Four Oaks' regulatory history and the 2015 Written Agreement. The discussion centered on the need for scale and efficiency and focused on the amount of change that would be necessary for the franchise to increase long-term profitability through organic growth. The Four Oaks executive team also discussed the significant amount of investment that would be necessary to upgrade technology offerings and the desire to expand into the competitive Raleigh market. The second half of fiscal 2015 and fiscal 2016 were solid loan production periods for Four Oaks, but had resulted in concentration levels in non-owner occupied commercial real estate, hotels/motels, multi-family and acquisition, development, and construction lending that were approaching or exceeding regulatory guidelines, limiting future growth in these areas. Finally, the executives had a robust discussion about the need to decrease headcount, including reductions both at the branches and in operations and administration, and debated the impact such actions would have on the franchise, service levels, and morale.

On March 27, 2017 in the regularly scheduled executive session of the meeting of the Four Oaks Board of Directors, the Four Oaks Board of Directors discussed the strategic progress of the franchise and the challenges of stand-alone growth. The Four Oaks Board of Directors discussed at length the state of the franchise and future risks facing it, including opportunities and challenges related to Four Oaks Bank's markets, loan portfolio and certain concentration issues therein, technology offerings, and future growth potential, specifically with regard to the Raleigh, North Carolina market. Finally, the Four Oaks Board of Directors discussed the changing market for bank mergers and acquisitions. In connection with the discussion, the Four Oaks Board of Directors authorized Mr. Rupp to meet with representatives of Sandler O'Neill to explore Four Oaks' options for a strategic transaction.

Later that day, Mr. Rupp called representatives of Sandler O'Neill and requested that Sandler O'Neill conduct a preliminary review of the potential strategic alternatives available to Four Oaks including a strategic merger and a sale of the company. Representatives of Sandler O'Neill agreed to prepare materials regarding such a review, and a meeting was scheduled for March 29, 2017.

On March 29, 2017, Mr. Rupp and Ms. Deanna Hart, Chief Financial Officer of Four Oaks, met with representatives of Sandler O'Neill in the offices of Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P. ("Smith Anderson"), Four Oaks' legal counsel, in Raleigh, North Carolina. During the meeting, representatives of Sandler O'Neill reviewed, among other things, the merger and acquisition environment, generally, in the banking industry, including recent consummated transaction prices. Following their meeting with representatives of Sandler O'Neill, Mr. Rupp and Ms. Hart met with representatives of Smith Anderson to discuss the process for the Four Oaks Board of Directors to evaluate a strategic transaction.

Between March 29 and March 31, 2017, Mr. Rupp separately telephoned each of the members of the Four Oaks Board of Directors to discuss the Sandler O'Neill analysis and review next steps. A Four Oaks Board of Directors meeting with Four Oaks' executive team and representatives of both Sandler O'Neill and Smith Anderson was scheduled for April 6, 2017.

The Four Oaks Board of Directors held a special meeting on April 6, 2017 in the offices of Smith Anderson. Representatives of Smith Anderson began by discussing the fiduciary duties of the Four Oaks Board of Directors in general and in particular in connection with merger and acquisition transactions. Following this discussion, representatives of Sandler O'Neill made a presentation regarding the market for bank mergers in general and Sandler O'Neill's analysis of the following three alternatives available to Four Oaks: (i) continuing to pursue a stand-alone growth strategy; (ii) pursuing a stand-alone growth strategy supplemented by a strategic merger; and (iii) a sale of Four Oaks.

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Representatives of Sandler O'Neill reviewed management's projections for fiscal years 2017 through 2020 based on pursuing a stand-alone growth strategy and, assuming Four Oaks achieves such projections, their net present value analysis for Four Oaks' common stock. The Four Oaks Board of Directors concluded that, based on Sandler O'Neill's presentation, pursuing the stand-alone growth strategy offered Four Oaks shareholders the lowest per share value as compared to both the range of potential per share purchase prices Four Oaks could reasonably expect to receive from potential acquirers based on other transactions occurring in the market and the net present value of Four Oaks' common stock upon successfully pursuing a stand-alone growth strategy supplemented by a sample strategic merger (each as discussed further below). Further, achieving increased shareholder value by pursuing a stand-alone growth strategy was subject to a reasonably high risk of execution, given the amount of time necessary to pursue the strategy and the potential for intervening events during such time negatively affecting the outcome, such as a recession, increased competition from existing and new market participants, and/or greater regulatory scrutiny in the industry at large or for Four Oaks in particular.

Next, representatives of Sandler O'Neill presented financial analysis of Four Oaks pursuing a stand-alone growth strategy supplemented by a strategic transaction. As a model for pursuing a strategic merger with a smaller financial institution, the representatives presented analysis of a potential transaction with a smaller bank holding company, which we refer to as "Institution C." Prior to the meeting, representatives of Sandler O'Neill had communicated with Institution C, an affiliate of Mr. Kenneth R. Lehman, a member of the Four Oaks Board of Directors and Four Oaks' largest shareholder. Representatives of Sandler O'Neill presented their financial analysis for a transaction with Institution C, including a pro forma analysis of the combined entity and the net present value of Four Oaks' common stock following the transaction. After discussion, the Four Oaks Board of Directors was in agreement that a transaction with Institution C did not appear compelling for either party. The Four Oaks Board of Directors also discussed the limited number of potential partners available for such a strategic transaction given Four Oaks' size and the increased competition for acquisitions in the current market for banks. Finally, it was agreed that a strategic merger involved the highest risk of execution of the three alternatives proposed by Sandler O'Neill because even if Four Oaks could engage with a strategic merger partner and ultimately close the transaction, the acquisition of a smaller entity would not significantly accelerate the timeline to achieving financial projections and would involve many of the same risks inherent in the stand-alone growth strategy.

Finally, representatives of Sandler O'Neill discussed the option of a possible sale of Four Oaks. The discussion included a review of ten different potential acquirers based on publicly-available information. Given the current market for bank transactions, the Four Oaks Board of Directors concluded that a sale of Four Oaks had the possibility of producing the greatest shareholder value in the form of a premium per share purchase price over the current trading value of Four Oaks common stock. Further, a sale presented the lowest execution risk of the three considered strategies given that bank acquisitions tend to close within a matter of months and therefore there was less intervening time for events to arise outside of Four Oaks' control that would negatively impact shareholder value.

Following the presentation and an extended discussion regarding each alternative, the Four Oaks Board of Directors determined to explore a potential sale of Four Oaks and to retain Sandler O'Neill as financial advisor to Four Oaks' Board of Directors in connection with such exploration. Four Oaks selected Sandler O'Neill to act as its financial advisor based on its qualifications, reputation, and experience with bank holding companies and the industry and market in which Four Oaks operates, in addition to Sandler O'Neill's knowledge of Four Oaks' business and affairs from prior transactions, including Four Oaks' 2014 rights offering. Four Oaks entered into an engagement agreement with Sandler O'Neill on April 6, 2017 following the board meeting.

Immediately following the meeting, at the direction of the Four Oaks Board of Directors, certain members of the Four Oaks executive team met with representatives of Sandler O'Neill and Smith Anderson to discuss the process for soliciting interest from third parties in a transaction with Four Oaks and diligence materials to gather in connection with populating a virtual dataroom to facilitate the performance of due diligence by potential transaction partners. During the weeks of April 10 and April 17, 2017, Four Oaks' executive management, in coordination with representatives of Sandler O'Neill, prepared a confidential information memorandum that could be provided to potential transaction partners, and populated the virtual dataroom with diligence materials.

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Beginning on or about April 19, 2017, at the direction of the Four Oaks Board of Directors, representatives of Sandler O’Neill commenced reaching out to other financial institutions to solicit their interest in a transaction with Four Oaks. Over the course of the process, representatives of Sandler O’Neill contacted 34 parties, including United, on an informal, fact-finding basis to provide an overview of Four Oaks and to gather information regarding their possible interest in engaging in a strategic transaction with Four Oaks. Such contacted parties, including United, were selected by Sandler O’Neill and the Four Oaks executive management team. In total, thirteen institutions contacted by Sandler O’Neill requested a confidentiality agreement to receive a copy of the confidential information memorandum, six of which, including United, signed a confidentiality agreement and received the memorandum.

On May 4, 2017, Four Oaks announced that the FRB was terminating the 2015 Written Agreement, effective April 28, 2017.

During the week of May 8, 2017, Mr. Rupp spoke with Mr. Tallent by telephone on two occasions. The purposes of the calls were to make an introduction and to coordinate a visit to the Four Oaks market by Mr. Tallent and Mr. Lynn Harton, President and Chief Operating Officer of United.

On May 9, 2017, Mr. Rupp met for lunch with the CEO of another bank holding company, which we refer to as “Institution D.” The CEO of Institution D indicated that Institution D was interested in pursuing a strategic transaction and Mr. Rupp let the CEO of Institution D know that Four Oaks had engaged Sandler O’Neill to pursue a possible sale and that Institution D was welcome to join the process. Mr. Rupp indicated to the CEO of Institution D that since the process had already begun, Institution D should act promptly to be involved. On that afternoon, Mr. Rupp called representatives of Sandler O’Neill to let them know that he had met with the CEO of Institution D and that Institution D was to be included in the process if they would execute the confidentiality agreement and follow the same engagement process as the other parties. Institution D subsequently executed the confidentiality agreement and received the confidential information memorandum.

Six institutions were ultimately granted access to diligence materials in the virtual dataroom, including United and Institution D. Details regarding the process for providing nonbinding indications of interest for the acquisition of Four Oaks were included in the confidential information memorandum delivered to each party that signed the confidentiality agreement, with a request to submit such indications of interest by May 17, 2017.

On May 12, 2017, Mr. Rupp had a call with the CEO and Chief Administrative Officer of Institution D on various questions Institution D had about Four Oaks. Representatives of Institution D had reviewed information in the dataroom and much of the conversation centered around technology contracts, employment agreements, and personnel topics. Following the conversation, the CEO of Institution D indicated that Four Oaks could expect an indication of interest for the acquisition of Four Oaks by Institution D the following week.

On May 15, 2017, Messrs. Tallent and Harton traveled to North Carolina to meet with Mr. Rupp. The three of them spent the afternoon touring Four Oaks markets in Johnston and Wake Counties. The group also spent time in downtown Raleigh, North Carolina. Following the tour, Mr. Tallent indicated that United planned to submit a non-binding indication of interest.

On May 17, 2017, Mr. Tallent met with Mr. Lehman in Atlanta, Georgia. Discussions included Mr. Lehman’s opinions about the timeliness of a transaction, his willingness to hold United shares, and whether Mr. Lehman would expect an invitation to join the board of directors of a company acquiring Four Oaks.

On May 17 and 18, 2017, Four Oaks received four written non-binding initial indications of interest from United and three other prospective acquirers, which we refer to as “Institutions E, F, and G,” respectively.

Also on May 17, 2017, the CEO of Institution D called Mr. Rupp to notify him that Institution D would not be submitting an indication of interest due to the lack of the unanimous support from Institution D’s board of directors. Mr. Rupp thanked him for the call and discussions with Institution D ended.

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On May 19, 2017, the Four Oaks Board of Directors reviewed the non-binding indications of interest that had been received from United and Institutions E, F, and G at its regularly scheduled meeting. The meeting was also attended by members of Four Oaks' executive management, representatives of Sandler O'Neill, and representatives of Smith Anderson. Representatives of Smith Anderson reminded board members of their fiduciary duties in general and in connection with merger and acquisition transactions. The Four Oaks Board of Directors received an update from representatives of Sandler O'Neill about the process undertaken to that point and discussed the terms of the non-binding indications of interest that had been received. The Four Oaks Board of Directors reviewed the key terms and characteristics of each proposal, including the amount and type of consideration offered, and the financial performance of each of the potential merger partners. United's indication of interest included proposed merger consideration of \$19.00 per share (implied based on the closing price of United common stock on May 16, 2017), consisting of 90% United common stock, with a fixed exchange ratio of 0.6178, and 10% cash, or \$1.90. Institution E proposed a range of \$16.42-\$17.40 per share (implied based on the closing price of Institution E common stock on May 16, 2017), which was dependent on further diligence, and which consisted entirely of Institution E common stock. Finally, Institution F proposed \$16 per share in cash and Institution G proposed \$15 per share (lower than Four Oaks' most recent closing price per share), consisting of a mix of 80% Institution G common stock and 20% cash. Sandler O'Neill also reviewed with the Four Oaks Board of Directors selected precedent merger transactions as compared to the indications of interest. Each of United and Institutions E, F, and G had been included in Sandler O'Neill's presentation to the Four Oaks Board of Directors on April 6, 2017 regarding prospective merger candidates. Of the remaining six candidates, each was contacted by Sandler O'Neill and declined to participate in the process due to other current obligations.

Representatives of Sandler O'Neill further provided a comparison of the terms and the financial metrics with respect to the four indications of interest that had been received. Representatives of Sandler O'Neill also reviewed with the Four Oaks Board of Directors, with respect to each of the four parties that submitted an indication of interest: the party's branch map, historical stock price performance, current trading multiples, and Sandler O'Neill's pro forma analysis based on a transaction with Four Oaks, among other topics.

Representatives of Sandler O'Neill also discussed Four Oaks' prospects as an independent institution and Sandler O'Neill's net present value analysis of Four Oaks' estimated valuation based on earnings projections provided by Four Oaks' executive management.

The Four Oaks Board of Directors discussed the opportunities and risks associated with each of the four indications of interest, including the potential value of the merger consideration, the likelihood that each potential merger partner would be willing and able to increase its offer, and the likelihood that a merger would ultimately be consummated on the terms reflected in the indications of interest. The Four Oaks Board of Directors also discussed the opportunities and risks associated with Four Oaks remaining an independent institution, particularly in light of the potential continuing low interest rate environment, market competition, regulatory considerations, and the need for branch expansion into the Raleigh market, investment in technology upgrades, and headcount reductions. In connection with this discussion, the Four Oaks Board of Directors discussed the potential effect of the termination of the 2015 Written Agreement by the FRB and determined that such termination alone did not materially impact the potential for increasing shareholder value by pursuing the stand-alone growth strategy.

After thorough discussion of each indication of interest, the Four Oaks Board of Directors determined to move forward with United and Institution E, the parties with the two highest per share proposals, for a second round of due diligence and reverse due diligence, without providing exclusivity to either party, and to ask each to provide a final, best proposal for a transaction by June 5, 2017. The Four Oaks Board of Directors decided to continue the process with two prospective merger partners because it felt that would incentivize each to be more aggressive with their final proposal to the benefit of Four Oaks shareholders, while also maintaining their interest in a possible transaction with Four Oaks in the event that they were also considering other opportunities. Further, the Four Oaks Board of Directors did not believe there was a strong likelihood that Institution F or Institution G would increase their per share price proposal to the level of Institution E's per share price proposal based on the members' prior interaction with these institutions. The Four Oaks Board of Directors also believed that moving forward with only two potential

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merger partners would help to move on-site due diligence forward more efficiently, while maintaining the confidentiality of the process. Finally, the Four Oaks Board of Directors believed that the all-cash nature of Institution F's indication of interest limited the flexibility of Four Oaks' shareholders regarding investment and tax planning. Rather, the Four Oaks Board of Directors believed that a stock transaction, as proposed by United and Institution E, would provide shareholders the option of delaying the tax on the gain from exchanging their shares while allowing such shareholders to continue to participate in the growth of the combined entity, without sacrificing the availability of liquidity given the increased trading volume of the stock of the combined company as compared to that of Four Oaks' common stock.

The Four Oaks Board of Directors directed representatives of Sandler O'Neill to continue to negotiate with United and Institution E in an effort to increase their respective per share purchase price proposal. During the negotiation process, access was given to representatives of United and Institution E to an expanded list of due diligence materials.

Representatives of Sandler O'Neill requested final, best proposals from United and Institution E by June 5, 2017. This date was extended to June 12, 2017 at the request of United for additional time to conduct further credit due diligence and in consideration of the intervening Memorial Day holiday.

On June 1, 2017, the CEO, Chief Financial Officer, and President of Institution E joined Mr. Rupp for a market tour of Wake and Johnston Counties. The tour, which lasted three to four hours, culminated in dinner, which was attended by the Institution E representatives, as well as Ms. Hart, Ms. Lisa Herring, Chief Operating and Risk Officer of Four Oaks, and Mr. Jeff Pope, Chief Banking Officer of Four Oaks.

On June 7, 2017, Mr. Rupp met with the executive team of Four Oaks to review the status of the process with United and Institution E. Discussions among Four Oaks' executive team centered on the strategic course and the potential impacts of the proposed transaction. There was consensus that the cultures of Four Oaks and United were more aligned, including their similar focus on building solid customer relationships and devotion to growing and nurturing relationships within the communities in which the companies operate, and that central North Carolina would be a new market for United where Four Oaks bankers could continue to serve their customers and continue to have a significant impact.

Also on June 9, 2017, United submitted its final proposal to Sandler O'Neill. Along with the final proposal, United provided an initial draft merger agreement to Four Oaks, which was substantially based on merger agreements United had recently used for its prior acquisitions.

On June 9, 2017, the CEO of Institution E confidentially informed representatives of Sandler O'Neill that Institution E did not intend to submit a revised proposal because it intended to announce a definitive agreement to acquire Institution B on the following business day, and that Institution E's acquisition of Institution B would end Institution E's interest in a transaction with Four Oaks for the time being.

On June 12, 2017, the Four Oaks Board of Directors held a special meeting to consider the final proposal submitted by United. Representatives of Sandler O'Neill provided the Four Oaks Board of Directors with an update of the terms of the final proposal. Based on the prior day's closing price, the implied per share offering price continued to be \$19 per share consisting of a mix of 90% United stock at a fixed exchange ratio of 0.6178 shares of United stock for one share of Four Oaks' stock and 10% cash of \$1.90. Representatives of Sandler O'Neill informed the Four Oaks Board of Directors that, based on discussions with United, United was unwilling to increase their per share purchase price proposal, in part, because of a general acquisition strategy of only engaging in an acquisition transaction with no greater than a certain earn-back period, which period, based on Sandler O'Neill's analysis, could be exceeded by a material change in the purchase price for Four Oaks; however, the representatives of Sandler O'Neill believed that United appeared motivated to enter into a transaction with Four Oaks at this price. In connection with discussing the per share purchase price proposed by United and the premium that Four Oaks' shareholders would receive over the current trading price of Four Oaks' shares at such price, the Four Oaks Board of Directors considered the possibility that the current trading price for Four Oaks' common stock includes a premium based on the belief by active traders that Four Oaks may soon conduct a transaction.

Representatives of Sandler O'Neill also revisited with the Four Oaks Board of Directors its net present value analysis if Four Oaks determined to pursue a stand-alone growth strategy rather than a sale of the company. The Four Oaks Board of Directors discussed the challenges necessary to successfully pursue the

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stand-alone growth strategy, including branch expansion into the Raleigh market, upgrading Four Oaks' technology offerings, and reducing headcount.

Representatives of Smith Anderson provided the Four Oaks Board of Directors with an overview of the key terms of the draft merger agreement submitted by United and a comparison of such terms to merger agreements for recent public company bank transactions. In connection with this summary, representatives of Smith Anderson discussed the "no shop" provisions of the draft merger agreement and reviewed with the members of the Four Oaks Board of Directors their fiduciary duties with respect to the receipt of a competing offer for a transaction with Four Oaks should a competing offer be received. Representatives of Smith Anderson also discussed the mechanics of the proposed termination fee in the draft merger agreement and provided an overview of market amounts for such termination fees in recent deals since United had not proposed the exact figure in the draft merger agreement.

Following extensive discussion, the Four Oaks Board of Directors authorized members of Four Oaks' management, with the assistance of Four Oaks' advisors, to continue negotiations with United towards preparation of a definitive merger agreement between Four Oaks and United and to conduct reverse due diligence of United. The Four Oaks Board of Directors also discussed with Mr. Rupp certain areas of focus for reverse due diligence of United by the Four Oaks executive team.

Between June 12 and June 26, 2017, Four Oaks, United, and their respective counsel and financial advisers negotiated the final terms of the definitive merger agreement. On June 15, 2017, representatives of Troutman Sanders LLP, United's legal counsel, provided representatives of Smith Anderson with a draft form of support agreement for Mr. Lehman. Mr. Lehman and his counsel reviewed the agreement proposed by United and negotiated the terms thereof with United's counsel, and Mr. Lehman ultimately agreed to a form of support agreement whereby he would agree to vote shares equaling 39.9% of Four Oaks' outstanding common stock in favor of the merger and against an alternative acquisition proposal for Four Oaks, unless the Four Oaks Board of Directors withdraws its recommendation in favor of the merger or approves or recommends an acquisition proposal from another party.

Also during this time, Messrs. Rupp and Tallent discussed members of the Four Oaks executive team to whom United may be interested in extending offers for post-closing employment, but United did not guarantee continued employment, or any specific terms for offers thereof, for any of Four Oaks' executive team in connection with the proposed transaction.

On June 13, 2017, the Four Oaks executive team finalized a reverse due diligence request list for United. Also on that day, Mr. Rupp and Mr. Christian Zych, United's Director of Mergers & Acquisitions, coordinated a visit and diligence session for the Four Oaks team at the regional headquarters of United in Greenville, South Carolina.

In connection with the reverse due diligence list delivered to United, on June 20, 2017, select executive officers from Four Oaks and United attended an in-person management meeting at United's South Carolina regional headquarters as planned to provide the opportunity for the Four Oaks representatives to review diligence materials on United's business, including various financial, operational, credit quality, legal, and regulatory matters, and to ask questions of applicable United officers.

On June 26, 2017, the Four Oaks Board of Directors were joined by representatives of Sandler O'Neill and Smith Anderson following a regularly scheduled meeting to review a near-final draft of the merger agreement and to discuss the reverse due diligence findings. Representatives of Smith Anderson began by reminding board members of their fiduciary duties in general and in particular in connection with merger and acquisition transactions. Mr. Rupp and other members of the Four Oaks executive team summarized the results of their reverse due diligence review of United's business. Representatives of Sandler O'Neill again reviewed the financial aspects of the proposed transaction and rendered its oral opinion, which was subsequently confirmed in writing, to the effect that, as of June 26, 2017 and based upon and subject to the assumptions made, procedures followed, matters considered and limitations on the review undertaken as set forth in its opinion, the proposed merger consideration was fair, from a financial point of view, to the Four Oaks common shareholders. Representatives of Smith Anderson reviewed the current draft of the merger agreement, and discussed changes to the merger agreement from the draft that the Four Oaks Board of Directors had previously reviewed at the June 12, 2017 meeting. Representatives of Smith Anderson also

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reviewed with the members of the Four Oaks Board of Directors their duties under the terms of the proposed definitive merger agreement with respect to the receipt of other offers, or discussions of other offers, after execution of the definitive merger agreement.

Following the presentations by representatives of Sandler O'Neill and Smith Anderson, the Four Oaks Board of Directors discussed the terms offered by United in depth. In connection with this discussion, the Four Oaks Board of Directors discussed the alternatives available to Four Oaks. The Four Oaks Board of Directors agreed that the alternative of pursuing the stand-alone growth strategy or the stand-alone growth strategy supplemented by a strategic merger was not reasonably likely to present superior opportunities for Four Oaks to create greater value for shareholders as compared to the proposed transaction with United, taking into account, among other things, Sandler O'Neill's analyses and risks of execution. The Four Oaks Board of Directors also concluded that attempting to re-engage with Institution F, which had proposed an initial per share price of \$16 in cash (representing only a small premium over the current trading value of Four Oaks' common stock and materially less than United's per share purchase price) did not present a realistic opportunity to increase shareholder value either as an alternative to United's proposal or as a means of negotiating United to increase its per share proposal price. Further, the Four Oaks Board of Directors agreed that pausing negotiations with United at this critical juncture to attempt to re-engage with Institution F would introduce a high degree of execution risk to a potential transaction with United on the terms currently proposed or at all.

After robust discussion, the independent directors of the Four Oaks Board of Directors separately, followed by the full board, unanimously adopted the merger agreement and the transactions contemplated thereby, including the merger, and unanimously determined to recommend the merger agreement to the Four Oaks shareholders for approval and authorized Mr. Rupp to execute the agreement on behalf of Four Oaks.

The merger agreement was executed on June 26, 2017. Mr. Lehman also executed the support agreement in favor of the merger on June 26, 2017. On the morning of June 27, 2017 before market open, Four Oaks and United issued a joint news release publicly announcing the merger agreement.

United's Reasons for the Merger

It should be noted that the explanation of the reasoning of United's Board of Directors and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in the section entitled "Special Note Regarding Forward-Looking Statements."

United's Board of Directors believes that the completion of the merger presents a unique opportunity for United to expand in metropolitan Raleigh, North Carolina. The terms of the merger, including the merger consideration, are the result of arm's-length negotiations between representatives of United and Four Oaks. In reaching its decision to approve the merger, United's Board of Directors consulted with its legal advisors regarding the terms of the transaction and with management of United. In approving the entry into the merger agreement, United's Board of Directors considered the following material factors:

- Four Oaks' strategic presence in Raleigh, North Carolina will allow United to execute its growth strategy into a new market;
- Four Oaks' and United's respective management teams share a common business vision and commitment to their respective clients, shareholders, employees and other constituencies;
- The two companies have complementary service-focused business models;
- United's management believes that the merger will be accretive to Four Oaks' earnings per share in the first full year (excluding one-time charges) due to a combination of revenue synergies, cost efficiencies and other cost savings opportunities for the combined company; and

- The merger is likely to provide an increase in shareholder value, including the benefits of a stronger strategic position.

United's Board of Directors also considered potential risks associated with the merger in connection with its deliberations of the proposed transaction, including the challenges of integrating Four Oaks' business, operations and workforce with those of United, the potential negative impact on United's stock price and the need to obtain Four Oaks shareholder and regulatory approvals in order to complete the transaction.

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United's Board of Directors considered all of these factors as a whole and, on balance, United's Board of Directors believes that the opportunities created by the merger to increase the value of United's franchise more than offset any integration or other risks inherent in the merger.

The foregoing discussion of the information and factors considered by United's Board of Directors is not exhaustive, but includes the material factors considered by United's Board of Directors. In view of the wide variety of factors considered by United's Board of Directors in connection with its evaluation of the merger and the complexity of these matters, United's Board of Directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. In considering the factors described above, individual members of United's Board of Directors may have given different weights to different factors.

On the basis of these considerations, United's entry into the merger agreement was unanimously approved by United's Board of Directors on June 9, 2017.

Four Oaks' Reasons for the Merger and Recommendation of the Four Oaks Board of Directors

It should be noted that the explanation of the reasoning of the Four Oaks Board of Directors and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in the section entitled "Special Note Regarding Forward-Looking Statements."

After careful consideration, the Four Oaks Board of Directors at its meeting on June 26, 2017, (i) determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are fair to and in the best interests of Four Oaks and its shareholders, (ii) adopted the merger agreement and the transactions contemplated by the merger agreement, including the merger, in all respects, and (iii) resolved to recommend that the Four Oaks shareholders vote to approve the merger agreement and the transactions contemplated thereby, including the merger.

In reaching their respective decisions to recommend the merger agreement, and the transactions contemplated thereby, including the merger, the Four Oaks Board of Directors considered a number of factors, including the following, which are not presented in any relative order of importance:

- the strategic alternatives available to Four Oaks (all of which had significant risks and uncertainties), and the Four Oaks Board of Directors' assessment that the alternative of remaining as an independent, stand-alone company was not reasonably likely to present superior opportunities for Four Oaks to create greater value for shareholders as compared to the merger (taking into account, among other things, risks of execution);
- the current and prospective business and economic environments of the markets served by Four Oaks including the competitive environment for North Carolina financial institutions and the intensifying competition from in-state and out-of-state financial institutions, especially in the metropolitan Raleigh, North Carolina market;
- the directors' belief that the per share purchase price was likely the highest that United was willing to pay and the most reasonably attainable for Four Oaks;
- the fact that the United offer represented a significant premium to current market prices, which the directors believed was not likely to be achieved independently in the foreseeable future;
- the greater liquidity in the trading market for United common stock relative to the trading market for Four Oaks common stock;
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the financial analysis prepared by Sandler O'Neill and the opinion delivered to the Four Oaks Board of Directors, to the effect that, as of June 26, 2017 and based upon and subject to the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Sandler O'Neill as set forth in the opinion, the proposed merger consideration was fair, from a financial point of view, to Four Oaks' common shareholders;

- the course of negotiations with United, which produced more favorable terms to Four Oaks than those originally proposed by United;

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- current economic pressures, the pressure to maintain and increase earnings in a low interest rate environment, the continuing consolidation of financial institutions in North Carolina, the increased regulatory burdens on financial institutions and the uncertainties in the regulatory climate going forward, and the increasing need for investment in technology;
- the fact that current shareholders will be able to participate in the future earnings or growth of United and will benefit from any potential appreciation in value of the surviving corporation following the merger as a result of the receipt of United common stock;
- the regular quarterly cash dividend declared and historically paid by United on outstanding shares of its common stock, especially as compared to that which could be reasonably expected to be paid by Four Oaks;
- the strategic benefits of the transaction, including United entering a new and growing market and potential for Four Oaks' shareholders, as future United shareholders, to benefit to the extent of their interest in the combined company from the synergies of the merger, including operational, technological, marketing, and other synergies resulting from the merger;
- the likelihood that the necessary regulatory approvals to complete the transaction would be obtained in a timely manner without unacceptable conditions;
- the overall greater scale that will be achieved by the merger, which should better position the combined company for growth and profitability; and
- the view that the shared core values of Four Oaks and United, including both companies' prudent risk culture, strong commitment to client service and focus on building solid client relationships, and devotion to growing and nurturing relationships within the communities in which the companies operate, would assist in integration and operating the combined company post-closing to the benefit of Four Oaks' shareholders as future United shareholders.

The Four Oaks Board of Directors also considered a variety of risks and other potentially negative factors concerning the merger, including the following, which are not presented in any relative order of importance:

- the risk that the merger may not be consummated or that the closing may be delayed, including as a result of factors outside either party's control;
- if the market price of United's common stock decreases prior to completion of the merger, the aggregate value of consideration to be received by Four Oaks' shareholders receiving stock in the merger will decrease as well;
- the potential adverse effect on Four Oaks if the merger is not completed, including the termination fee of \$4.0 million that could be payable by Four Oaks under the merger agreement under certain circumstances;
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the risk that customers and shareholders may have a negative reaction to the merger;

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the potential risk of diverting management attention and resources from the operation of Four Oaks' business to the merger, and the possibility of employee attrition or adverse effects on client and business relationships as a result of the announcement and pendency of the merger;

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the restrictions on the conduct of Four Oaks' business prior to the completion of the merger, which are customary for public company merger agreements involving financial institutions, but which, subject to specific exceptions, could delay or prevent Four Oaks from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of Four Oaks absent the pending completion of the merger; and

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the possibility of litigation in connection with the merger.

The foregoing discussion of the information and factors considered by the Four Oaks Board of Directors is not exhaustive, but includes the material factors considered by the Four Oaks Board of Directors. In view of the wide variety of factors considered by the Four Oaks Board of Directors in

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connection with its evaluation of the merger and the complexity of these matters, the Four Oaks Board of Directors did not consider it practical to, nor did it attempt to, quantify, rank, or otherwise assign relative weights to the specific factors that it considered in reaching its decision. In considering the factors described above, individual members of the Four Oaks Board of Directors may have given different weights to different factors. The Four Oaks Board of Directors considered all these factors as a whole, including discussions with, and questioning of, Four Oaks' management, Four Oaks' legal advisors, and overall considered the factors to be favorable to, and to support, its determination.

For the reasons set forth above, the Four Oaks Board of Directors unanimously adopted the merger agreement and the transactions contemplated thereby, including the merger, and unanimously determined to recommend the merger agreement to the Four Oaks shareholders for approval.

The Four Oaks Board of Directors unanimously adopted the merger agreement, and the transactions contemplated thereby, and recommends that you vote "FOR" approval of the merger agreement.

Mr. Lehman, a member of the Four Oaks Board of Directors, has entered into a voting support agreement with United, pursuant to which he has agreed to vote 2,700,000 of his shares of Four Oaks common stock in favor of the merger agreement at the special meeting. For more information regarding the support agreement, please see the section entitled "Special Shareholders' Meeting — Support Agreement" beginning on page 10.

Opinion of Four Oaks' Financial Advisor

The fairness opinion of Four Oaks' financial advisor in connection with the merger, Sandler O'Neill, is described below. The description contains forward looking statements about the future earnings or other measures of the future performance of Four Oaks, United and the combined companies after the merger. You should not rely on any of these statements as having been made or adopted by Sandler O'Neill, Four Oaks or United. You should review the copy of the fairness opinion, which is attached as Appendix C.

Four Oaks retained Sandler O'Neill to act as an independent financial advisor to Four Oaks' Board of Directors in connection with Four Oaks' consideration of a possible business combination. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as an independent financial advisor to Four Oaks in connection with the proposed transaction and participated in certain of the negotiations leading to the execution of the merger agreement. At the June 26, 2017 meeting at which Four Oaks' Board of Directors considered and discussed the terms of the merger agreement and the merger, Sandler O'Neill delivered to Four Oaks' Board of Directors its oral opinion, which was subsequently confirmed in writing on June 26, 2017, to the effect that, as of such date, the merger consideration was fair to the holders of Four Oaks common stock from a financial point of view. The full text of Sandler O'Neill's opinion is attached as Appendix C to this document. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Holders of Four Oaks common stock are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.

Sandler O'Neill's opinion speaks only as of the date of the opinion. Sandler O'Neill's opinion is directed to the Board of Directors of Four Oaks in connection with its consideration of the merger agreement and the merger and does not constitute a recommendation to any shareholder of Four Oaks as to how any such shareholder should vote at any meeting of shareholders called to consider and vote upon the approval of the merger agreement and the merger.

Sandler O'Neill's opinion is directed only to the fairness, from a financial point of view, of the merger consideration to the holders of Four Oaks common stock and does not address the underlying business decision of Four Oaks to engage in the merger, the form or structure of the merger or any other transactions contemplated in the merger agreement, the relative merits of the merger as compared to any other alternative transactions or business strategies that might exist for Four Oaks or the effect of any other transaction in which Four Oaks might engage. Sandler O'Neill also did not express any opinion as to the

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fairness of the amount or nature of the compensation to be received in the merger by any officer, director or employee of Four Oaks or United, or any class of such persons, if any, relative to the compensation to be received in the merger by any other shareholder. This opinion has been approved by Sandler O'Neill's fairness opinion committee. In connection with its opinion, Sandler O'Neill reviewed and considered, among other things:

- a draft of the merger agreement, dated June 22, 2017;
- certain publicly available financial statements and other historical financial information of Four Oaks that Sandler O'Neill deemed relevant;
- certain publicly available financial statements and other historical financial information of United that Sandler O'Neill deemed relevant;
- certain internal financial projections for Four Oaks for the years ending December 31, 2017 through December 31, 2020, as provided by the senior management of Four Oaks;
- publicly available consensus median analyst earnings per share estimates for United for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term earnings per share growth rate for the years ending December 31, 2019 and December 31, 2020, as provided by United;
- the pro forma financial impact of the merger on United based on certain assumptions relating to purchase accounting adjustments, cost savings and transaction expenses, as well as certain of United's earnings and asset growth projections for Four Oaks for the years ending December 31, 2018 through December 31, 2021, as provided by United;
- the publicly reported historical price and trading activity for Four Oaks common stock and United stock, including a comparison of certain stock market information for Four Oaks common stock, United stock and certain stock indices as well as publicly available information for certain other similar companies, the securities of which are publicly traded;
- a comparison of certain financial information for Four Oaks and United with similar institutions for which information is publicly available;
- the financial terms of certain recent business combinations in the banking industry (on a regional basis), to the extent publicly available;
- the current market environment generally and the banking environment in particular; and
- such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

Sandler O'Neill also discussed with certain members of the senior management of Four Oaks the business, financial condition, results of operations and prospects of Four Oaks and held similar discussions with certain members of the senior management of United and its representatives regarding the business, financial condition, results of operations and prospects of United.

In performing its review, Sandler O'Neill relied upon the accuracy and completeness of all of the financial and other information that was available to and reviewed by Sandler O'Neill from public sources, that was provided to Sandler O'Neill by Four Oaks or United or their respective representatives or that was otherwise reviewed by Sandler O'Neill, and Sandler O'Neill assumed such accuracy and completeness for purposes of rendering its opinion without any independent verification or investigation. Sandler O'Neill relied on the assurances of the respective managements of Four Oaks and United that they were not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Sandler O'Neill was not asked to undertake an independent verification of any of such information and Sandler O'Neill did not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or perform an appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Four Oaks or United or any of their respective subsidiaries, nor was Sandler O'Neill furnished with any such evaluations or appraisals. Sandler O'Neill rendered no opinion or evaluation on the collectability of any assets or the future performance of any loans

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of Four Oaks or United. Sandler O'Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Four Oaks or United, or of the combined entity after the merger, and Sandler O'Neill did not review any individual credit files relating to Four Oaks or United. Sandler O'Neill assumed, with Four Oaks' consent, that the respective allowances for loan losses for both Four Oaks and United were adequate to cover such losses and would be adequate on a pro forma basis for the combined entity.

In preparing its analyses, Sandler O'Neill used certain internal financial projections for Four Oaks for the years ending December 31, 2017 through December 31, 2020, as provided by the senior management of Four Oaks. In addition, Sandler O'Neill used publicly available consensus median analyst earnings per share estimates for United for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term earnings per share growth rate for the years ending December 31, 2019 and December 31, 2020, as provided by United. Sandler O'Neill also received and used in its pro forma analyses certain assumptions relating to purchase accounting adjustments, cost savings and transaction expenses, as well as certain of United's earnings and asset growth projections for Four Oaks for the years ending December 31, 2018 through December 31, 2021, as provided by United. With respect to the foregoing information, the respective senior managements of Four Oaks and United confirmed to Sandler O'Neill that such information reflected (or, in the case of the publicly available consensus median analyst earnings per share estimates referred to above, were consistent with) the best currently available projections, estimates and judgments of those respective senior managements as to the future financial performance of Four Oaks and United, respectively, and the other matters covered thereby, and Sandler O'Neill assumed that the future financial performance reflected in such information would be achieved. Sandler O'Neill expressed no opinion as to such information, or the assumptions on which such information was based. Sandler O'Neill also assumed that there had been no material change in the respective assets, financial condition, results of operations, business or prospects of Four Oaks or United since the date of the most recent financial statements made available to Sandler O'Neill. Sandler O'Neill assumed in all respects material to its analysis that Four Oaks and United will remain as going concerns for all periods relevant to Sandler O'Neill's analysis.

Sandler O'Neill also assumed, with Four Oaks' consent, that (i) each of the parties to the merger agreement will comply in all material respects with all material terms and conditions of the merger agreement and all related agreements, that all of the representations and warranties contained in such agreements are true and correct in all material respects, that each of the parties to such agreements will perform in all material respects all of the covenants and other obligations required to be performed by such party under such agreements and that the conditions precedent in such agreements are not and will not be waived, (ii) in the course of obtaining the necessary regulatory or third party approvals, consents and releases with respect to the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Four Oaks, United or the merger or any related transaction, (iii) the merger and any related transactions will be consummated in accordance with the terms of the merger agreement without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements, and (iv) the merger will qualify as a tax-free reorganization for federal income tax purposes. Finally, with Four Oaks' consent, Sandler O'Neill relied upon the advice that Four Oaks received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement. Sandler O'Neill expressed no opinion as to any such matters. Sandler O'Neill's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Sandler O'Neill as of, the date of its opinion. Events occurring after the date thereof could materially affect Sandler O'Neill's opinion. Sandler O'Neill did not undertake to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date thereof. Sandler O'Neill expressed no opinion as to the trading value of Four Oaks common stock or United stock at any time or what the value of United stock will be once it is actually received by the holders of Four Oaks common stock.

In rendering its opinion, Sandler O'Neill performed a variety of financial analyses. The summary below is not a complete description of the analyses underlying Sandler O'Neill's opinion or the presentation made by Sandler O'Neill to Four Oaks' Board of Directors, but is a summary of all material analyses performed and presented by Sandler O'Neill. The summary includes information presented in tabular

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format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Four Oaks or United and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Four Oaks and United and the companies to which they are being compared. In arriving at its opinion, Sandler O'Neill did not attribute any particular weight to any analysis or factor that it considered. Rather, Sandler O'Neill made qualitative judgments as to the significance and relevance of each analysis and factor. Sandler O'Neill did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support its opinion, rather, Sandler O'Neill made its determination as to the fairness of the exchange ratio on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which are beyond the control of Four Oaks, United and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to Four Oaks' Board of Directors at its June 26, 2017 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of Four Oaks common stock or the prices at which United common stock may be sold at any time. The analyses of Sandler O'Neill and its opinion were among a number of factors taken into consideration by Four Oaks' Board of Directors in making its determination to approve the merger agreement and should not be viewed as determinative of the decision of Four Oaks' Board of Directors or management with respect to the fairness of the merger. The type and amount of consideration payable in the merger were determined through negotiation between Four Oaks and United.

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Summary of Proposed Merger Consideration and Implied Transaction Metrics. Sandler O’Neill reviewed the financial terms of the proposed merger. As set forth in the merger agreement, at the effective time, each share of Four Oaks common stock, except for certain shares of Four Oaks common stock as specified in the merger agreement, will be converted into the right to receive (i) an amount of cash equal to \$1.90, and (ii) 0.6178 shares of United common stock. Based on the closing price of United common stock on June 23, 2017 of \$26.48, Sandler O’Neill calculated an implied transaction price per share of \$18.26, or aggregate merger consideration of approximately \$123.8 million. Based upon financial information for United as of or for the last twelve months (“LTM”) ended March 31, 2017 and publicly available median analyst earnings per share estimates for United for the years ending December 31, 2017 and December 31, 2018, Sandler O’Neill calculated the following implied transaction metrics:

Transaction Price/Adjusted LTM Earnings Per Share(1):	30.4x
Transaction Price/March 31, 2017 Book Value Per Share(2):	178%
Transaction Price/March 31, 2017 Tangible Book Value Per Share(2):	178%
Tangible Book Premium/Core Deposits(3):	12.0%
Market Premium as of June 23, 2017	23.5%

(1)

Transaction Price/Adjusted LTM Earnings multiple adjusted to exclude \$3.2 million tax benefit from reversal of a portion of the valuation allowance against the Four Oaks’ deferred tax assets and \$500,000 settlement cost, assuming a 38% tax rate

(2)

Book value and tangible book value based on 6,760,964 shares outstanding as of March 31, 2017

(3)

Core deposits equal total deposits less certificates of deposit greater than \$100,000

Stock Trading History. Sandler O’Neill reviewed the historical share price performance of Four Oaks common stock and United common stock for the three-year periods ended June 23, 2017. Sandler O’Neill then compared the relationship between the share price performance of Four Oaks common stock and United common stock, respectively, to stock price movements in their respective peer groups (as described below) as well as certain stock indices.

Four Oaks Three-Year Stock Price Performance

	Beginning June 23, 2014	Ending June 23, 2017
Four Oaks	100%	227.4%
Four Oaks Peer Group	100%	166.1%
NASDAQ Bank Index	100%	139.8%
S&P 500 Index	100%	124.2%

United Three-Year Stock Price Performance

	Beginning June 23, 2014	Ending June 23, 2017
United	100%	159.2%
United Peer Group	100%	138.2%
NASDAQ Bank Index	100%	139.8%

S&P 500 Index 100% 124.2%

Comparable Company Analyses. Sandler O'Neill used publicly available information to compare selected financial information for Four Oaks with a group of financial institutions selected by Sandler O'Neill. The group consisted of U.S. banks whose securities are publicly traded, headquartered in North Carolina, South Carolina and Virginia with assets between \$500.0 million and \$1.2 billion, 3-month

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Average Weighted Trading Volume/Shares Outstanding greater than 0.10% and nonperforming assets/total assets less than 1.50% (the “Four Oaks Peer Group”). The Four Oaks Peer Group excluded targets of announced merger transactions. The Four Oaks Peer Group consisted of the following companies:

Southern National Bancorp of Virginia, Inc.	Carolina Alliance Bank
Peoples Bancorp of North Carolina, Inc.	Virginia National Bankshares Corporation
John Marshall Bancorp, Inc.	Fauquier Bankshares, Inc.
FVCBankcorp, Inc.	Bank of the James Financial Group, Inc.
First Community Corporation	MainStreet Bancshares, Inc.
Select Bancorp, Inc.	Freedom Bank of Virginia
First National Corporation	

The analysis compared publicly available financial information for Four Oaks with the corresponding data for the Four Oaks Peer Group as of or for the twelve months ended March 31, 2017 (unless otherwise noted), with pricing data as of June 23, 2017. The table below sets forth the data for Four Oaks and the high, low, mean and median data for the Four Oaks Peer Group.

Four Oaks Comparable Company Analysis

	Four Oaks(7)	Four Oaks Peer Group			
		High	Low	Mean	Median
Total Assets (in millions)	\$ 737	\$ 1,177	\$ 503	\$ 800	\$ 727
Loans/Deposits	91.6%	109.8%	71.6%	91.0%	90.6%
Nonperforming assets(1)/Total Assets(2)	0.95%	1.45%	0.04%	0.72%	0.70%
Tangible common equity/Tangible assets	9.44%	11.34%	7.25%	9.47%	9.41%
Leverage ratio(3)	9.69%	13.04%	8.66%	10.63%	10.69%
Total risk-based capital ratio(3)	15.63%	16.34%	11.78%	13.78%	13.41%
Holding Company CRE/Total risk-based capital(4)(5)	286.4%	434.9%	101.7%	255.8%	246.4%
LTM Return on average assets	0.55%	1.06%	0.57%	0.80%	0.82%
LTM Return on average equity	6.04%	12.51%	5.85%	8.19%	8.09%
LTM Net interest margin	3.80%	4.16%	3.39%	3.69%	3.65%
LTM Efficiency ratio	78.4%	82.7%	51.6%	68.1%	69.3%
Price/Tangible book value	144%	195%	122%	153%	151%
Price/LTM Earnings per share	24.6x	26.2x	11.0x	19.4x	19.4x
Price/2017 Estimated Earnings per share(6)	NA	20.0x	15.7x	18.4x	19.5x
Dividend Yield	0.3%	2.6%	0.0%	0.9%	1.0%
Market value (in millions)	\$ 100	\$ 212	\$ 65	\$ 119	\$ 91

(1)

Nonperforming assets defined as nonaccrual and renegotiated loans and leases and real estate owned

(2)

Nonperforming assets/total assets per bank level call report for MainStreet Bancshares, Inc.

(3)

Leverage ratio and total risk-based capital ratio per bank level call report for FVCBankcorp, Inc., First National Corporation, Fauquier Bankshares, Inc. and MainStreet Bancshares, Inc.

(4)

CRE defined as total non-owner occupied commercial real estate loans (including CLD loans), as defined in the 2006 FED guidance; most recent regulatory data available used

(5)

CRE ratio per bank level call report for Four Oaks Fincorp, Inc., FVCBankcorp, Inc., Select Bancorp, Inc., First National Corporation, Virginia National Bankshares Corporation, Fauquier Bankshares, Inc., Bank of the James Financial Group, Inc. and MainStreet Bancshares, Inc.

(6)

Price/forward earnings multiples based on analyst consensus mean estimates from CapIQ

(7)

Earnings adjusted to exclude \$3.2 million tax benefit from reversal of a portion of the valuation allowance against Four Oaks' deferred tax assets and \$500,000 settlement cost, assuming a 38% tax rate

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Sandler O’Neill used publicly available information to perform a similar analysis for United with a group of financial institutions selected by Sandler O’Neill. The group consisted of U.S. banks whose securities are publicly traded, headquartered in the Southeast region with assets between \$8.0 billion and \$15.0 billion (the “United Peer Group”). The United Peer Group excluded targets of announced merger transactions. The United Peer Group consisted of the following companies:

BancorpSouth, Inc.	WesBanco, Inc.
United Bankshares, Inc.	FCB Financial Holdings, Inc.
Trustmark Corporation	Renasant Corporation
Pinnacle Financial Partners, Inc.	Union Bankshares Corporation
South State Corporation	Simmons First National Corporation
Home BancShares, Inc.	TowneBank

The analysis compared publicly available financial information for United with corresponding data for the United Peer Group as of or for the twelve months ended March 31, 2017 (unless otherwise noted), with pricing data as of June 23, 2017. The table below sets forth the data for United and the high, low, mean and median data for the United Peer Group.

United Comparable Company Analysis

	United	United Peer Group			
		High	Low	Mean	Median
Total assets (in millions)	\$ 10,732	\$ 14,866	\$ 8,175	\$ 10,857	\$ 10,259
Loans/Deposits	79.6%	103.1%	81.4%	91.1%	89.9%
Nonperforming assets(1)/Total assets	0.84%	1.41%	0.33%	0.69%	0.67%
Tangible common equity/Tangible assets	8.95%	10.37%	8.34%	9.38%	9.43%
Leverage ratio	8.63%	12.05%	9.79%	10.43%	10.37%
Total risk-based capital ratio	12.25%	15.11%	12.62%	13.68%	13.46%
Holding Company CRE/Total risk based capital(2)	201.7%	339.7%	183.3%	239.9%	222.5%
LTM Return on average assets	0.99%	1.87%	0.86%	1.15%	1.06%
LTM Return on average equity	9.49%	14.06%	7.06%	8.82%	8.00%
LTM Net interest margin	3.36%	4.77%	3.36%	3.77%	3.54%
LTM Efficiency ratio	56.4%	67.7%	36.4%	56.3%	59.5%
Price/Tangible book value	199%	348%	185%	233%	223%
Price/LTM Earnings per share	18.6x	24.9x	16.6x	19.4x	18.7x
Price/2017 Estimated Earnings per share(3)	16.3x	18.7x	15.2x	17.4x	17.8x
Price/2018 Estimated Earnings per share(3)	14.6x	16.9x	12.5x	15.1x	15.2x
Dividend Yield	1.4%	3.4%	0.0%	1.9%	1.8%
Market value (in millions)	\$ 1,880	\$ 4,740	\$ 1,434	\$ 2,499	\$ 2,045

(1)

Nonperforming asset defined as nonaccrual and renegotiated loans and leases and real estate owned

(2)

CRE defined as total non-owner occupied commercial real estate loans (including CLD loans), as defined in the 2006 FED guidance; most recent regulatory data available used

(3)

Price/forward earnings multiples based on analyst consensus mean estimates from CapIQ

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Analysis of Selected Merger Transactions. Sandler O’Neill reviewed a group of merger and acquisition transactions. The group consisted of nationwide U.S. bank and thrift transactions announced between January 1, 2015 and June 23, 2017 where targets had total assets between \$500.0 million and \$1.2 billion and nonperforming assets/total assets less than 1.50% at the time of announcement (the “Precedent Transactions”). The Precedent Transactions were composed of the following transactions:

Acquiror	Target
Carolina Financial Corporation	First South Bancorp, Inc.
SmartFinancial, Inc.	Capstone Bancshares, Inc.
First Bancorp	ASB Bancorp, Inc.
Renasant Corporation	Metropolitan BancGroup, Inc.
CenterState Banks, Inc.	Gateway Financial Holdings of Florida, Inc.
CenterState Banks, Inc.	Platinum Bank Holding Company
Hampton Roads Bankshares, Inc.	Xenith Bankshares, Inc.
Pinnacle Financial Partners, Inc.	Avenue Financial Holdings, Inc.
TowneBank	Monarch Financial Holdings, Inc.
Park Sterling Corporation	First Capital Bancorp, Inc.
Pinnacle Financial Partners, Inc.	CapitalMark Bank & Trust
Atlantic Capital Bancshares, Inc.	First Security Group, Inc.

Using the latest publicly available information prior to the announcement of the relevant transaction, Sandler O’Neill reviewed the following transaction metrics: transaction price to LTM earnings per share, transaction price to tangible book value per share, tangible book premium to core deposits and, in the case of transactions involving publicly-traded targets, 1-day market premium (discount). Sandler O’Neill compared the indicated transaction metrics for the merger to the high, low, mean and median metrics of the Precedent Transactions.

Precedent Transactions

	United/ Four Oaks(1)	High	Low	Mean	Median
Transaction price/LTM Earnings per share	30.4x	29.0x	17.3x	22.8x	23.1x
Transaction price/Tangible book value per share	178%	232%	117%	179%	176%
Core deposit premium	12.0%	16.1%	2.8%	10.8%	10.4%
1-Day market premium	23.5%	52.7%	11.9%	28.7%	20.0%

(1)

Four Oaks’ earnings adjusted to exclude \$3.2 million tax benefit from reversal of a portion of the valuation allowance against Four Oaks’ deferred tax assets and \$500,000 settlement cost, assuming a 38% tax rate

Net Present Value Analyses. Sandler O’Neill performed an analysis that estimated the net present value per share of Four Oaks common stock, assuming that Four Oaks performed in accordance with internal financial projections for the years ending December 31, 2017 through December 31, 2020, as provided by the senior management of Four Oaks. To approximate the terminal value of Four Oaks common stock at December 31, 2020, Sandler O’Neill applied price to 2020 earnings multiples ranging from 17.0x to 23.0x and multiples of December 31, 2020 tangible book value ranging from 120% to 190%. The terminal values were then discounted to present values using different discount rates ranging from 10.0% to 14.0%, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Four Oaks common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of Four Oaks common stock of \$11.40 to \$17.43 when applying

earnings multiples and \$9.86 to \$17.53 when applying multiples of tangible book value.

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Discount Rate	17.0x	18.5x	20.0x	21.5x	23.0x
10.0%	\$ 13.01	\$ 14.12	\$ 15.22	\$ 16.32	\$ 17.43
11.0%	\$ 12.58	\$ 13.65	\$ 14.72	\$ 15.78	\$ 16.85
12.0%	\$ 12.17	\$ 13.20	\$ 14.24	\$ 15.27	\$ 16.30
12.7%	\$ 11.89	\$ 12.90	\$ 13.91	\$ 14.92	\$ 15.92
14.0%	\$ 11.40	\$ 12.36	\$ 13.33	\$ 14.30	\$ 15.26

Tangible Book Value Per Share Multiples

Discount Rate	120%	140%	160%	180%	190%
10.0%	\$ 11.25	\$ 13.05	\$ 14.84	\$ 16.63	\$ 17.53
11.0%	\$ 10.88	\$ 12.62	\$ 14.35	\$ 16.08	\$ 16.95
12.0%	\$ 10.53	\$ 12.20	\$ 13.88	\$ 15.55	\$ 16.39
12.7%	\$ 10.29	\$ 11.92	\$ 13.56	\$ 15.20	\$ 16.01
14.0%	\$ 9.86	\$ 11.43	\$ 13.00	\$ 14.56	\$ 15.35

Sandler O'Neill also considered and discussed with Four Oaks' Board of Directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O'Neill performed a similar analysis assuming Four Oaks' net income varied from 20% above projections to 20% below projections. This analysis resulted in the following range of per share values for Four Oaks common stock, applying the price to 2020 earnings multiples range of 17.0x to 23.0x referred to above and a discount rate of 12.70%.

Earnings Per Share Multiples

Annual Estimate Variance	17.0x	18.5x	20.0x	21.5x	23.0x
(20.0%)	\$ 9.61	\$ 10.41	\$ 11.22	\$ 12.03	\$ 12.83
(10.0%)	\$ 10.75	\$ 11.66	\$ 12.56	\$ 13.47	\$ 14.38
(5.0%)	\$ 11.32	\$ 12.28	\$ 13.24	\$ 14.19	\$ 15.15
0.0%	\$ 11.89	\$ 12.90	\$ 13.91	\$ 14.92	\$ 15.92
5.0%	\$ 12.46	\$ 13.52	\$ 14.58	\$ 15.64	\$ 16.70
10.0%	\$ 13.03	\$ 14.14	\$ 15.25	\$ 16.36	\$ 17.47
20.0%	\$ 14.18	\$ 15.39	\$ 16.60	\$ 17.81	\$ 19.01

Sandler O'Neill also performed an analysis that estimated the net present value per share of United common stock, assuming United performed in accordance with publicly available median analyst earnings per share estimates for United for the years ending December 31, 2017 and December 31, 2018 and an estimated long-term earnings per share growth rate for the years ending December 31, 2019 and December 31, 2020, as provided by United. To approximate the terminal value of United common stock at December 31, 2020, Sandler O'Neill applied price to 2020 earnings multiples ranging from 17.0x to 22.0x and multiples of December 31, 2020 tangible book value ranging from 190% to 280%. The terminal values were then discounted to present values using different discount rates ranging from 8.0% to 13.0%, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of United common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of United common stock of \$22.94 to \$34.68 when applying multiples of earnings and \$23.97 to \$41.10 when applying multiples of tangible book value.

TABLE OF CONTENTS**Earnings Per Share Multiples**

Discount Rate	17.0x	18.0x	19.0x	20.0x	21.0x	22.0x
8.0%	\$ 27.10	\$ 28.61	\$ 30.13	\$ 31.65	\$ 33.16	\$ 34.68
8.8%	\$ 26.39	\$ 27.86	\$ 29.34	\$ 30.81	\$ 32.29	\$ 33.76
9.0%	\$ 26.19	\$ 27.66	\$ 29.12	\$ 30.59	\$ 32.05	\$ 33.52
10.0%	\$ 25.33	\$ 26.74	\$ 28.16	\$ 29.57	\$ 30.99	\$ 32.41
11.0%	\$ 24.50	\$ 25.87	\$ 27.23	\$ 28.60	\$ 29.97	\$ 31.34
12.0%	\$ 23.70	\$ 25.03	\$ 26.35	\$ 27.67	\$ 29.00	\$ 30.32
13.0%	\$ 22.94	\$ 24.22	\$ 25.50	\$ 26.78	\$ 28.06	\$ 29.34

Tangible Book Per Share Value Multiples

Discount Rate	190%	210%	230%	250%	270%	280%
8.0%	\$ 28.31	\$ 31.15	\$ 34.00	\$ 36.84	\$ 39.68	\$ 41.10
8.8%	\$ 27.57	\$ 30.33	\$ 33.10	\$ 35.87	\$ 38.63	\$ 40.01
9.0%	\$ 27.37	\$ 30.11	\$ 32.86	\$ 35.60	\$ 38.35	\$ 39.72
10.0%	\$ 26.46	\$ 29.11	\$ 31.77	\$ 34.42	\$ 37.07	\$ 38.40
11.0%	\$ 25.59	\$ 28.16	\$ 30.72	\$ 33.29	\$ 35.85	\$ 37.13
12.0%	\$ 24.76	\$ 27.24	\$ 29.72	\$ 32.20	\$ 34.68	\$ 35.92
13.0%	\$ 23.97	\$ 26.36	\$ 28.76	\$ 31.16	\$ 33.56	\$ 34.76

Sandler O'Neill also considered and discussed with United's Board of Directors how this analysis would be affected by changes in the underlying assumptions, including variations with respect to net income. To illustrate this impact, Sandler O'Neill performed a similar analysis, assuming United's net income varied from 15% above estimates to 15% below estimates. This analysis resulted in the following range of per share values for United common stock, applying the price to 2020 earnings multiples range of 17.0x to 22.0x referred to above and a discount rate of 8.78%.

Earnings Per Share Multiples

Annual Estimate Variance	17.0x	18.0x	19.0x	20.0x	21.0x	22.0x
(15.0%)	\$ 22.62	\$ 23.88	\$ 25.13	\$ 26.39	\$ 27.64	\$ 28.89
(10.0%)	\$ 23.88	\$ 25.20	\$ 26.53	\$ 27.86	\$ 29.19	\$ 30.52
(5.0%)	\$ 25.13	\$ 26.53	\$ 27.94	\$ 29.34	\$ 30.74	\$ 32.14
0.0%	\$ 26.39	\$ 27.86	\$ 29.34	\$ 30.81	\$ 32.29	\$ 33.76
5.0%	\$ 27.64	\$ 29.19	\$ 30.74	\$ 32.29	\$ 33.84	\$ 35.39
10.0%	\$ 28.89	\$ 30.52	\$ 32.14	\$ 33.76	\$ 35.39	\$ 37.01
15.0%	\$ 30.15	\$ 31.85	\$ 33.54	\$ 35.24	\$ 36.94	\$ 38.64

Sandler O'Neill noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Pro Forma Merger Analysis. Sandler O'Neill analyzed certain potential pro forma effects of the merger, assuming the merger closes at the end of the fourth calendar quarter of 2017. In performing this analysis, Sandler O'Neill utilized the following information and assumptions: (i) certain of United's earnings and asset growth projections for Four Oaks for the years ending December 31, 2018 through December 31, 2021; (ii) publicly available consensus median analyst earnings per share estimates for United for the years ending December 31, 2017 and December 31, 2018, as well as an estimated long-term earnings per share growth rate for the years ending December 31, 2019 and December 31, 2020, as provided by United; and (iii) certain assumptions relating to purchase accounting adjustments, cost savings and transaction expenses, as provided by United. The analysis indicated that the merger could be accretive to

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United's estimated earnings per share (excluding one-time transaction costs and expenses) in the years ending December 31, 2018, December 31, 2019 and December 31, 2020, dilutive to estimated tangible book value per share at closing and at December 31, 2018, December 31, 2019 and approximately neutral to United's estimated tangible book value per share at December 31, 2020.

In connection with this analysis, Sandler O'Neill considered and discussed with Four Oaks' Board of Directors how the analysis would be affected by changes in the underlying assumptions, including the impact of final purchase accounting adjustments determined at the closing of the merger, and noted that the actual results achieved by the combined company may vary from projected results and the variations may be material.

Sandler O'Neill's Relationship. Sandler O'Neill acted as financial advisor to Four Oaks in connection with the merger and will receive a fee for its services in an amount equal to 1.00% of the aggregate purchase price, which fee at the time of announcement was approximately \$1.2 million. In the event that the purchase price per share of Four Oaks common stock exceeds \$20 per share (calculated based on the average closing price of United common stock on the five trading days preceding the date of closing), Sandler O'Neill shall receive an additional 1.50% of the difference between the aggregate purchase price and the aggregate amount computed based on a \$20 per share purchase price; provided that the fee shall in no case exceed 1.50% of the aggregate purchase price. A significant portion of Sandler O'Neill's transaction fee is contingent upon consummation of the merger. Sandler O'Neill also received a separate \$200,000 fee for rendering its fairness opinion, which opinion fee will be credited in full towards the portion of the transaction fee which will become payable to Sandler O'Neill on the day of closing of the merger. Four Oaks has also agreed to reimburse Sandler O'Neill for its reasonable out-of-pocket expenses incurred in connection with its engagement, including the reasonable fees and disbursements of its legal counsel. Four Oaks has also agreed to indemnify Sandler O'Neill against certain liabilities arising out of Sandler O'Neill's engagement.

Sandler O'Neill has not provided any other investment banking services to Four Oaks in the two years preceding the date of its opinion. Sandler O'Neill has provided certain investment banking services to, and received fees from, United in the two years preceding the date of its opinion. Sandler O'Neill acted as financial advisor to United in connection with United's acquisition of Tideland Bancshares, Inc., which closed in July 2016. In connection with that acquisition, Sandler O'Neill received a fee of approximately \$150,000 from United. In addition, in the ordinary course of Sandler O'Neill's business as a broker-dealer, Sandler O'Neill may purchase securities from and sell securities to Four Oaks, United and their respective affiliates. Sandler O'Neill may also actively trade the equity and debt securities of Four Oaks, United and their respective affiliates for its own account and for the accounts of its customers.

Certain Four Oaks Unaudited Prospective Financial Information

Four Oaks does not as a matter of course make public projections as to future revenues, earnings, or other financial results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, Four Oaks is including this unaudited prospective financial information to provide its shareholders access to information that was made available to the Four Oaks Board of Directors and Four Oaks' financial advisor in connection with the merger. This unaudited prospective financial information is referred to as the internal financial projections for Four Oaks in the section entitled "— Opinion of Four Oaks' Financial Advisor." The inclusion of this information should not be regarded as an indication that Four Oaks or any of its representatives or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results, or that it should be construed as financial guidance, and it should not be relied on as such.

Four Oaks' management approved the use of the following unaudited prospective financial information. This information was prepared solely for internal use and is subjective in many respects. While presented with numeric specificity, the unaudited prospective financial information reflects numerous estimates and assumptions made with respect to business, economic, market, and financial conditions and matters specific to Four Oaks' business, all of which are difficult to predict and many of which are beyond Four Oaks' control. Four Oaks can give no assurance that the unaudited prospective financial information and the underlying estimates and assumptions will be realized. Further, since the unaudited prospective financial information covers multiple years, such information by its nature becomes less predictive and less

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reliable with each successive year. Actual results are likely to differ materially from those set forth below, and important factors that may affect actual results and cause the unaudited prospective financial information to be inaccurate include, but are not limited to, risks and uncertainties relating to Four Oaks' business, industry performance, the interest rate and regulatory environment, and general business and economic conditions. For other factors that could cause actual results to differ please see the sections entitled "Risk Factors" and "A Warning about Forward-Looking Statements" beginning on page 18 and page 112, respectively.

The unaudited prospective financial information was not prepared with a view toward public disclosure, nor was it prepared with a view toward compliance with GAAP, published guidelines of the SEC, or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. In addition, the unaudited prospective financial information requires significant estimates and assumptions that make it inherently less comparable to the similarly titled GAAP measures in Four Oaks' historical financial statements. Neither Four Oaks' independent registered public accounting firm, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the unaudited prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

Furthermore, the unaudited prospective financial information does not take into account any circumstances or events occurring after the date it was prepared. Four Oaks can give no assurance that, had the unaudited prospective financial information been prepared either as of the date of the merger agreement or as of the date of this document, similar estimates and assumptions would be used. Four Oaks does not intend to make publicly available any update or other revision to the unaudited prospective financial information. The unaudited prospective financial information represents Four Oaks' own evaluation of its potential future financial performance on a stand-alone basis, and does not take into account the possible financial and other effects of the merger and does not attempt to predict or suggest future results of the combined company.

None of Four Oaks or its officers, directors, advisors, or other representatives or affiliates has made, makes or is authorized in the future to make any representation to any Four Oaks shareholder, United shareholder, or other person regarding Four Oaks' ultimate performance compared to the information contained in the unaudited prospective financial information or that the projected results will be achieved. The summary of the unaudited prospective financial information included below is not being included to influence your decision whether to vote for the merger and the transactions contemplated in connection with the merger, but is being provided solely because such information was considered by the Four Oaks Board of Directors in connection with the merger.

In light of the foregoing, and considering that the Four Oaks special meeting will be held several months after the unaudited prospective financial information was prepared, as well as the uncertainties inherent in any forecasted information, Four Oaks shareholders are cautioned not to place unwarranted reliance on such information, and Four Oaks urges all Four Oaks shareholders to review Four Oaks' financial statements and other information contained elsewhere in this document for a description of Four Oaks' business and reported financial results.

The following table presents selected Four Oaks unaudited prospective financial data for the years 2017 through 2020:

	Year Ended December 31,			
	2017	2018	2019	2020
	(\$ in millions, except earnings per share)			
Income Statement				
Net Income	\$ 4,340	\$ 5,177	\$ 6,138	\$ 7,130
Per Share Data				
Earnings Per Share	\$ 0.64	\$ 0.76	\$ 0.91	\$ 1.05
Tangible Book Value Per Share	\$ 10.69	\$ 11.31	\$ 12.00	\$ 12.81
Dividends Per Share	\$ 0.05	\$ 0.14	\$ 0.22	\$ 0.24

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The Merger Consideration

Holders of Four Oaks common stock will receive 0.6718 shares of United common stock and \$1.90 in cash in exchange for each of their shares of Four Oaks common stock in 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 in an amount equal to such fractional part of a share of United common stock multiplied by the closing price for United common stock on the NASDAQ Global Select Market trading day immediately preceding the effective time of the merger.

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 date and time specified in the Certificate of Merger reflecting the merger filed with the Secretary of State of the State of Georgia and the Articles of Merger reflecting the merger filed with the Secretary of State of the State of North Carolina.

The merger and the bank merger must be approved by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Department of Banking and Finance of the State of Georgia and the North Carolina Office of the Commissioner of Banks. Management of United and Four Oaks anticipate that the merger will become effective during the fourth quarter of 2017.

Terms of the Merger

If Four Oaks shareholders approve the merger agreement, and subject to the receipt of required regulatory approvals and the satisfaction of the other closing conditions set forth in the merger agreement, Four Oaks will be merged with and into United. In connection with the merger, Four Oaks shareholders (other than shareholders holding shares for which appraisal rights have been demanded or cancelled shares) will receive 0.6178 shares of United common stock and \$1.90 in cash in exchange for each share of Four Oaks common stock. United shareholders will continue to hold their existing United common stock.

If, prior to the effective time, either party should change the number of its outstanding shares as a result of a stock split, reverse stock split, stock dividend, recapitalization, reclassification, or similar transaction, then a proportionate and appropriate adjustment will be made to the number of shares of United common stock to be delivered pursuant to the merger in exchange for a share of Four Oaks common stock.

If the merger is completed, Four Oaks 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 Four Oaks will cease to exist as a separate entity. Following the merger, Four Oaks' wholly-owned North Carolina bank subsidiary, Four Oaks Bank, will be merged with and into the Bank, a wholly-owned Georgia bank subsidiary of United. The Bank will be the surviving bank.

Registration of United Common Stock

As a condition to the merger, United agreed to register with the SEC the shares of United common stock to be exchanged for shares of Four Oaks 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 Four Oaks 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.

Treatment of Four Oaks Stock Options

Each outstanding option to acquire shares of Four Oaks common stock issued pursuant to the Four Oaks Fincorp, Inc. Amended and Restated Nonqualified Stock Option Plan, as amended, the Nuestro

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Banco 2007 Nonstatutory Stock Option Plan, and the Nuestro Banco 2007 Incentive Stock Option Plan, whether vested or unvested, that is outstanding as of immediately prior to the effective time of the merger, shall become fully vested and shall be cancelled and converted automatically into the right to receive a cash payment from United or the Bank in an amount (subject to any applicable withholding or other taxes required by applicable law to be withheld) equal to the product of (x) the excess, if any, of the merger consideration price (as defined below) over the exercise price of each option to acquire shares of Four Oaks common stock and (y) the number of shares of Four Oaks common stock subject to such option to the extent not previously exercised. In the event the exercise price per share of Four Oaks common stock subject to an option to acquire shares of Four Oaks common stock is equal to or greater than the merger consideration price, such option to acquire shares of Four Oaks common stock will be canceled without consideration and have no further force or effect.

The term “merger consideration price” means the sum of the (x) the exchange ratio multiplied by the closing price for United common stock on the NASDAQ Global Select Market trading day immediately preceding the effective time of the merger and (y) \$1.90.

Treatment of Four Oaks Restricted Stock

Each share of Four Oaks common stock subject to vesting, repurchase or other lapse restriction granted pursuant to Four Oaks’ 2015 Restricted Stock Plan that is outstanding as of immediately prior to the effective time of the merger, shall become fully vested and shall be cancelled and converted automatically into the right to receive the merger consideration, subject to any applicable withholding or other taxes required by applicable law to be withheld.

Treatment of Warrants

At the effective time of the merger, each outstanding warrant to acquire shares of Four Oaks common stock shall be cancelled without consideration and have no further force or effect.

Termination of Consent Order

Four Oaks must use its commercially reasonable efforts, consistent with Four Oaks’ past practice, to have the Consent Order terminated as promptly as possible or amended to provide that the Consent Order shall terminate at the effective time of the merger without any further action on the part of United or Four Oaks.

Representations and Warranties Made by United and Four Oaks in the Merger Agreement

United and Four Oaks have made certain customary representations and warranties to each other in the merger agreement. For information on these representations and warranties, please refer to the merger agreement attached as Appendix A. The representations and warranties in the merger agreement do not survive the effective time of the merger.

The representations and warranties included in the merger agreement were made only for purposes of the merger agreement and as of specific dates, are solely for the benefit of United and Four Oaks, may be subject to limitations, qualifications or exceptions agreed upon by the parties, including those included in confidential disclosures made for the purposes of, among other things, allocating contractual risk between United and Four Oaks rather than establishing matters as facts, and may be subject to standards of materiality that differ from those standards relevant to investors. The representations and warranties and other provisions of the merger agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this document and in the documents incorporated by reference into this document. United and Four Oaks will provide additional disclosures in their public reports to the extent they are aware of the existence of any material facts that are required to be disclosed under federal securities laws and that might otherwise contradict the terms and information contained in the merger agreement and will update such disclosure as required by federal securities laws.

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Certain representations and warranties of United and Four Oaks are qualified as to “materiality” or “material adverse effect.” For purposes of the merger agreement, a “material adverse effect,” when used in reference to either United or Four Oaks, shall mean any change, event, development, violation, effect or circumstance which, individually or in the aggregate, (i) has, or is reasonably likely to have, a material adverse effect on the business, operations, properties, assets, financial condition or prospects of United or Four Oaks, respectively, on a consolidated basis, or (ii) prevents or materially impairs, or would be reasonably likely to prevent or materially impair, the ability of United or Four Oaks, respectively, to timely consummate the transactions contemplated by the merger agreement or to perform its agreements or covenants under the merger agreement; provided, that a “material adverse effect” shall specifically exclude any adverse effect attributable to or resulting from:

- any change in banking laws, rules or regulations of general applicability;
- any change in U.S. generally accepted accounting principles or regulatory accounting principles applicable to banks or their holding companies generally;
- any action or omission expressly required by the merger agreement or taken with the express prior written consent of the other party to the merger agreement;
- general changes in national economic, monetary, market or financial conditions affecting financial institutions, including changes in prevailing interest rates, inflation, credit markets, or capital market conditions, except, in all cases, to the extent such changes disproportionately affect Four Oaks;
- changes in national political conditions, including the outbreak or escalation of acts of terrorism; or
- the public disclosure of the merger agreement or the transactions contemplated by the merger agreement.

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 Four Oaks, but not later than the effective date of the merger:

- (1) by mutual written agreement of United and Four Oaks;
- (2) by either party, if after the date of the merger agreement, any events or occurrences have occurred and are continuing that, individually or in the aggregate have had or would reasonably be expected to have a material adverse effect on the other party;
- (3) by either party, if the terms, covenants or conditions of the merger agreement to be complied with or performed by the other party before the closing have not been substantially complied with or substantially performed at or before the closing date and such noncompliance or nonperformance has not been waived by such party, or in the event of a material breach by the other party of any covenant, agreement, or obligation contained in the merger agreement which breach has not been cured within 20 days after the giving of written notice to the other party of such breach or, if such breach is not capable of being cured within 20 days, the other party has not begun to cure such breach within 20 days after such written notice;

(4)

by United, if it learns of any fact or condition not disclosed in the merger agreement, the disclosure memorandum delivered in connection with the merger agreement, or Four Oaks' financial statements, which fact or condition was required to be disclosed by Four Oaks pursuant to the provisions of the merger agreement and which fact or condition would reasonably be expected to have, either individually or in the aggregate, a material adverse effect on Four Oaks or United;

(5)

by either party, if any regulatory approval required to be obtained has been denied by the relevant governmental entity or any governmental entity of competent jurisdiction has issued a final, nonappealable injunction permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by the merger agreement;

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(6)

by either party, if the closing date shall not have occurred on or before March 31, 2018, unless the failure of the closing to occur by such date is due to the failure of the party seeking to terminate the merger agreement to perform or observe the covenants and agreements of such party under the merger agreement;

(7)

by United, if the holders of more than 10% of the outstanding shares of Four Oaks common stock elect to exercise their statutory right of appraisal and demand payment for the “fair value” of their shares of Four Oaks common stock;

(8)

by either party, if the merger agreement is not approved by any required vote of the Four Oaks shareholders as required by applicable law; or

(9)

by Four Oaks if, prior to obtaining the required vote of the Four Oaks shareholders, the board of directors has effected an adverse recommendation change (as defined below).

Four Oaks may only terminate the merger agreement pursuant to (9) listed above so long as Four Oaks complies with its obligations discussed under “Limitation on Discussion with Others” below and:

- Four Oaks’ Board of Directors determines in good faith, after consultation with Four Oaks’ financial advisor and outside counsel, that it has received an acquisition proposal (as defined below) (that did not result from a breach of the merger agreement) that is a superior proposal (as defined below);

- Four Oaks’ Board of Directors determines in good faith, after consultation with Four Oaks’ outside counsel, that a failure to accept such superior proposal would be reasonably likely to constitute a breach of the fiduciary duties of the members of the Four Oaks Board of Directors;

- Four Oaks’ Board of Directors provides written notice to United of its receipt of the superior proposal and its intent to announce an adverse recommendation change on the third business day following delivery of such notice, which notice shall specify the material terms and conditions of the superior proposal (it being understood that any amendment to any material term of such superior proposal shall require a new written notice);

- after providing such written notice, Four Oaks negotiates in good faith with United (if requested by United) and provides United reasonable opportunity during the three business day period following the written notice to make such adjustments in the terms and conditions of the merger agreement as would enable Four Oaks’ Board of Directors to proceed without an adverse recommendation change (provided, however, that United shall not be required to propose any such adjustments); and

- Four Oaks’ Board of Directors, following such three business day period, determines in good faith, after consultation with Four Oaks’ financial advisor and outside counsel, that such acquisition proposal nonetheless continues to constitute a superior proposal and that failure to take such action would be reasonably likely to constitute a breach of the fiduciary duties of the members of the Four Oaks Board of Directors.

The term “adverse recommendation change” means (i) the withdrawal, qualification or modification, or public proposal to withdraw, qualify or modify, in a manner adverse to United, the recommendation of the Four Oaks Board of

Directors that the Four Oaks shareholders adopt and approve the merger agreement and the transactions contemplated by the merger agreement, including the merger, or (ii) the approval or recommendation, or public proposal to approve or recommend, any acquisition proposal.

The term “acquisition proposal” means (i) any proposal or offer with respect to a merger, joint venture, partnership, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, rights offering, share exchange, business combination or similar transaction, involving Four Oaks or any of its subsidiaries; and (ii) any acquisition by any person resulting in, or proposal or offer, which, if consummated, would result in, any person becoming the beneficial owner, directly or indirectly, of 10% or more of the total voting power of any class of equity securities of Four Oaks or any of its subsidiaries, or 10% or more of the consolidated total assets of Four Oaks, in each case, other than the transactions contemplated by the merger agreement.

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The term “superior proposal” means any acquisition proposal with respect to which the Four Oaks Board of Directors (i) determines in good faith that such acquisition proposal, if accepted, is reasonably likely to be consummated on a timely basis, taking into account all legal, financial, regulatory and other aspects of the acquisition proposal and the third party making the acquisition proposal, and (ii) determines in good faith judgment (based on, among other things, the advice of Four Oaks’ financial advisor) to be more favorable to Four Oaks’ shareholders than the merger taking into account all relevant factors (including whether, in the good faith judgment of the Four Oaks Board of Directors, after obtaining advice of Four Oaks’ financial advisor, the third party making such acquisition proposal is reasonably able to finance the transaction and close it timely, and any proposed changes to the merger agreement that may be proposed by United in response to such acquisition proposal).

Four Oaks must pay to United a termination fee of approximately \$4.0 million if, while an acquisition proposal is outstanding or after such an offer has been accepted, (i) Four Oaks terminates the merger agreement other than pursuant to (2) or (3) listed above, or (ii) United terminates the merger agreement pursuant to (2), (3) or (4) listed above. If United terminates the merger agreement after an adverse recommendation change but is not entitled to the termination fee discussed in the immediately preceding sentence, Four Oaks shall, at the time of the termination of the merger agreement, pay United an amount equal to all out-of-pocket expenses (including all fees and expenses of financing sources, counsel, accountants, investment bankers, experts and consultants) actually and reasonably incurred by United with or related to the authorization, preparation, negotiation, execution and performance of the merger agreement.

The following summarizes the required conditions of closing:

- approval of the merger agreement by at least a majority of the issued and outstanding shares of Four Oaks common stock;
- approval of the merger and the bank merger by all government authorities, bodies or agencies having jurisdiction over such transactions, including the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Department of Banking and Finance of the State of Georgia and the North Carolina Office of the Commissioner of Banks, and the expiration of all applicable waiting or similar periods required by law;
- no order, injunction, decree or judgment preventing the consummation of the merger or the other transactions contemplated by the merger agreement issued by any court or governmental body or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the merger or the other transactions contemplated by the merger agreement shall be in effect;
- no statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any governmental entity which prohibits or makes illegal consummation of the merger;
- effectiveness of the registration statement of United relating to the shares of United common stock to be issued to Four Oaks shareholders in the merger, of which this document forms a part, and no stop order shall have been entered with respect thereto;
- the accuracy of the representations and warranties of each party in the merger agreement as of the date of the merger agreement and the day on which the merger is completed, subject to the materiality standards provided in the merger agreement, except, at each such time, as a result of changes or events expressly permitted or contemplated by the merger agreement or where the failure to be true and correct, either individually or in the aggregate, is not reasonably likely to have a material adverse effect on the party to which such representation or warranty relates;

- the performance and compliance by each party in all material respects of all agreements and covenants required to be performed by it at or prior to the effective time of the merger under the merger agreement;
- the delivery of officers' certificates, secretary's certificates and certificates of valid existence to United and Four Oaks by the other; and

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- receipt by each of United and Four Oaks of an opinion of its respective legal counsel as to certain tax matters.

Surrender of Certificates

A letter of transmittal and instructions for effecting the surrender of certificates representing such holder's shares of Four Oaks common stock to United's exchange agent, Continental Stock Transfer & Trust Company, in order to receive payment of the consideration from United in connection with the merger will be mailed no later than five business days after the closing date of the merger to each holder of Four Oaks common stock of record at the effective time of the merger.

Upon the surrender of certificates representing such holder's shares of Four Oaks common stock (or affidavits of loss in lieu thereof) for cancellation to United's exchange agent and delivery of the letter of transmittal, duly executed and properly completed, with respect to such certificates, the record holder of such certificates will be entitled to receive in exchange therefore the merger consideration to be paid therefor pursuant to the terms of the merger agreement. No interest will be paid or accrue on any cash payable upon surrender of any certificate representing shares of Four Oaks common stock.

Until a holder delivers Four Oaks common stock to United, the holder may not receive payment of any dividends or other distributions on shares of United common stock into which his, her, or its shares of Four Oaks common stock have been converted, if any.

Required Shareholder Approval and Consent

The holders of at least a majority of the issued and outstanding shares of Four Oaks common stock must approve the merger agreement for the merger to be completed. Abstentions from voting and broker non-votes, if any, will be included in determining whether a quorum is present and will have the effect of a vote against the merger agreement.

As of [•], 2017, the record date for determining the Four Oaks shareholders entitled to notice of and to vote at the special meeting, the outstanding voting securities of Four Oaks consisted of [•] shares of common stock, with each registered holder of Four Oaks common stock being entitled to one vote per share. Kenneth R. Lehman, a member of the Four Oaks Board of Directors, has agreed to vote 2,700,000 of his shares, which shares represent approximately 39.9% of the outstanding shares of Four Oaks common stock, in favor of the merger agreement.

As of the record date, the directors and executive officers of Four Oaks beneficially owned and were entitled to vote, in the aggregate, [•] shares of Four Oaks common stock (not including any shares of common stock deliverable upon exercise of any options), representing approximately [•]% of the outstanding shares of Four Oaks common stock.

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 Four Oaks in connection with the merger agreement, including all fees and expenses of its agents, representatives, counsel and accountants will be paid by Four Oaks.

Conduct of Business of Four Oaks Pending Closing

The merger agreement provides that, pending consummation of the merger, Four Oaks will, except as required by applicable law, as expressly required or contemplated by the merger agreement, or with the prior written consent of United:

- conduct its business only in the ordinary course, without the creation of any indebtedness for borrowed money (other than deposit and similar accounts and customary credit arrangements between banks in the ordinary course of business, including, without limitation, any credit arrangements with any Federal Home Loan Bank in the ordinary course of business);

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- not enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking and operating, securitization and servicing policies (including any change in the maximum ratio or similar limits as a percentage of its capital exposure applicable with respect to its loan portfolio or any segment thereof);
- maintain its properties and assets in good operating condition, ordinary wear and tear excepted;
- maintain and keep in full force and effect all material insurance;
- make no change in the authorized or issued capital stock or other securities of Four Oaks, or issue or grant any right or option to purchase or otherwise acquire any of the capital stock or other securities of Four Oaks;
- not declare or make any dividend, distribution or payment in respect to the Four Oaks common stock; provided, however, that Four Oaks may, without United's consent, no more frequently than once per calendar quarter pay a dividend of not more than \$0.02 per share with respect to Four Oaks common stock;
- make no amendment to its articles of incorporation or bylaws, and maintain its corporate existence and powers;
- not acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other entity or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to Four Oaks;
- not sell, mortgage, lease, buy or otherwise acquire, transfer or dispose of any real property or interest therein (except for sales in the ordinary course of business, including sales of other real estate owned and properties under contract at or above Four Oaks' carrying value as of the date of the merger agreement) or, except in the ordinary course of business, sell or transfer, mortgage, pledge or subject to any lien any other tangible or intangible asset;
- provide United with five business days' prior notice before execution of an agreement to make any loan or extension of credit in an amount in excess of \$500,000 (excluding any loan or extension of credit of a smaller amount on an outstanding loan or line of credit in excess of \$500,000);
- not renew or amend any existing loan or extension of credit that is characterized as "Special Mention", "Substandard", "Doubtful", or "Loss" in the books and records of Four Oaks; provided, however, that Four Oaks may amend or renew any existing loan that is characterized as "Special Mention", "Substandard", "Doubtful", or "Loss", in the event United shall not have disapproved of such request in writing within five (5) business days upon receipt of such request from Four Oaks;
- make no material change to its methodology for determining its allowance for loan and lease losses;

- make no change in the banking and safe deposit arrangements of Four Oaks, other than in the ordinary course of business, consistent with past practice;
- not make application for the opening, relocation or closing of any, or open, relocate or close any, branch office, loan production office or other significant office or operations facility of Four Oaks;
- except in the ordinary course of business, not terminate, materially amend or waive any material right under any material contract or enter into any contract that would constitute a material contract if it were in effect on the date of the merger agreement;
- maintain the books and records of Four Oaks in the usual, regular and ordinary course;
- not, and will not permit Four Oaks Bank, to prepare or file any tax return inconsistent with past practice or, on any tax return, take any position, make any election, or adopt any method inconsistent with positions taken, elections made or methods used in preparing or filing similar

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tax returns in prior periods, make or change any express or deemed election related to taxes, change an annual accounting period, adopt or change any method of accounting, file an amended tax return, surrender any right to claim a refund of taxes, enter into any closing agreements with respect to tax, or consent to any extension or waiver of the limitation period applicable to any tax proceedings related to Four Oaks or Four Oaks Bank;

- promptly advise United orally and in writing of any change or event having, or which would reasonably be expected to have, a material adverse effect;
- file all reports required to be filed with any regulatory or governmental agencies between the date of the merger agreement and the closing date of the merger and deliver to United copies of all such reports promptly after the same are filed; provided, however, Four Oaks shall not be required to deliver or otherwise make available to United copies of any such reports that include confidential supervisory information of a governmental authority;
- not adopt any new benefit plans or programs or amend any existing benefit plans or programs, the effect of which is to increase benefits to any current or former employees, directors, officers or independent contractors or their descendants or beneficiaries or the liabilities of Four Oaks or its successors; and
- not grant or enter into any new employment agreement, retention agreement, severance pay, termination pay, retention pay, change in control or transaction or deal bonus or arrangement or other benefit plan.

Limitation on Discussions with Others

The merger agreement provides that Four Oaks may not, and may not authorize or permit any of its affiliates, officers, directors, employees, agents or advisors to, directly or indirectly, solicit or entertain offers from, negotiate with or in any manner encourage, discuss, accept or consider an acquisition proposal (as defined above) of any other third party. In addition, the merger agreement requires Four Oaks to immediately cease and cause to be terminated any previously undertaken or ongoing activities, discussions or negotiations with any other third party with respect to any acquisition proposal. Furthermore, if Four Oaks or any of its affiliates, officers, directors, employees, agents, or advisors receives any communication regarding an acquisition proposal between the date of the merger agreement and the closing date of the merger, then Four Oaks shall immediately notify United of the receipt of such acquisition proposal. Notwithstanding the foregoing, prior to obtaining the approval of the shareholders of Four Oaks, the merger agreement does not prohibit Four Oaks from furnishing nonpublic information regarding Four Oaks to, or entering into a confidentiality agreement or discussions or negotiations with, any third party in response to a bona fide, unsolicited written acquisition proposal submitted by such third party if: (i) the acquisition proposal did not result from a breach of the merger agreement, (ii) Four Oaks' Board of Directors has determined in good faith, after consultation with its financial advisor and outside counsel, that such acquisition proposal constitutes or is reasonably likely to result in a superior proposal, (iii) Four Oaks' Board of Directors determines in good faith, after consultation with its outside counsel, that a failure to take such action would be reasonably likely to result in a breach of the fiduciary duties of the members of the Four Oaks board of directors, (iv) (A) Four Oaks gives United prompt (but in no event later than 24 hours) notice (which notice may be oral, and, if oral, shall be subsequently confirmed in writing) (1) of Four Oaks' or any of its directors, officers, employees, representatives, agents or advisors receipt of any acquisition proposal (which notice shall include the identity of such person or group and the material terms and conditions of any proposals or offers, including, if applicable, copies of any written requests, proposals or offers, including proposed agreements) and (2) of Four Oaks' furnishing nonpublic information to, or entering into discussions or negotiations with, such person or group, and (B) Four Oaks receives from such person or group an executed confidentiality agreement containing terms no less favorable to Four Oaks than the terms of the confidentiality agreement entered into between Four Oaks and United, and (v) contemporaneously with, or promptly after, furnishing any such nonpublic information to such person or group, Four Oaks furnishes such nonpublic

information to United (to the extent such nonpublic information has not been previously furnished by Four Oaks to United). In addition to the foregoing, Four
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Oaks shall keep United reasonably informed on a prompt basis of the status and material terms of any such acquisition proposal, including any material amendments or proposed amendments as to price and other material terms thereof and any change in Four Oaks' intentions with respect to the transactions contemplated by the merger agreement.

Interests of the Directors and Executive Officers of Four Oaks in the Merger

In considering the recommendation of the Four Oaks Board of Directors with respect to the merger agreement, Four Oaks shareholders should be aware that the executive officers and directors of Four Oaks have certain interests in the merger that may be different from, or in addition to, the interests of Four Oaks shareholders generally. The Four Oaks Board of Directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated thereby and making its recommendation that Four Oaks shareholders vote to approve the merger agreement. These interests are described in further detail below. For purposes of all Four Oaks agreements and plans described below, the completion of the merger contemplated by the merger agreement will constitute a change of control, change in control, or term of similar meaning.

Existing Four Oaks Bank Employment Agreements

Four Oaks Bank is currently a party to employment agreements that contain certain severance arrangements with each of Four Oaks' executive officers: David H. Rupp, Jeff D. Pope, Lisa S. Herring, Deanna W. Hart, Warren D. Herring, Jr., and Lawrence F. DesPrés. These employment agreements provide that if, during the period commencing with the execution of a definitive agreement providing for a Change in Control (as defined below) and extending to 18 months following a Change in Control, the executive's employment is terminated by Four Oaks Bank without Cause (as defined below) or by notice of non-renewal or if the executive terminates his or her employment for Good Reason (as defined below), then the executive is entitled to receive as a lump sum a severance payment equal to two times his or her most recent annual compensation (including the amount of his or her most recent annual bonus). In addition, the executive is entitled to reimbursement for additional costs he or she incurs in obtaining health insurance benefits equivalent to the group benefit plan in which he or she participated prior to termination of employment for an 18-month period following the termination of employment or, if sooner, until he or she obtains comparable coverage in connection with subsequent employment. Each employment agreement includes a requirement that the executive sign a release of all claims as a condition to receiving severance thereunder.

For purposes of each employment agreement:

- “Cause” includes (i) the executive's demonstrated gross negligence or willful misconduct in the execution of his or her duties; (ii) the executive's refusal to comply with Four Oaks Bank's policies, procedures, practices, or directions, after notice and opportunity to cure within 15 days after such notice; (iii) the executive's commission of an act of dishonesty; (iv) the executive's being convicted of a felony; or (v) the executive's breach of his or her employment agreement;

- a “Change in Control” occurs when (i) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than Four Oaks or any entity owned, directly or indirectly, by the shareholders of Four Oaks in substantially the same proportions as their ownership of Four Oaks common stock, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of shares representing more than 33% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of Four Oaks, unless such person or group becomes such a beneficial owner by certain transfers made for bona fide estate planning purposes; or (ii) (a) Four Oaks merges with any other entity, (b) Four Oaks consummates a statutory share exchange with another entity, or (c) Four Oaks conveys, transfers, or leases all or substantially all of its assets to any entity, except that with respect to clauses (ii)(a) and (b) above, a Change in Control does not occur if the shareholders of Four Oaks immediately before such transaction own immediately following such transaction more than 50% of the combined voting power of the outstanding securities of the corporation resulting from such transaction in substantially the same proportions as their ownership of securities immediately before such transaction; and

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“Good Reason” means the occurrence of any of the following events or conditions without the executive’s consent: (i) a material diminution in the executive’s title, authority, duties, or responsibilities from such immediately prior to the Change in Control; (ii) a material diminution in the executive’s base salary; (iii) a material change in the geographic location at which the executive must perform his or her services under the employment agreement; or (iv) any other action or inaction that constitutes a material breach by Four Oaks Bank of the employment agreement; provided that the executive provides notice within 30 days of the initial existence of such condition and Four Oaks Bank does not remedy the condition within 30 days of such notice.

These employment agreements include a “best net after tax” provision in the event that any severance payments are deemed to constitute “excess parachute payments” within the meaning of Section 280G of the Code. This provision will cause the executive’s severance payments to either be (i) paid in full or (ii) reduced to an amount that would not trigger the Section 280G-related excise tax, whichever results in the executive receiving the greatest after tax payment. The executive would be liable for any excise tax owed on the parachute payments.

Finally, the employment agreements provide that, during each executive’s employment with Four Oaks Bank and for a period of one year following termination of such employment, the executive is prohibited from competing with Four Oaks Bank or attempting to solicit its customers or employees.

Settlement and Release Agreements

Each of Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring are expected to enter into a settlement and release agreement, which we refer to as the settlement agreements, with United. The purpose of these agreements is to provide cash compensation to Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring in full and complete satisfaction of the obligations to Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring under their existing employment agreements with Four Oaks Bank summarized above. For an estimate of the amounts that would be payable in connection with the merger to each of Messrs. Rupp and Pope and Ms. Herring pursuant to the settlement agreements, see “Quantification of Potential Payments to Four Oaks’ Named Executive Officers in Connection with the Merger” below. In exchange for the payments under the settlement agreements, Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring will release and discharge United from any and all claims, demands, and liabilities that Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring have ever had or may have against United or United’s officers, directors, or employees, both known and unknown, including, but not limited to, any and all claims, demands, and liabilities based on employment or the termination of the employment relationship. Messrs. Rupp, DesPrés, Herring and Pope and Meses. Hart and Herring will also agree not to file or consent to the filing of any lawsuit, complaint, or action against United, or United’s officers, directors, or employees arising out of or in any way related to his or her employment or the termination of his or her employment.

Treatment of Outstanding Four Oaks Stock Options

Each option to acquire shares of Four Oaks common stock issued pursuant to Four Oaks’ Amended and Restated Nonqualified Stock Option Plan, as amended, the Nuestro Banco 2007 Nonstatutory Stock Option Plan, and the Nuestro Banco 2007 Incentive Stock Option Plan that is outstanding immediately prior to the effective time of the merger will become fully vested and will be cancelled and converted automatically into the right to receive a cash payment in an amount (subject to any applicable withholding or other taxes required by applicable law to be withheld) equal to the product of (i) the number of shares of Four Oaks common stock subject to such option to the extent not previously exercised and (ii) the excess, if any, of the “merger consideration price” (as defined below) over the exercise price of the option. In the event the exercise price of the option is equal to or greater than the merger consideration price, such option will be cancelled without consideration and have no further force or effect.

Treatment of Outstanding Four Oaks Restricted Stock

Each share of Four Oaks common stock subject to vesting, repurchase, or other lapse restriction granted under the Four Oaks 2015 Restricted Stock Plan that is outstanding immediately prior to the effective time of the merger will become fully vested and will be converted automatically into the right to receive the merger consideration, subject to any applicable withholding or other taxes required by applicable law to be withheld.

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Estimated Equity Compensation

The following table provides, as of August 14, 2017, the estimated value of the outstanding option awards and restricted stock awards that are vested or that would vest as a result of the merger held by each person who has served as a director and/or executive officer of Four Oaks since January 1, 2016 and who will be entitled to payment for such awards as described above:

Name	Value of Stock Option Awards (\$)(1)	Value of Restricted Stock Awards (\$)(2)
Directors		
Paula Canaday Bowman(3)	\$ 2,379	—
Warren L. Grimes	—	\$ 80,835
Ayden R. Lee, Jr.	—	\$ 646,680
Kenneth Lehman	—	—
Robert G. Rabon	—	\$ 80,835
Dr. R. Max Raynor, Jr.	—	\$ 80,835
Michael A. Weeks	—	\$ 80,835
Executive Officers		
David H. Rupp	—	\$ 798,840
Jeff D. Pope	—	\$ 399,420
Lisa S. Herring	—	\$ 399,420
Deanna W. Hart	—	\$ 334,751
Warren D. Herring, Jr.	—	\$ 334,752
Lawrence F. DesPrés	—	\$ 304,320
W. Leon Hiatt, III(4)	—	—

(1)

As of August 14, 2017, all outstanding option awards held by Four Oaks' directors were fully vested. The estimated value of stock option awards is based on the difference between the option exercise price and a "merger consideration price" of \$19.02 per share of Four Oaks common stock, calculated as described above with an assumed closing price per share of United common stock of \$27.71, which is the average closing price over the first five business days following the public announcement of the merger agreement on June 27, 2017.

(2)

The estimated dollar amounts were determined based on a price per share of Four Oaks restricted stock equal to the sum of (x) \$1.90 and (y) 0.6178 multiplied by an assumed closing price per share of United common stock of \$27.71, which is the average closing price over the first five business days following the public announcement of the merger agreement on June 27, 2017.

(3)

Ms. Bowman retired from the Four Oaks Board of Directors effective as of December 31, 2016.

(4)

Effective as of February 1, 2016, Mr. Hiatt's employment as Four Oaks' Executive Vice President and Chief Administrative Officer was terminated.

Consulting Agreement with United

Mr. Rupp will enter into a consulting agreement with United upon the closing of the merger. Mr. Rupp's consulting agreement will terminate on October 31, 2018, and Mr. Rupp will receive a consulting fee of \$25,000 per month for his services.

Employment Arrangement with United

Mr. Pope will enter into an employment agreements with United upon the closing of the merger. Mr. Pope will become the President of Four Oaks for United Community Bank, with an annual base salary of \$200,000. Mr. Pope will be eligible to participate in United's employee benefit plans, fringe benefits, and perquisites as provided to similarly situated executives.

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As of the date of this document, no other executive officer of Four Oaks has entered into any agreement, arrangement, or understanding with United regarding employment with or consulting for United or the Bank. Although it would not be unexpected that some additional members of Four Oaks' executive management team will enter into arrangements, agreements, or understandings with United or the Bank regarding employment (and severance arrangements) with, or consulting for, United or the Bank, as applicable, as of the date of this document, no such agreements, arrangements, or understandings have been reached between members of Four Oaks' executive management and representatives of United, and there can be no assurance that any parties will reach an agreement, arrangement or understanding. New arrangements, agreements or understandings, if any, are currently expected to be entered into at or prior to completion of the merger and would not become effective until after the merger is completed.

Indemnification and Insurance

To the fullest extent permitted by applicable law, United has agreed that for six years after the completion of the merger, it will (subject to certain limitations) indemnify, and advance expenses to, present and former Four Oaks directors and executive officers with respect to liabilities arising from acts or omissions occurring prior to the merger. Prior to the closing date of the merger, United will purchase an extended reporting period endorsement under Four Oaks' existing directors' and officers' liability insurance coverage for acts or omissions occurring prior to the merger effective time by such directors and executive officers, which shall maintain such Four Oaks directors' and officers' liability insurance policy in effect for a period of six years after the merger closing date; provided that United shall not be obligated to make aggregate annual premium payments for such six-year period in excess of 300% of the annual premium payments on such Four Oaks directors' and officers' liability insurance policy in effect as of the date of the merger agreement. If the amount of the premiums necessary to maintain or procure such insurance coverage exceeds such 300% maximum premium amount, then United shall use its reasonable best efforts to maintain the most advantageous policies of directors' and officers' liability insurance obtainable for a premium equal to such 300% maximum premium amount.

Quantification of Potential Payments to Four Oaks' Named Executive Officers in Connection with the Merger

The following table and related footnotes, together with certain disclosures in the section above entitled "Interests of the Directors and Executive Officers of Four Oaks in the Merger," are intended to comply with Item 402(t) of Regulation S-K under the Exchange Act, which requires disclosure of information about the payments and benefits that each of Four Oaks' "named executive officers" (which are its principal executive officer, the next two most highly compensated executive officers during 2016 who were serving in such roles at the end of the year, and a former executive officer who was one of the two most highly compensated executive officers during 2016 but was not serving as such at the end of the year) will or may receive that are based on or otherwise relate to the merger ("merger-based compensation"). This merger-based compensation is referred to as "golden parachute" compensation by the applicable SEC disclosure rules and is subject to a non-binding advisory vote of Four Oaks' holders of common stock, as described in "Proposal No. 2 — Advisory Vote on Merger-Related Compensation."

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The amounts indicated below are estimates based on multiple assumptions that may or may not actually occur or be accurate on the relevant date, including an assumption that the employment of each of the named executive officers is terminated immediately following the completion of the merger, and do not reflect certain compensation actions that may occur before the completion of the merger. For purposes of calculating such amounts, we have assumed August 14, 2017 as the closing date of the merger.

Name	Cash \$(1)	Equity \$(2)	Pension/ NQDC (\$)	Perquisites/ Benefits \$(3)	Tax Reimbursement (\$)	Other (\$)	Total \$(4)
David H. Rupp	\$ 698,428	\$ 798,840	—	\$ 14,195	—	—	\$ 1,505,463
Jeff D. Pope	\$ 526,000	\$ 399,420	—	\$ 12,207	—	—	\$ 937,627
Lisa S. Herring	\$ 526,472	\$ 399,420	—	\$ 12,207	—	—	\$ 938,099
W. Leon Hiatt, III(5)	—	—	—	—	—	—	—

(1)

As described above under “Interests of the Directors and Executive Officers of Four Oaks in the Merger — Existing Four Oaks Bank Employment Agreements,” the merger constitutes a Change in Control as defined in the employment agreements with Messrs. Rupp and Pope and Ms. Herring. The employment agreements provide that if, during the period commencing with the execution of a definitive agreement providing for a Change in Control and extending to 18 months following a Change in Control, the named executive officer’s employment is terminated by Four Oaks Bank without Cause or by notice of non-renewal or if the named executive officer terminates his or her employment for Good Reason, then the named executive officer is entitled to receive as a lump sum a severance payment equal to two times his or her most recent annual compensation (including the amount of his or her most recent annual bonus). These severance arrangements constitute “double trigger” arrangements as defined by SEC Rule 402(t) of Regulation S-K and are conditioned on the named executive officer’s execution of a standard release of claims. As described above in the section entitled “— Interests of the Directors and Executive Officers of Four Oaks in the Merger — Existing Four Oaks Bank Employment Agreements,” the employment agreements with the named executive officers include a “best net after tax” provision in the event that any severance payments are deemed to constitute “excess parachute payments” within the meaning of Section 280G of the Code. As a result, the actual amounts to be received may differ materially from the amounts set forth above due to reductions in such amounts as a result of such provisions to avoid triggering a Section 280G-related excise tax, if any, to the extent more beneficial to the applicable named executive officer than payment in full.

(2)

These amounts represent the value of the aggregate consideration to be paid with respect to the named executive officers’ equity awards, as described in greater detail above in the section entitled in “Interests of the Directors and Executive Officers of Four Oaks in the Merger — Estimated Equity Compensation” and based on the assumptions in that section. Payment will be made pursuant to the merger agreement following the effective time. Under the terms of the merger agreement, these payments represent “single trigger” arrangements as defined by SEC Rule 402(t) of Regulation S-K.

(3)

These amounts represent the value attributable to the right of each of the named executive officers to be reimbursed for additional costs he or she incurs in obtaining health insurance benefits equivalent to the group benefit plan in which he or she participated prior to termination of employment for an 18-month period following the termination of employment. These payments are “double trigger” arrangements as defined in SEC Rule 402(t) of Regulation S-K.

(4)

The following table shows, for each named executive officer, the amounts which are single-trigger arrangements (i.e., conditioned solely on the occurrence of a Change in Control) or double-trigger arrangements (i.e., requiring the occurrence of an additional event, in this case an involuntary termination without Cause or by notice of non-renewal or a resignation for Good Reason during the period commencing with the execution of a definitive agreement providing for a Change in Control and extending to 18 months following a Change in Control) as described in more detail above.

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Executive Officer	Single-Trigger (\$)	Double-Trigger (\$)
David H. Rupp	\$ 798,840	\$ 706,623
Jeff D. Pope	\$ 399,420	\$ 538,207
Lisa S. Herring	\$ 399,420	\$ 538,679
W. Leon Hiatt, III	—	—

(5)
 Effective as of February 1, 2016, Mr. Hiatt’s employment as Four Oaks’ Executive Vice President and Chief Administrative Officer was terminated.

Differences in Legal Rights between Shareholders of Four Oaks and United

Following the merger you will no longer be a Four Oaks shareholder and, if you receive shares of United following the merger, your rights as a shareholder will no longer be governed by Four Oaks’ articles of incorporation and bylaws and the NCBCA. You will be a United shareholder and your rights as a United shareholder will be governed by United’s articles of incorporation and bylaws and the Georgia Business Corporation Code. Your former rights as a Four Oaks shareholder and your new rights as a United shareholder are different in certain ways, including the following:

	Four Oaks Shareholder Rights	United Shareholder Rights
Authorized, Issued and Outstanding Capital Stock	The authorized capital stock of Four Oaks currently consists of 16,000,000 shares of common stock, \$1.00 par value per share, and 50,000 shares of preferred stock, \$1.00 par value per share. As of [•], 2017, [•] shares of common stock were issued and outstanding, and no shares of preferred stock were issued and outstanding.	The authorized capital stock of United currently consists of 150,000,000 shares of common stock, \$1.00 par value per share, 26,000,000 shares of non-voting common stock, \$1.00 par value per share, and 10,000,000 shares of preferred stock, \$1.00 par value per share. As of [•], 2017, [•] shares of common stock were issued and outstanding, no shares of non-voting common stock were issued and outstanding and no shares of preferred stock were issued and outstanding.
Shareholder Ability to Call Special Meetings	The bylaws of Four Oaks provide that special meetings may be called by the Chief Executive Officer, the President, the Secretary or the Board of Directors, and by the holders of at least 25% of all the votes entitled to be cast on any issue proposed to be considered at such special meeting.	The bylaws of United provide that special meetings may be called by the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Chief Financial Officer, and by the holders of at least 25% of the shares entitled to vote on the matter considered at the special meeting.
Advance Notice Requirements for Shareholder Proposals	Four Oaks’ articles of incorporation and bylaws do not contain advance notice provisions with respect to shareholder proposals.	The bylaws of United provide that for business to be brought properly before an annual meeting by a shareholder, the stockholder must have given timely notice of the business in writing to the Secretary. To be timely, the notice must be delivered or mailed to and received at the principal offices of United on or before the later to occur of (i) 14 days prior to the annual meeting or (ii) five days after notice of the meeting is provided to the shareholders. A shareholder’s notice must set forth (i) a

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	Four Oaks Shareholder Rights	United Shareholder Rights
		brief description of each matter of business the shareholder proposes to bring before the meeting and the reasons for conducting that business at the meeting; (ii) the name, as it appears on United's books, and address of the shareholder proposing the business; (iii) the series or class and number of shares of United's capital stock that are beneficially owned by the shareholder; and (iv) any material interest of the shareholder in the proposed business. United shareholders do not have the ability to submit a proposal for a special meeting of shareholders.
Number of Directors	The bylaws of Four Oaks provide that the number of directors on Four Oaks' Board of Directors may range from five to 21. Four Oaks' Board of Directors currently has seven directors.	The bylaws of United provide that the number of directors on United's Board of Directors may range from eight to 14. The number of directors may be increased or decreased from time to time by the Board of Directors by resolution, but no decrease shall have the effect of shortening the term of an incumbent director. United's Board of Directors currently has nine directors.
Removal of Directors	The bylaws of Four Oaks provide that directors may be removed with or without cause, but only if the number of votes cast to remove a director exceeds the number of votes cast not to remove such director.	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	Four Oaks' articles of incorporation provide that, with regard to any business combination between Four Oaks and any other corporation, person, or other entity, such business combination must be approved only as follows unless otherwise more restrictively required by applicable North Carolina law: (i) at a special or annual meeting of shareholders by an affirmative vote of the shareholders holding at least a majority of the shares of Four Oaks issued and outstanding and entitled to vote thereon provided that such business combination has received the prior approval by resolution adopted by an affirmative vote of at least 80% of the full Board of Directors before such business combination is submitted for	Neither the articles of incorporation nor bylaws of United require any supermajority approval of business transactions 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

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Four Oaks Shareholder Rights

approval to the shareholders; or (ii) at a special or annual meeting of shareholders by affirmative vote of the shareholders holding at least 80% of the shares of Four Oaks issued and outstanding and entitled to vote thereon provided that such business combination has not received the prior approval by resolution adopted by an affirmative vote of at least 80% of the full Board of Directors, but has received the prior approval by resolution adopted by an affirmative vote of a majority of a quorum of the Board of Directors, and further provided that such business combination as approved grants to shareholders not voting to approve the business combination the right to sell his shares for cash to Four Oaks at their “fair price.”

United Shareholder Rights

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.

Shareholder
Action
Without
Meeting

The bylaws of Four Oaks provide that any action which may be taken at a meeting of shareholders may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the persons who would be entitled to vote upon such action at a meeting and is delivered to Four Oaks to be included in the minutes or to be kept as part of the corporate records.

The bylaws of United provide that any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if a written consent (or consents) has been signed by the holders of outstanding United stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent must be given to those shareholders who have not consented in writing.

Exclusive
Forum

The bylaws of Four Oaks provide that the state courts of North Carolina in and for Wake County, North Carolina (subject to designation or assignment to the North Carolina Business Court) or, if such court lacks jurisdiction, the United States District Court for the Eastern District of North Carolina, shall, to the fullest extent permitted by law, be the sole and exclusive forum for certain legal proceedings.

The bylaws of United provide that the United States District Court for the Northern District of Georgia or, if such court lacks jurisdiction, any Georgia state court that has jurisdiction, shall, to the fullest extent permitted by law, be the sole and exclusive forum for certain legal proceedings.

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Four Oaks Shareholder Rights

Four Oaks' articles of incorporation specifically provide that an amendment to the articles of incorporation shall be adopted only upon receiving the affirmative vote of the holders of at least 80% of all the shares of Four Oaks common stock issued and outstanding and entitled to vote thereon; provided, however, that if such amendment shall have received prior approval by resolution adopted by an affirmative vote of a majority of disinterested directors (as defined in the articles of incorporation), then the affirmative vote of the holders of at least a majority of all the shares of Four Oaks common stock issued and outstanding and entitled to vote, or such greater percentage approval as required by North Carolina law, shall be sufficient to amend the articles of incorporation. Four Oaks' bylaws generally provide that Four Oaks' Board of Directors may amend or repeal the bylaws, except to the extent otherwise provided in the articles of incorporation, a bylaw adopted by the shareholders, or the NCBCA, and except that a bylaw adopted, amended, or repealed by the shareholders may not be readopted, amended or repealed by Four Oaks' Board of Directors if neither the articles of incorporation nor a bylaw adopted by the shareholders authorizes the Four Oaks Board of Directors to adopt, amend or repeal that particular bylaw or the bylaws generally.

Amendments to Articles of Incorporation and Bylaws

United Shareholder Rights

United's articles of incorporation specifically provide that any amendment or repeal of any provision of the articles of incorporation or Article II (Stockholders' Meetings) or Article III (Board of Directors) of the bylaws requires the affirmative vote of holders of a majority of the shares of United's capital stock then issued and outstanding and entitled to vote on such matters. United's bylaws provide that United's Board of Directors may alter, amend or repeal United's bylaws or adopt new bylaws, subject to the voting requirement included in United's articles of incorporation. Any bylaws adopted by United's Board of Directors may be altered, amended or repealed, and new bylaws adopted, by the shareholders of United.

Dividends

United declared cash dividends of \$0.10 per share of common stock in the third quarter of 2017, \$0.09 per share of common stock in the second quarter of 2017, \$0.09 per share of common stock in the first quarter of 2017, \$0.30 per share in 2016, \$0.22 per share in 2015 and \$0.11 per share in 2014. 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 certain non-financial and financial factors including earnings, capital requirements, and the financial condition of United, and will depend on cash dividends paid to it by the Bank. The ability of the Bank to pay dividends to it is restricted by certain regulatory requirements.

Four Oaks declared cash dividends of \$0.02 per share of common stock in the third quarter of 2017 and \$0.01 per share of common stock in the second quarter of 2017. No cash dividends were declared on Four Oaks common stock in the first quarter of 2017 or in 2016, 2015 or 2014.

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Accounting Treatment

The merger will be accounted for as a purchase for financial reporting and accounting purposes under generally accepted accounting principles in the United States. After the merger, the results of operations of Four Oaks 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 Four Oaks acquired will be recorded as goodwill. Any identified intangible asset may be amortized by charges to operations under generally accepted accounting principles in the United States.

Regulatory Approvals

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Department of Banking and Finance of the State of Georgia and the North Carolina Office of the Commissioner of Banks must approve the merger. As of the date of this document, we have received the approval of the Board of Governors of the Federal Reserve System and, with respect to the merger only, the Department of Banking and Finance of the State of Georgia. All of the other required regulatory applications for the required approvals of all of the above banking regulators have been filed and are pending as of the date of this document. In determining whether to grant its 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 review of the merger application by the Federal Reserve, the Federal Deposit Insurance Corporation, the Georgia Department of Banking and Finance or the North Carolina Office of the Commissioner of Banks will not include an evaluation of the proposed transaction from the financial perspective of the individual shareholders of Four Oaks. Further, no shareholder should construe an approval of the merger application by the Federal Reserve, the Federal Deposit Insurance Corporation, the Georgia Department of Banking and Finance or the North Carolina Office of the Commissioner of Banks 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 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.

Appraisal Rights

Holders of the Four Oaks common stock who are entitled to vote on the merger have a right to demand payment in cash of the "fair value" of their shares of Four Oaks common stock. Shareholders who receive a fair value cash payment will not be entitled to receive any shares of United common stock or cash offered in the merger. Article 13 of the NCBCA sets forth the rights of Four Oaks' shareholders who wish to demand fair value payment for their shares. The following is a summary of the material terms of the statutory procedures to be followed by a holder of Four Oaks common stock in order to perfect appraisal rights under the NCBCA. Shareholders who do not properly follow appraisal rights procedures will receive shares of United common stock and cash if the plan of merger is effected. A copy of Article 13 of the NCBCA is attached as Appendix B hereto.

Requirements of Appraisal Rights

If a Four Oaks shareholder elects to exercise the right to demand appraisal, such shareholder must satisfy all of the following conditions:

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The shareholder must be entitled to vote on the merger.

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The shareholder must deliver to Four Oaks, before the vote on approval or disapproval of the merger agreement is taken, written notice of the shareholder's intent to demand payment if the merger is effectuated. This notice is separate from any proxy or vote against the merger agreement. Neither voting against, abstaining from voting, nor failing to vote on the merger agreement will constitute a notice within the meaning of Article 13.

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- The shareholder must not vote, or cause or permit to be voted, any shares in favor of the merger agreement. A failure to vote will satisfy this requirement, as will a vote against the merger agreement, but a vote in favor of the merger agreement, by proxy or in person, or the return of a signed proxy which does not specify a vote against approval of the merger agreement or contain a direction to abstain, will constitute a waiver of the shareholder's appraisal rights.

If the requirements above are not satisfied and the merger becomes effective, a Four Oaks shareholder will not be entitled to payment for such shareholder's shares under the provisions of Article 13 of the NCBCA.

Required Notice to Four Oaks

Written notices of intent to demand payment should be addressed to Four Oaks Fincorp, Inc., 6114 U.S. 301 South, Four Oaks, North Carolina 27524, Attention: Corporate Secretary. The notice must be executed by the holder of record of shares of Four Oaks' common stock. A beneficial owner may assert appraisal rights only with respect to all shares of Four Oaks' common stock of which it is the beneficial owner. A record holder, such as a broker, who holds shares of Four Oaks' common stock as a nominee for others, may exercise appraisal rights with respect to the shares held by all or less than all beneficial owners of shares as to which such person is the record holder, provided such record holder exercises appraisal rights with respect to all shares beneficially owned by any particular beneficial shareholder. In such case, the notice submitted by such nominee as record holder must set forth the name and address of the beneficial shareholder who is demanding payment. With respect to shares of Four Oaks' common stock that are owned of record by a voting trust or nominee, the beneficial owner of such shares may exercise appraisal rights only if such beneficial owner also submits to Four Oaks the record holder's written consent to such exercise not later than the Demand Deadline (as defined below).

Appraisal Notice from Four Oaks

If the merger becomes effective, Four Oaks will be required to deliver a written appraisal notice to all shareholders who have satisfied the requirements described under the heading "Requirements of Appraisal Rights" above. The appraisal notice and form must be sent no earlier than the effective date of the merger and no later than ten days after such effective date. The appraisal notice and form must:

- Identify the first date of any announcement of the principal terms of the merger to the shareholders. If such an announcement was made, the form must require the shareholder to certify whether beneficial ownership of the shares was acquired before that date. For more information regarding this requirement, see "After-Acquired Shares" below.

- Require the shareholder to certify that the shareholder did not vote for or consent to the transaction.

- State where the appraisal form is to be returned, where certificates for uncertificated shares must be deposited, and the date by which such certificates must be deposited (the "Demand Deadline"). The Demand Deadline may not be less than 40 nor more than 60 days after the date the appraisal notice and form are sent.

- State that if the appraisal form is not received by Four Oaks by the Demand Deadline, the shareholder will be deemed to have waived the right to demand appraisal.

- State Four Oaks' estimate of the fair value of the shares.

- Disclose that, if requested in writing by the shareholder, Four Oaks will disclose within ten days after the Demand Deadline the number of shareholders who have returned their appraisal forms and the total number of shares owned by them.

- Establish a date within 20 days of the Demand Deadline by which shareholders can withdraw the request for appraisal.
- Include a copy of Article 13 of the NCBCA.

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A shareholder who receives an appraisal notice from Four Oaks must demand payment by signing and returning the form included with the notice and, in the case of certificated shares, deposit his or her share certificates in accordance with the terms of the appraisal notice. Shareholders should respond to the appraisal form's request discussed above regarding when beneficial ownership of the shares was acquired. A failure to provide this certification allows Four Oaks to treat the shares as "after-acquired shares" subject to Four Oaks' authority to delay payment as described under the heading "After-Acquired Shares" below. Once a shareholder deposits his or her certificates or, in the case of uncertificated shares, returns the signed appraisal form, the shareholder loses all rights as a shareholder unless a timely withdrawal occurs as described below. A shareholder who does not sign and return the appraisal form and, in the case of certificated shares, fails to deposit the shares, is not entitled to payment under Article 13.

A shareholder who has complied with all the steps required for appraisal may thereafter decline to exercise appraisal rights and withdraw from the appraisal process by notifying Four Oaks in writing. The appraisal notice will include a date by which the withdrawal notice must be received. Following this date, a shareholder may only withdraw from the appraisal process with Four Oaks' consent.

Four Oaks' Payment to Shareholders Demanding Appraisal

Within 30 days after the Demand Deadline, Four Oaks is required to pay each shareholder the amount that Four Oaks estimates to be the fair value of such shareholder's shares, plus interest accrued from the effective date of the merger to the date of payment. The payment must be accompanied by the following:

- Four Oaks' most recently available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available quarterly financial statements, if any;
- a statement of Four Oaks' estimate of the fair value of the shares, which must equal or exceed Four Oaks' estimate in the earlier-circulated appraisal notice; and
- a statement that the shareholder has the right to submit a final payment demand as described below and that the shareholder will lose the right to submit a final payment demand if he or she does not act within the specified time frame.

Final Payment Demand by Shareholders

A shareholder who is dissatisfied with the amount of the payment received from Four Oaks may notify Four Oaks in writing of such shareholder's own estimate of the fair value of the shares and the amount of interest due, and demand payment of the excess of this estimate over the amount previously paid by Four Oaks. A shareholder who does not submit a final payment demand within 30 days after receiving Four Oaks' payment is only entitled to the amount previously paid.

After-Acquired Shares

Four Oaks may withhold payment with respect to any shares which a shareholder failed to certify on the appraisal form as being beneficially owned prior to the date stated in the appraisal notice as the date on which the principal terms of the merger were first announced. If Four Oaks withholds payment, it must, within 30 days after the Demand Deadline, provide affected shareholders with Four Oaks' most recently available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available quarterly financial statements, if any. Four Oaks must also inform such shareholders that they may accept Four Oaks' estimate of the fair value of their shares, plus interest, in full satisfaction of their claim or submit a final payment demand. Shareholders who wish to accept the offer must notify Four Oaks of their acceptance within 30 days after receiving the offer. Four Oaks must send payment to such shareholders within ten days after receiving their acceptance. Shareholders who are dissatisfied with the offer must reject the offer and demand payment of the shareholder's own estimate of the fair value of the shares, plus interest. If a shareholder does not explicitly accept or reject Four Oaks' offer, he will be deemed to have accepted the offer. Four Oaks must send

payment to these shareholders within 40 days after sending the notice regarding withholding of payment.

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Judicial Appraisal of Shares

If Four Oaks does not pay the amount demanded pursuant to a shareholder's final payment demand, it must commence a proceeding in North Carolina Superior Court within 60 days after receiving the final demand. The purpose of the proceeding is to determine the fair value of the shares and the interest due. If Four Oaks does not commence the proceeding within the 60-day period, it must pay each shareholder demanding appraisal the amount demanded, plus interest.

All shareholders whose payment demands remain unsettled will be parties to the action. The proceeding is against the shareholders' shares and not against shareholders personally. There is no right to a jury trial. Each shareholder who is a party to the proceeding will be entitled to judgment for the amount, if any, by which the court finds the fair value of the shareholder's shares, plus interest, exceeds the amount paid by Four Oaks to the shareholder for the shares. The court will determine all court costs of the proceeding and will assess the costs against Four Oaks, except that the court may assess costs against some or all of the shareholders demanding appraisal, in amounts the court finds equitable, to the extent the court finds such shareholders acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by Article 13. The court may also assess expenses (including legal fees) for the respective parties, in the amounts the court finds equitable: (i) against Four Oaks if the court finds that it did not comply with the statutes or (ii) against Four Oaks or the shareholder demanding appraisal, if the court finds that the party against whom expenses are assessed acted arbitrarily, vexatiously, or not in good faith. If the court finds that the expenses incurred by any shareholder were of substantial benefit to other shareholders similarly situated and that the expenses should not be assessed against Four Oaks, it may direct that the expenses be paid out of the amounts awarded to the shareholders who were benefited.

If Four Oaks fails to make a required payment to a shareholder under Article 13, the shareholder entitled to payment can commence an action against Four Oaks directly for the amount owed and recover the expenses of that action.

THE SUMMARY SET FORTH ABOVE DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE PROVISIONS OF ARTICLE 13 RELATING TO THE RIGHTS OF SHAREHOLDERS DEMANDING APPRAISAL AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE APPLICABLE SECTIONS OF THE NCBCA, WHICH ARE INCLUDED AS APPENDIX B TO THIS DOCUMENT. SHAREHOLDERS INTENDING TO EXERCISE APPRAISAL RIGHTS ARE URGED TO REVIEW APPENDIX B CAREFULLY AND TO CONSULT WITH LEGAL COUNSEL SO AS TO BE IN STRICT COMPLIANCE THEREWITH.

Material U.S. Federal Income Tax Consequences and Opinion of Tax Counsel

Subject to the limitations, assumptions and qualifications described herein, in the opinion of each of Troutman Sanders LLP and Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P., the following discussion summarizes the anticipated material U.S. federal income tax consequences of the merger generally applicable to "U.S. holders" (as defined below) of Four Oaks common stock that exchange their shares in the merger. This summary is based upon the Code, Treasury regulations promulgated thereunder, judicial authorities, published positions of the Internal Revenue Service ("IRS") and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and differing interpretations. The opinions of tax counsel for each of United and Four Oaks are filed as Exhibit 8.1 and Exhibit 8.2, respectively, to the registration statement on Form S-4 of which this document is a part. These opinions are based on representations, covenants and undertakings provided by United and Four Oaks and on customary factual assumptions. If any of the representations or assumptions upon which the opinions are based are inconsistent with the actual facts, the accuracy of these opinions regarding the U.S. federal income tax consequences of the merger could be adversely affected. Neither of the opinions described above will be binding on the IRS or any court. United and Four Oaks have not sought and will not seek any ruling from the IRS regarding any matters relating to the merger, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below.

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This summary is limited to U.S. holders that hold their shares of Four Oaks common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). Furthermore, this discussion does not address all of the tax consequences that may be relevant to a particular Four Oaks shareholder or to Four Oaks shareholders that are subject to special rules under U.S. federal income tax laws, such as: shareholders that are not U.S. holders; banks, thrifts, or other financial institutions; insurance companies; mutual funds; tax-exempt organizations; S corporations, partnerships or other pass-through entities (or investors in such entities); regulated investment companies; real estate investment trusts; retirement plans, individual retirement accounts or other tax-deferred accounts; dealers in stocks and securities or currencies; persons subject to the alternative minimum tax provisions of the Code; former citizens or residents of the U.S.; persons whose functional currency is not the U.S. dollar; traders in securities that elect to use a mark-to-market method of accounting; persons who own more than 5% of the outstanding common stock of Four Oaks; persons who hold Four Oaks common stock as part of a straddle, hedge, constructive sale, wash sale, conversion or other integrated transaction; and U.S. holders who acquired their shares of Four Oaks common stock through the exercise of an employee stock option, through a qualified retirement plan or otherwise as compensation.

In addition, this discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger, nor does it address any other U.S. federal tax consequences (such as gift or estate taxes) including any tax consequences arising under the unearned income Medicare contribution tax pursuant to Section 1411 of the Code. Determining the actual tax consequences of the merger to each Four Oaks shareholder may be complex. They will depend on each Four Oaks shareholder's specific situation and on factors that are not within the control of United or Four Oaks. Accordingly, each Four Oaks shareholder should consult its tax advisor with respect to the particular tax consequences of the merger to such holder.

For purposes of this section, the term "U.S. holder" means a beneficial owner of Four Oaks common stock that for United States federal income tax purposes is: a citizen or resident of the United States; a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate that is subject to U.S. federal income tax on its income regardless of its source; or a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds Four Oaks common stock, the tax treatment of a partner generally will depend on the status of the partners and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisors about the tax consequences of the merger to them.

Holders of Four Oaks common stock are urged to consult with their own tax advisors as to the tax consequences of the merger given their particular circumstances.

Tax Consequences of the Merger, Generally

The merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Code. Consummation of the merger is conditioned upon each of United and Four Oaks receiving a written tax opinion, dated the closing date of the merger, from its outside legal counsel to the effect that, based upon facts, representations and assumptions set forth in such opinion, the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. An opinion of counsel represents the counsel's best legal judgment and is not binding on the IRS or any court, and as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any such opinion. In addition, if any of the representations or assumptions upon which these opinions are based are inconsistent with the actual facts, the accuracy of these opinions regarding the U.S. federal income tax consequences of the merger could be adversely affected. Accordingly, each Four Oaks shareholder should consult its tax advisor with respect to the particular tax consequences of the merger to such holder.

Tax Consequences to United and Four Oaks

Each of United and Four Oaks will be a party to the merger within the meaning of Section 368(b) of the Code, and neither United nor Four Oaks will recognize any gain or loss as a result of the merger.

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Tax Consequences to Shareholders

Exchange for United Common Stock and Cash. As a result of receiving a combination of United common stock and cash in exchange for shares of Four Oaks common stock, a U.S. holder will recognize gain, but not loss, equal to the lesser of (1) the amount of cash received (excluding cash received in lieu of a fractional share of United common stock), or (2) the amount of gain realized in the merger. The amount of gain a U.S. holder realizes will equal the amount by which (a) the cash received (excluding cash received in lieu of a fractional share of United common stock) plus the fair market value of the United common stock received (including any fractional share deemed as being received and exchanged for cash, as described below) at the effective time of the merger exceeds (b) the U.S. holder's aggregate adjusted tax basis in the Four Oaks common stock surrendered in the merger. Any recognized gain generally will be a capital gain, and will be long-term capital gain if, as of the effective date of the merger, the U.S. holder held its shares of Four Oaks common stock for more than one year.

Tax Basis in, and Holding Period for, United Common Stock. The aggregate adjusted tax basis of the shares of United common stock received in the merger (including any fractional share of United common stock deemed to be received and exchanged for cash as described below) generally will be the same as the aggregate adjusted tax basis of the shares of Four Oaks common stock surrendered in the merger decreased by the amount of cash received in the merger (other than cash received in lieu of a fractional share of United common stock) and increased by the gain recognized in the merger, if any (excluding any gain recognized as a result of any cash received in lieu of a fractional share of United common stock). The holding period of the United common stock a U.S. holder receives as a result of the exchange (including any fractional share of United common stock deemed received and exchanged for cash) will include the holding period of Four Oaks common stock surrendered in the merger. If a U.S. holder acquired different blocks of Four Oaks common stock at different times or at different prices, any gain or loss will be determined separately with respect to each block of Four Oaks common stock, and the cash and shares of United common stock received will be allocated pro rata to each such block of stock. U.S. holders of Four Oaks common stock should consult their tax advisors with regard to identifying the bases or holding periods of the particular shares of United common stock received in the merger.

Cash Received in Lieu of a Fractional Share. If a U.S. holder receives cash in the merger instead of a fractional share interest in United common stock, the U.S. holder will be treated as having received such fractional share in the merger, and then as having received cash in exchange for such fractional share. Gain or loss will be recognized in an amount equal to the difference between the amount of cash received and the Four Oaks shareholder's adjusted tax basis allocable to such fractional share. This gain or loss will be a capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the U.S. holder held its shares of Four Oaks common stock for more than one year. The deductibility of capital losses is subject to limitations.

Exchange Solely for Cash upon Exercise of Appraisal Rights. Upon the proper exercise of appraisal rights, the exchange of Four Oaks shares solely for cash generally will result in recognition of gain or loss by the U.S. holder in an amount equal to the difference between the amount of cash received by the U.S. holder and the U.S. holder's tax basis in its Four Oaks common stock (generally the purchase price paid by the U.S. holder to acquire such stock). The gain or loss generally will be a capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the U.S. holder held its shares of Four Oaks common stock for more than one year.

Backup Withholding and Information Reporting. A non-corporate U.S. holder may be subject under certain circumstances to information reporting and backup withholding (currently at a rate of 28%) on any cash payments received. A U.S. holder generally will not be subject to backup withholding, however, if such U.S. holder (1) furnishes a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with all the applicable requirements of the backup withholding rules; or (2) provides proof that it is otherwise exempt from backup withholding. Any amounts withheld under the backup withholding rules are not an additional tax and generally will be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, provided such U.S. holder timely furnishes the required information to the IRS. U.S. holders should consult their own tax advisors regarding the application of backup withholding based on their particular circumstances and the availability and procedure for obtaining an exemption from backup withholding.

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THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF THE MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER AND DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT THERETO. FOUR OAKS SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FOREIGN, U.S. FEDERAL, STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS, AND THE EFFECT OF ANY PROPOSED CHANGES IN THE TAX LAWS.

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PROPOSAL NO. 2 — ADVISORY VOTE ON MERGER-RELATED COMPENSATION

Section 951 of the Dodd-Frank Act and Rule 14a-21(c) under the Exchange Act require that Four Oaks seek a non-binding advisory vote from its shareholders to approve certain compensation that its named executive officers will receive from Four Oaks and Four Oaks Bank in connection with the merger.

Four Oaks is presenting this proposal, which gives Four Oaks shareholders the opportunity to express their views on such merger-related compensation by voting for or against the following resolution:

“RESOLVED, that the compensation that may become payable to Four Oaks’ named executive officers in connection with the completion of the merger, as disclosed in the sections captioned “Proposal No. 1 — Description of the Merger — Interests of Directors and Officers of Four Oaks in the Merger” and “Proposal No. 1 — Description of the Merger — Quantification of Potential Payments to Four Oaks’ Named Executive Officers in Connection with the Merger” and the related tables and narrative, is hereby approved.”

The Four Oaks Board of Directors unanimously recommends that shareholders approve the merger-related compensation arrangements described in this document by voting “FOR” the above proposal.

Approval of this proposal is not a condition to completion of the merger, and the vote with respect to this proposal is advisory only and will not be binding on Four Oaks or United. Therefore, if the merger is approved by the Four Oaks shareholders and completed, the merger-related compensation will still be paid to the Four Oaks named executive officers.

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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, 2016 (which includes certain provisions of United's Proxy Statement for its 2017 Annual Meeting) and the quarterly report on Form 10-Q for the quarter ended June 30, 2017, which is incorporated herein by reference.

Securities

The authorized capital stock of United currently consists of 150,000,000 shares of common stock, \$1.00 par value per share, 26,000,000 shares of non-voting common stock, \$1.00 par value per share, and 10,000,000 shares of preferred stock, \$1.00 par value per share.

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. Upon liquidation, holders of United's common stock, together with holders of United's non-voting common stock, junior preferred stock, junior participating preferred stock and Series E preferred stock, will be entitled to receive on a pro rata basis, after payment or provision for payment of all United's debts and liabilities, and after all distributions payments are made to holders of United's Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock and Series H preferred stock, all of United's assets available for distribution, in cash or in kind.

Subject to the rights of holders of United's Series A preferred stock, Series B preferred stock, Series C preferred stock, Series D preferred stock and Series H preferred stock to receive dividends, all shares of United's common stock, together with all shares of United's non-voting common stock, junior preferred stock and Series E preferred stock, are entitled to share equally in any dividends that United's Board of Directors may declare on its common stock, non-voting common stock, junior preferred stock and Series E preferred stock from sources legally available for distribution.

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.

As of [•], 2017, [•] shares of common stock were issued and outstanding, exclusive of [•] shares issuable to participants in United's Deferred Compensation Plan and [•] shares reserved for issuance upon the exercise of outstanding options and vesting of restricted stock.

Non-Voting Common Stock

United's authorized non-voting common stock consists of 26,000,000 shares. As of [•], 2017, no shares of non-voting common stock were issued and outstanding.

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. As of [•], 2017, no shares of preferred stock were issued and outstanding.

Trust Preferred Securities

United has four wholly-owned statutory trusts, which have 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

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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.

In September 2006, United acquired Southern Bancorp, Inc. (“SBC”) and its wholly owned Delaware statutory trust, Southern Bancorp Capital Trust I (“SBC Trust”), which issued \$4.25 million of floating rate capital securities of SBC Trust and \$132,000 in floating rate common securities to SBC. The proceeds from the issuance of the securities were used by SBC Trust to purchase \$4.382 million of junior subordinated debentures of SBC that bear interest at a rate, reset quarterly, equal to the prime rate plus 1%. The securities accrue and pay distributions quarterly at the then applicable interest rate. The securities mature on March 31, 2034 unless the maturity date is accelerated pursuant to the indenture after March 31, 2009. United has the right to redeem the debentures purchased by SBC Trust: (1) in whole or in part, on or after March 31, 2009 at par, 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, an investment company event or a capital treatment event at par. As specified in the debenture, if the debentures are redeemed prior to maturity, the redemption price will include any accrued but unpaid interest.

In October 2008, United formed a wholly owned Delaware statutory business trust, United Community Statutory Trust III (“United Statutory Trust III”), which issued \$1.238 million of trust preferred securities. The proceeds from the sale of the trust preferred securities were used by United Statutory Trust III to purchase \$1.238 million in aggregate principal amount of United’s variable rate junior subordinate debentures, which bear interest at a variable rate equal to prime plus 3%. The securities accrue and pay distributions at a variable rate equal to the prime rate plus 3% per annum of the stated liquidation value of \$1,000 per capital security. The securities are mandatorily redeemable upon maturity of the debentures on October 31, 2038, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Statutory Trust III (i) on or after October 31, 2013 or (ii) at any time upon certain events, such as change in the regulatory capital treatment of the trust preferred securities, United Statutory Trust III being deemed an investment company or the occurrence of certain adverse tax events.

In July 2016, United acquired Tidelands Bancshares, Inc. (“Tidelands”) and its wholly-owned Delaware statutory trusts, Tidelands Statutory Trust I (“Tidelands Trust I”) and Tidelands Statutory Trust II (“Tidelands Trust II”). Tidelands Trust I issued \$8.0 million of trust preferred securities and \$248,000 of common securities. The proceeds from the sale of the securities were used by Tidelands Trust I to purchase \$8.248 million in aggregate principal amount of Tidelands’ floating rate junior subordinated notes, which bear interest at a variable rate equal to the three-month LIBOR plus 1.38% per annum of the stated liquidation value of \$1,000 per capital security. The securities are mandatorily redeemable upon maturity of the debentures on March 30, 2036, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by Tidelands Trust I (i) on or after March 30, 2011, or (ii) at any time upon certain events, such as change in the regulatory capital treatment of the trust preferred securities, Tidelands Trust I being deemed an investment company or the occurrence of certain adverse tax events. Tidelands Trust II issued \$6.0 million of trust preferred securities and \$186,000 of common securities. The proceeds from the sale of the securities were used by Tidelands Trust II to purchase \$6.186 million in aggregate principal amount of Tidelands’ floating rate junior subordinated notes, which bear interest at a variable rate equal to the three-month LIBOR plus 5.075% per annum of the state liquidation value of \$1,000 per capital security. The securities are mandatorily redeemable upon maturity of the debentures on June 30, 2038, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by Tidelands Trust II (i) on or after June 30, 2013, or (ii) at any time upon certain events, such as change in the regulatory capital treatment of the trust preferred securities, Tidelands Trust II being deemed an investment company or the occurrence of certain adverse tax events.

Transfer Agent and Registrar

The transfer agent and registrar for United’s common stock and the debentures is Continental Stock Transfer & Trust Company.

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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 any amendment or repeal of any provision of the articles of incorporation or Article II (Stockholders' Meetings) or Article III (Board of Directors) of the bylaws requires the affirmative vote of holders of a majority of the shares of United's capital stock then issued and outstanding and entitled to vote on such matters.

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.

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TABLE OF CONTENTS**INFORMATION ABOUT FOUR OAKS FINCORP, INC.****Business of Four Oaks****Overview**

Four Oaks Bank was incorporated under the laws of the State of North Carolina in 1912. On February 5, 1997, Four Oaks Bank formed Four Oaks for the purpose of serving as a holding company for Four Oaks Bank. Four Oaks Bank's corporate offices and banking offices are located in eastern and central North Carolina. Four Oaks has no significant assets other than cash, the capital stock of Four Oaks Bank and its membership interest in Four Oaks Mortgage Services, L.L.C. (inactive).

In addition, Four Oaks has an interest in Four Oaks Statutory Trust I, a wholly owned Delaware statutory business trust (the "Four Oaks Trust"), for the sole purpose of issuing trust preferred securities. The Four Oaks Trust is not included in the consolidated financial statements of Four Oaks.

Four Oaks Bank is a community-focused bank engaging in general consumer and commercial banking business to the communities Four Oaks Bank serves. Four Oaks Bank provides a full range of banking services, including offering:

Deposit Accounts	Loan Products	Wealth Management	Delivery Channels	Commercial Services	Other Services
Checking	Mortgage	Financial Planning Services	Internet Banking	Remote Deposit Capture	Cashier's Checks
Savings	Equity Line of Credit	Wealth Management Services	Telephone Banking	Remote Check Capture	Gift Cards
Money Market	Agriculture	Investment Services	Mobile Banking	Debit Cards	Safe Deposit Box
Certificates of Deposit (CD)	Commercial/Business	Individual Retirement Account (IRA)	Night Depository	Automated Clearing House (ACH) Origination	Wire Services
Christmas Club	Real Estate	Life Insurance			Notary Services
Overdraft Lines	Home Improvement	Long Term Care		Prepaid and Payroll Cards	
E-Statements	Construction	Annuities		Merchant Processing	
Mobile Check Capture	Consumer				

Credit Cards

The wealth management services listed above are made available through an arrangement with Lincoln Financial Services Corporation acting as a registered broker-dealer performing the brokerage services. The securities involved in these services are not deposits or other obligations of Four Oaks Bank and are not insured by the Federal Deposit Insurance Corporation ("FDIC").

Residential mortgages are originated by Four Oaks Mortgage Company, a division of Four Oaks Bank. Upon closing, these loans, together with their servicing rights, are sold to mortgage loan investors under prearranged terms.

Four Oaks Bank's market area is concentrated in eastern and central North Carolina. From its headquarters located in Four Oaks and its fourteen other locations, Four Oaks Bank serves a major portion of Johnston County, and parts of Wake, Harnett, Duplin, and Sampson counties. In Four Oaks, the main office is located at 6144 US 301 South. Four Oaks Bank also operates a branch office in Clayton at 102 East Main Street, two in Smithfield at 128 North Second Street, and 403 South Brightleaf Boulevard, one in Garner at 200 Glen Road, one in Raleigh at 1408 Garner Station Boulevard, one in Benson at 200 East Church Street, one in Fuquay-Varina at 325 North Judd Parkway Northeast, one in Wallace at 406 East Main Street, one in Holly Springs at 201 West Center Street, one in Zebulon at 805 North Arendell Avenue, and one in Dunn at 115 Four Oaks Place. Four Oaks Bank additionally operates a loan production office in Raleigh at 5909 Falls of Neuse Road and one in Apex at 1091 Investment Boulevard.

Johnston County has a diverse economy and is not dependent on any one particular industry. The leading industries in the area include retail trade, manufacturing, pharmaceuticals, government, services, construction, wholesale trade and agriculture. The majority of Four Oaks Bank's customers are individuals

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and small to medium-size businesses. The deposits and loans are well diversified with no material concentration in a single industry or group of related industries. There are no seasonal factors that would have any material adverse effect on Four Oaks Bank's business, and Four Oaks Bank does not rely on foreign sources of funds or income. On March 22, 2013, Four Oaks Bank sold selected deposits and assets associated with two branches located in Rockingham and Southern Pines, North Carolina. The transaction was consummated pursuant to a definitive purchase and assumption agreement with First Bank of Troy, North Carolina, which was entered into on September 26, 2012. Under the terms of the purchase and assumption agreement, First Bank assumed the selected customer deposits of both branches offset by the purchase of (i) the aggregate net book value of the real property and related tangible personal property of the Rockingham, North Carolina branch as well as the cash on hand at the Rockingham and Southern Pines, North Carolina branches, (ii) the aggregate of certain loans for both branches, and (iii) a 1% premium of the deposits assumed.

On March 24, 2014, Four Oaks entered into a securities purchase agreement (the "Securities Purchase Agreement") with Mr. Lehman and, on June 18, 2014, Four Oaks commenced its shareholder rights offering (the "Rights Offering"). On August 15, 2014, Four Oaks concluded the Rights Offering and concurrent standby offering to Mr. Lehman (the "Standby Offering"), in which Four Oaks issued an aggregate of 4,800,000 shares of common stock at \$5.00 per share for aggregate gross proceeds of \$24.0 million (the maximum permissible pursuant to the terms of the Rights Offering and Standby Offering). The Securities Purchase Agreement included, among other things, a covenant requiring Four Oaks to develop and adopt an asset resolution plan with the assistance of Mr. Lehman (the "Asset Resolution Plan"). The Asset Resolution Plan was completed in the fourth quarter of 2015 and resulted in a reduction of approximately \$14 million in loans outstanding.

On March 8, 2017, Four Oaks completed a one for five reverse stock split of Four Oaks' authorized, issued, and outstanding common stock, par value \$1.00 per share (the "Reverse Stock Split"). The number of authorized shares of common stock was reduced from 80,000,000 to 16,000,000. At that time, every five shares of Four Oaks' issued and outstanding common stock were automatically combined into one issued and outstanding share of Four Oaks' common stock. No fractional shares were issued in connection with the Reverse Stock Split, and any fractional shares resulting from the Reverse Stock Split were rounded up to the nearest whole share. All share and share-related information for Four Oaks presented herein have been retroactively adjusted to reflect the decreased number of shares resulting from the Reverse Stock Split.

The following table sets forth certain of Four Oaks' financial data and ratios for the years ended December 31, 2016 and 2015 derived from Four Oaks' audited financial statements and notes. This information should be read in conjunction with and is qualified in its entirety by reference to the more detailed audited financial statements and notes thereto included herein:

	2016	2015
	(in thousands, except ratios)	
Net income	\$ 6,858	\$ 20,008
Average equity capital accounts	\$ 63,879	\$ 51,830
Ratio of net income to average equity capital accounts	10.7%	38.6%
Average daily total deposits	\$ 552,015	\$ 570,759
Ratio of net income to average daily total deposits	1.2%	3.5%
Average daily loans	\$ 483,741	\$ 458,679
Ratio of average daily loans to average daily total deposits	87.6%	80.4%

Employees

At [•], 2017, Four Oaks and Four Oaks Bank employed [•] full time employees and [•] part time employees.

Competition

Commercial banking in North Carolina is extremely competitive due in large part to North Carolina's early adoption of statewide branching. As a result, many commercial banks have branches located in several

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communities. Four Oaks Bank competes in its market area with some of the largest banking organizations in the state and the country and other financial institutions, such as federally and state-chartered savings and loan institutions. At June 2016, Four Oaks Bank operated branches in Johnston, Wake, Sampson, Duplin, and Harnett counties, North Carolina. At that time in Johnston County, North Carolina, Four Oaks Bank's primary market, there were a total of 40 branches represented by 12 FDIC insured financial institutions. Four Oaks Bank ranked second among the 12 banks with approximately \$330 million or 21% of the Johnston County deposit market share. Many of Four Oaks Bank's competitors have broader geographic markets and higher lending limits than those of Four Oaks Bank and are also able to provide more services and make greater use of media advertising. In Four Oaks Bank's market area, Four Oaks Bank has significant competition for deposits and loans from other depository institutions and credit unions, as well as consumer finance companies, mortgage companies and other lenders engaged in the business of extending credit with varying degrees of regulatory restrictions. Additionally, credit unions have been permitted to expand their membership criteria and expand their loan services to include traditional bank services such as commercial lending creating a greater competitive disadvantage for tax-paying financial institutions.

The enactment of legislation authorizing interstate banking has caused great increases in the size and financial resources of some of Four Oaks Bank's competitors. See "Holding Company Regulation" below for a description of this legislation. In addition, as a result of interstate banking, out-of-state commercial banks may acquire North Carolina banks and heighten the competition among banks in North Carolina. Although the competition in its market areas is expected to continue to be significant, Four Oaks Bank believes that it has certain competitive advantages that distinguish it from its competition such as: a strong local brand, its affiliation with the community, and its emphasis on providing specialized services to small and medium-sized businesses as well as professional and high net worth individuals. Four Oaks Bank offers its customers modern, high-tech banking without forsaking community values such as prompt, friendly, and personalized service. Being responsive and sensitive to individualized needs helps Four Oaks Bank to attract and retain customers. To continue attracting new customers, Four Oaks Bank also relies on goodwill and referrals from Four Oaks' shareholders and satisfied customers, as well as traditional media. To enhance a positive image in the community and support one of Four Oaks Bank's values, Four Oaks Bank participates in many local events, and Four Oaks' officers and directors serve on boards of local civic and charitable organizations.

Supervision and Regulation

Holding companies, banks and many of their non-bank affiliates are extensively regulated under both federal and state law. The following is a brief summary of certain statutes, rules, and regulations affecting Four Oaks and Four Oaks Bank. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and are not intended to be an exhaustive description of the statutes or regulations applicable to the business of Four Oaks or Four Oaks Bank. Supervision, regulation and examination of Four Oaks and Four Oaks Bank by bank regulatory agencies is intended primarily for the protection of Four Oaks Bank's depositors rather than Four Oaks' shareholders.

Holding Company Regulation

Overview. Four Oaks is a holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956 (the "BHCA"). As such, Four Oaks is subject to the supervision, examination and reporting requirements contained in the BHCA and the regulation of the Federal Reserve. Four Oaks Bank is also subject to the BHCA. The BHCA requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than five percent of the voting shares of any bank, (ii) taking any action that causes a bank to become a subsidiary of the bank holding company, (iii) acquiring all or substantially all of the assets of any bank or (iv) merging or consolidating with any other bank holding company.

The BHCA generally prohibits a bank holding company, with certain exceptions, from engaging in activities other than banking, or managing or controlling banks or other permissible subsidiaries, and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those

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activities determined by the Federal Reserve to be closely related to banking, or managing or controlling banks, as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. For example, banking, operating a thrift institution, extending credit or servicing loans, leasing real or personal property, providing securities brokerage services, providing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance underwriting activities have all been determined by regulations of the Federal Reserve to be permissible activities.

Pursuant to delegated authority, the FRB has authority to approve certain activities of holding companies within its district, including Four Oaks, provided the nature of the activity has been approved by the Federal Reserve. Despite prior approval, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when it believes that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

Effective December 2, 2009, Four Oaks elected to become a bank holding company, and therefore Four Oaks is not subject to the financial holding company regulatory framework under the Gramm-Leach-Bliley Act (“GLBA”).

However, the additional customer privacy protections introduced by the GLBA do apply to Four Oaks and Four Oaks Bank. The GLBA’s privacy provisions require financial institutions to, among other things: (i) establish and annually disclose a privacy policy, (ii) give consumers the right to opt out of disclosures to nonaffiliated third parties, with certain exceptions, (iii) refuse to disclose consumer account information to third-party marketers and (iv) follow regulatory standards to protect the security and confidentiality of consumer information.

Pursuant to the GLBA’s rulemaking provisions, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision adopted regulations, establishing standards for safeguarding customer information. Such regulations provide financial institutions guidance in establishing and implementing administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information.

Mergers and Acquisitions

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “IBBEA”) permits interstate acquisitions of banks and bank holding companies without geographic limitation, subject to any state requirement that the bank has been organized for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, controls no more than 10% of the total amount of deposits of insured depository institutions in the U.S. and no more than 30% of such deposits in any state (or such lesser or greater amount set by state law).

In addition, the IBBEA permits a bank to merge with a bank in another state as long as neither of the states has opted out of the IBBEA prior to May 31, 1997. In 1995, the State of North Carolina “opted in” to such legislation. In addition, a bank may establish and operate a de novo branch in a state in which the bank does not maintain a branch if that state expressly permits de novo interstate branching. As a result of North Carolina having opted-in, unrestricted interstate de novo branching is permitted in North Carolina.

Additional Restrictions and Oversight. Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve on any extensions of credit to the bank holding company or any of its subsidiaries, investments in the stock or securities thereof and the acceptance of such stock or securities as collateral for loans to any borrower. A bank holding company and its subsidiaries are also prevented from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services. An example of a prohibited tie-in would be any arrangement that would condition the provision or cost of services on a customer obtaining additional services from the bank holding company or any of its other subsidiaries.

The Federal Reserve may issue cease and desist orders against bank holding companies and non-bank subsidiaries to stop actions believed to present a serious threat to a subsidiary bank. The Federal Reserve also regulates certain debt obligations, changes in control of bank holding companies and capital requirements.

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Under the provisions of North Carolina law, Four Oaks and Four Oaks Bank are registered with and subject to supervision by the North Carolina Office of the Commissioner of Banks (the “NCCOB”).

Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was enacted on July 21, 2010, was intended primarily to overhaul the financial regulatory framework following the global financial crisis and impacts all financial institutions including Four Oaks and Four Oaks Bank. The Dodd-Frank Act contains significant regulatory and compliance changes, including, among other things,

- enhanced authority over troubled and failing banks and their holding companies;

- increased capital and liquidity requirements;

- increased regulatory examination fees; and

- specific provisions designed to improve supervision and safety and soundness by imposing restrictions and limitations on the scope and type of banking and financial activities.

In addition, the Dodd-Frank Act changes the framework for systemic risk oversight within the financial system that will be enforced by several federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of Comptroller of the Currency, the FDIC, and the Consumer Financial Protection Bureau (the “CFPB”). The Dodd-Frank Act requires the various federal agencies to adopt a broad range of implementing rules and regulations and to prepare numerous studies and reports for the U.S. Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act are not yet known and may not be known for many months or years. However, a few changes pursuant to the Dodd-Frank Act that may have an impact on Four Oaks include, but are not limited to,

- elimination of the federal law prohibition on the payment of interest on commercial demand deposit accounts;

- expansion of the assessment base for determining deposit insurance premiums to include liabilities other than just deposits;

- regulations regarding debit card fees;

- heightened capital standards;

- increased requirements and limitations with respect to transactions with affiliates and insiders; and

- enhanced corporate governance and executive compensation requirements.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates the CFPB, an independent federal agency that is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair

Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products.

Source of Strength Requirements. Federal Reserve policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, Four Oaks is expected to commit resources to support Four Oaks Bank, including at times when Four Oaks may not be in a financial position to provide such resources, and, if Four Oaks Bank becomes undercapitalized, Four Oaks may be required to guarantee Four Oaks Bank's compliance with capital restoration plans filed with their bank regulators, subject to certain limits.

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Ability-to-Repay and Qualified Mortgage Rule. Pursuant to the Dodd-Frank Act, the CFPB issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring creditors to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Creditors are required to determine consumers' ability to repay in one of two ways. The first alternative requires the creditor to consider the following eight underwriting factors when making the credit decision: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) the monthly payment on the covered transaction; (iv) the monthly payment on any simultaneous loan; (v) the monthly payment for mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) the monthly debt-to-income ratio or residual income; and (viii) credit history. Alternatively, the creditor can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Qualified mortgages that are "higher-priced" (e.g., subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g., prime loans) are given a safe harbor of compliance.

Bank Regulation

Overview. Four Oaks Bank is subject to numerous state and federal statutes and regulations that affect its business, activities, and operations, and is supervised and examined by the NCCOB and the Federal Reserve. The Federal Reserve and the NCCOB regularly examine the operations of banks over which they exercise jurisdiction. They have the authority to approve or disapprove the establishment of branches, mergers, consolidations, and other similar corporate actions, and to prevent the continuance or development of unsafe or unsound banking practices and other violations of law. The Federal Reserve and the NCCOB regulate and monitor all areas of the operations of banks and their subsidiaries, including loans, mortgages, issuances of securities, capital adequacy, loss reserves, and compliance with the Community Reinvestment Act of 1977 (the "CRA"), as well as other laws and regulations. Interest and certain other charges collected and contracted for by banks are also subject to state usury laws and certain federal laws concerning interest rates.

Insurance Assessments. The deposit accounts of Four Oaks Bank are insured by the Deposit Insurance Fund (the "DIF") of the FDIC up to a maximum of \$250,000 per insured depositor. Any insured bank that is not operated in accordance with or does not conform to FDIC regulations, policies, and directives may be sanctioned for noncompliance. Civil and criminal proceedings may be instituted against any insured bank or any director, officer or employee of such bank for the violation of applicable laws and regulations, breaches of fiduciary duties or engaging in any unsafe or unsound practice. The FDIC has the authority to terminate insurance of accounts pursuant to procedures established for that purpose.

Four Oaks Bank is subject to insurance assessments imposed by the FDIC. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 and further amended by the Dodd-Frank Act.

Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. The FDIC's assessment rate calculator is based on a number of elements to measure the risk each institution poses to the DIF, and the assessment rate is applied to average consolidated total assets minus average tangible equity, as defined under the Dodd-Frank Act. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. The Dodd-Frank Act also changed the minimum designated reserve ratio of the DIF, requiring the fund reserve ratio to reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016).

Anti-Money Laundering and OFAC Regulation. Governmental policies on financial institutions in recent years have been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act of 1970 ("BSA") and subsequent laws and regulations require financial institutions to take steps to prevent the use of its systems from facilitating the flow of illegal or illicit money or terrorist funds. The USA Patriot Act of 2001 is intended to strengthen the ability of U.S. law enforcement and the intelligence

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community to work cohesively to combat money laundering and terrorist financing. Title III of the USA Patriot Act of 2001 contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (“IMLAFA”). The anti-money laundering provisions of IMLAFA impose affirmative obligations on a broad range of financial institutions, including banks, brokers, and dealers. Among other requirements, IMLAFA requires all financial institutions to establish anti-money laundering programs that include, at minimum, internal policies, procedures, and controls; specific designation of an anti-money laundering compliance officer; ongoing employee training programs; and an independent audit function to test the anti-money laundering program. IMLAFA requires financial institutions that establish, maintain, administer, or manage private banking accounts for non-United States persons or their representatives to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering. Additionally, IMLAFA provides for the Department of Treasury to issue minimum standards with respect to customer identification at the time new accounts are opened. Additional rules were finalized in 2016 and must be implemented by May 2018 that create expanded obligations regarding customer due diligence and the identification of beneficial owners of business entities. An institution subject to the BSA, such as Four Oaks Bank, must provide anti-money laundering training to employees, designate an anti-money laundering compliance officer and annually audit the anti-money laundering program to assess its effectiveness. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. Based on their administration by the United States Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), these are typically known as the OFAC rules. Generally, the OFAC rules contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, and (ii) blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to United States jurisdiction. Blocked assets cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure of a financial institution to maintain and implement adequate BSA, IMLAFA and OFAC programs, or to comply with all the relevant laws and regulations, could have serious legal and reputational consequences for the institution and result in material fines and sanctions.

As of the date of this document, Four Oaks believes that BSA, IMLAFA and OFAC rules have not had a material impact on Four Oaks Bank’s operations. Four Oaks Bank has established policies and procedures to ensure compliance with BSA, IMLAFA and OFAC, which are overseen, in part, by an Anti-Money Laundering Officer who was appointed by the Four Oaks Board of Directors.

Community Reinvestment Act. Banks are also subject to the CRA, which requires the appropriate federal bank regulatory agency, in connection with its examination of a bank, to assess such bank’s record in meeting the credit needs of the community served by that bank, including low and moderate-income neighborhoods. Each institution is assigned one of the following four ratings of its record in meeting community credit needs: “outstanding,” “satisfactory,” “needs to improve” or “substantial noncompliance.” The regulatory agency’s assessment of a bank’s record is made available to the public and Four Oaks Bank’s most recent examination returned a rating of satisfactory. Further, such assessment is required of any bank which has applied to (i) charter a national bank, (ii) obtain deposit insurance coverage for a newly chartered institution, (iii) establish a new branch office that will accept deposits, (iv) relocate an office or (v) merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the record of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

In addition, the GLBA’s “CRA Sunshine Requirements” call for financial institutions to disclose publicly certain written agreements made in fulfillment of the CRA. Banks that are parties to such agreements also must report to federal regulators the amount and use of any funds expended under such agreements on an annual basis, along with such other information as regulators may require. This annual reporting requirement is effective for any agreements made after May 12, 2000.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) provides for, among other things, (i) publicly available annual financial condition and management reports for certain financial institutions, including audits by independent accountants, (ii) the

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establishment of uniform accounting standards by federal banking agencies, (iii) the establishment of a “prompt corrective action” system of regulatory supervision and intervention, based on capitalization levels, with greater scrutiny and restrictions placed on depository institutions with lower levels of capital, (iv) additional grounds for the appointment of a conservator or receiver and (v) restrictions or prohibitions on accepting brokered deposits, except for institutions which significantly exceed minimum capital requirements. FDICIA also provides for increased funding of the FDIC insurance funds and the implementation of risk-based premiums.

A central feature of FDICIA is the requirement that the federal banking agencies take “prompt corrective action” with respect to depository institutions that do not meet minimum capital requirements. Pursuant to FDICIA, the federal bank regulatory authorities have adopted regulations setting forth a five-tiered system for measuring the capital adequacy of the depository institutions that they supervise. Under these regulations, a depository institution is classified in one of the following capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized.” An institution may be deemed by the regulators to be in a capitalization category that is lower than is indicated by its actual capital position if, among other things, it receives an unsatisfactory examination rating with respect to asset quality, management, earnings or liquidity. Institutions that fail to comply with capital or other standards are restricted in the scope of permissible activities and are subject to enforcement action by the federal banking agencies.

Written Agreement. In July 2015, Four Oaks Bank entered into a Written Agreement (the “2015 Written Agreement”) with the FRB replacing the Written Agreement Four Oaks and Four Oaks Bank entered into with the FRB and the NCCOB in May 2011. Under the terms of the 2015 Written Agreement, Four Oaks Bank submitted and implemented the following plans:

- a written plan to assure ongoing board oversight of Four Oaks Bank’s management and operations;
- a written program for the review of new products, services, or business lines; and
- an enhanced written program for conducting appropriate levels of customer due diligence by Four Oaks Bank.

In addition, Four Oaks Bank agreed that within 30 days after the end of each calendar quarter following the date of the 2015 Written Agreement, it would submit to FRB written progress reports detailing the form and manner of all actions taken to secure compliance with the 2015 Written Agreement and the results thereof.

On May 4, 2017, the FRB announced that it terminated the 2015 Written Agreement, effective April 28, 2017.

Consumer Laws and Regulations. Four Oaks Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws include, among others, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, Real Estate Settlement Procedures Act, Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Fair Housing Act and the Servicemembers Civil Relief Act. The laws and related regulations mandate certain disclosure requirements and regulate the manner in which financial institutions transact business with customers. Four Oaks Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

Transactions with Affiliates. Pursuant to Sections 23A and 23B of the Federal Reserve Act, Regulation W and Regulation O, the authority of Four Oaks Bank to engage in transactions with related parties or “affiliates” or to make loans to insiders is limited. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with such bank. Loan transactions with an affiliate generally must be collateralized and certain transactions between Four Oaks Bank and its affiliates, including the sale of assets, the payment of money or the provision of services, must be on terms and conditions that are substantially the same, or at least as favorable to Four Oaks Bank, as those prevailing for comparable nonaffiliated transactions. In addition, Four Oaks Bank generally may not purchase securities issued or underwritten by affiliates.

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Loans to Directors, Executive Officers and Principal Shareholders. State member banks also are subject to the restrictions contained in Section 22(h) of the Federal Reserve Act and Regulation O on loans to executive officers, directors and principal shareholders. Under Section 22(h), loans to a director, executive officer and to a greater than 10% shareholder of a bank and certain affiliated interests of such persons, may not exceed, together with all other outstanding loans to such person and affiliated interests, the institution's loans-to-one-borrower limit and all loans to such persons may not exceed the institution's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers and greater than 10% shareholders of a depository institution, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the institution with any "interested" director not participating in the voting. Regulation O prescribes the loan amount (which includes all other outstanding loans to such person) as to which such prior board approval is required as being the greater of \$25,000 or 5% of capital and surplus (or any loans aggregating \$500,000 or more). Further, Section 22(h) requires that loans to directors, executive officers and principal shareholders generally be made on terms substantially the same as offered in comparable transactions to other persons. Section 22(h) also generally prohibits a depository institution from paying the overdrafts of any of its executive officers or directors.

Banks are also subject to the requirements and restrictions of Regulation O on loans to executive officers. Section 22(g) of the Federal Reserve Act requires approval by the board of directors of a depository institution for such extensions of credit and imposes reporting requirements for and additional restrictions on the type, amount and terms of credits to such officers. In addition, Section 106 of the BHCA prohibits extensions of credit to executive officers, directors, and greater than 10% shareholders of a depository institution by any other institution which has a correspondent banking relationship with the institution, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

Capital Requirements

The Federal Reserve has established risk-based capital guidelines for bank holding companies and state member banks. The minimum standard for the ratio of capital to risk-weighted assets (including certain off balance sheet obligations, such as standby letters of credit) is 8%. At least half of this capital must consist of common equity, retained earnings and a limited amount of perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill items and certain other items ("Tier 1 capital"). The remainder ("Tier 2 capital") may consist of mandatory convertible debt securities and a limited amount of other preferred stock, subordinated debt and loan loss reserves.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of Tier 1 capital to adjusted average quarterly assets less certain amounts ("Leverage Ratio") equal to 3% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a Leverage Ratio of between 4% and 5%.

The guidelines also provide that bank holding companies experiencing significant growth, whether through internal expansion or acquisitions, will be expected to maintain strong capital ratios well above the minimum supervisory levels without significant reliance on intangible assets. The same heightened requirements apply to bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as to other banking institutions if warranted by particular circumstances or the institution's risk profile. Furthermore, the guidelines indicate that the Federal Reserve will continue to consider a "tangible Tier 1 Leverage Ratio" (deducting all intangibles) in evaluating proposals for expansion or new activity. The Federal Reserve has not advised Four Oaks of any specific minimum Leverage Ratio or tangible Tier 1 Leverage Ratio applicable to us.

In early July 2013, the Federal Reserve approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision ("Basel III") and address relevant provisions of the Dodd-Frank Act. Basel III and the regulations of the federal banking agencies require bank holding companies and banks to undertake significant activities to demonstrate compliance with the higher capital standards. These new minimum

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capital requirements, which became effective for Four Oaks and Four Oaks Bank on January 1, 2015, require a common equity Tier 1 risk-adjusted, Tier 1 risk-adjusted, total regulatory capital and leverage ratio of 4.5%, 6.0%, 8.0%, and 4.0%, respectively. The new capital standards also revise the definitions and components of regulatory capital and include other requirements that phase in over time. One of these requirements includes the implementation of a capital conservation buffer which will require banks to hold an additional 2.5% above the minimum capital thresholds or limitations will be placed on dividends, distributions, and executive compensation. The buffer was phased in beginning at 0.625% as of January 1, 2016, increasing each year and reaching the target 2.5% on January 1, 2019.

As of June 30, 2017, Four Oaks had common equity Tier 1 risk-adjusted, Tier 1 risk-adjusted, total regulatory capital and Tier 1 leverage capital of approximately 11.2%, 13.0%, 16.3% and 9.9%, respectively. At June 30, 2017, Four Oaks Bank had common equity Tier 1 risk-adjusted, Tier 1 risk-adjusted, total regulatory capital and leverage capital of approximately 14.7%, 14.7%, 16.0% and 11.3%, respectively, of which all are materially greater than the minimum requirements to be considered well capitalized.

Dividends

Under the NCBCA, Four Oaks Bank may not pay a dividend or distribution, if after giving it, the effect would be that Four Oaks Bank would not be able to pay its debts as they become due in the usual course of business or its total assets would be less than its liabilities. North Carolina banking law requires that Four Oaks Bank may not pay a dividend that would reduce its capital below the applicable required capital. The Federal Reserve also imposes limits on Four Oaks Bank's payment of dividends. All dividends paid by Four Oaks Bank are paid to Four Oaks, the sole shareholder of Four Oaks Bank.

Additionally, under Basel III capital requirements, banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The amount of future dividends paid by Four Oaks Bank will be determined based on a number of factors including capital position and capital adequacy, ongoing operations and profitability, the risk profile of the institution and general market conditions.

Monetary Policy and Economic Controls

Both Four Oaks and Four Oaks Bank are directly affected by governmental policies and regulatory measures affecting the banking industry in general. Of primary importance is the Federal Reserve Board, whose actions directly affect the money supply which, in turn, affects banks' lending abilities by increasing or decreasing the cost and availability of funds to banks. The Federal Reserve Board regulates the availability of bank credit in order to combat recession and curb inflationary pressures in the economy by open market operations in United States government securities, changes in the discount rate on member bank borrowings, changes in reserve requirements against bank deposits, and limitations on interest rates that banks may pay on time and savings deposits.

Properties

Four Oaks Bank owns its main office, which is located at 6144 US 301 South, Four Oaks, North Carolina. The main office, which was constructed by Four Oaks Bank in 1985, is a 12,000 square foot facility on 1.64 acres of land. Four Oaks Bank owns a 5,000 square foot facility renovated in 1992 on 1.15 acres of land located at 5987 US 301 South, Four Oaks, North Carolina, which houses its training center. Four Oaks Bank also owns a 15,000 square foot facility built in 2000 located at 6114 US 301 South, Four Oaks, North Carolina, which houses its administrative offices, data operations, loan operations, and wide area network central link. In addition, Four Oaks Bank owns the following:

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Properties Owned

Location	Year Built/ Acquired	Present Function	Square Feet
102 East Main Street Clayton, North Carolina	1986	Branch Office	4,900
200 East Church Street Benson, North Carolina	1987	Branch Office	2,300
128 North Second Street Smithfield, North Carolina	1991	Branch Office	5,500
403 South Brightleaf Boulevard Smithfield, North Carolina	1995	Limited-Service Facility	860
200 Glen Road Garner, North Carolina	1996	Branch Office	3,500
325 North Judd Parkway Northeast Fuquay-Varina, North Carolina	2002	Branch Office	8,900
406 East Main Street Wallace, North Carolina	2006	Branch Office	9,300
805 N. Arendell Avenue Zebulon, North Carolina	2007	Branch Office	6,100
105 Commerce Avenue Southern Pines, North Carolina	2005	Vacant	4,100
115 Four Oaks Place Dunn, North Carolina	2016	Branch Office	3,994

On March 21, 2013, Four Oaks Bank renewed the lease on the Holly Springs branch office located at 201 West Center Street, Holly Springs, North Carolina for a five year term. Under the terms of the lease, Four Oaks Bank pays \$3,165 per month for the period beginning April 1, 2016 through March 31, 2017 with an annual rate increase of 3.0%. Four Oaks Bank's Harrells office located at 590 Tomahawk Highway, Harrells, North Carolina is under a lease with terms specifying Four Oaks Bank will pay \$600 each month for periods of one year duration until the lease is terminated by one of the parties. During the first quarter of 2017, Four Oaks Bank provided notification of termination for the Harrells office lease which will terminate on December 31, 2017. In addition, Four Oaks Bank has a lease on the building at 1408 Garner Station Boulevard, Raleigh, North Carolina which expires on June 30, 2022. Four Oaks Bank pays \$13,947 each month from June 2016 until May 2017, with a 2.5% increase each consecutive year thereafter, until expiration on June 30, 2022. On September 30, 2014, Four Oaks Bank entered into a three year lease on its Raleigh loan production office located at 5909 Falls of the Neuse Road, Raleigh, North Carolina. Under the terms of the lease, Four Oaks Bank will pay \$2,000 each month for the period beginning November 1, 2014 and ending October 31, 2017. Four Oaks Bank also has a two year lease which went into effect on May 1, 2015, on its Apex loan production office located at 1091 Investment Boulevard, Apex, North Carolina. Under the terms of the lease, Four Oaks Bank pays \$2,151 each month for the period beginning May 1, 2016 through April 30, 2017 with an annual rate increase of 3.0%. Following is a summary of leased properties.

Properties Leased

Location	Present Function
201 West Center Street Holly Springs, North Carolina	Branch Office
590 Tomahawk Highway Harrells, North Carolina	Branch Office
	Branch Office

1408 Garner Station Boulevard
Raleigh, North Carolina

5909 Falls of Neuse
Raleigh, North Carolina

Loan Production Office

1091 Investment Boulevard
Apex, North Carolina

Loan Production Office

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Four Oaks management believes each of the properties referenced above are adequately covered by insurance. At December 31, 2016, the net book value for Four Oaks' properties, including land, buildings, and furniture and equipment was \$12.2 million of which \$2.4 million were classified as held for sale. Additional information is disclosed in Note E — Bank Premises and Equipment to Four Oaks' consolidated financial statements for the years ended December 31, 2016 and 2015 beginning on page F-1.

Legal Proceedings

From time to time, Four Oaks is party to certain legal actions in the ordinary course of its business. Four Oaks believes these actions are routine in nature and incidental to the operation of its business. While the outcome of these actions cannot be predicted with certainty, management's present judgment is that the ultimate resolution of these matters will not have a material adverse impact on Four Oaks' business, financial condition, results of operations, cash flows or prospects. If, however, Four Oaks' assessment of these actions is inaccurate, or there are any significant adverse developments in these actions, Four Oaks' business, financial condition, results of operations, cash flows and prospects could be adversely affected.

Market for Four Oaks' Common Equity and Related Shareholder Matters

Four Oaks' common stock trades on the OTCQX tier of the OTC Markets Group Inc. under the symbol "FOFN." Prior to February 2, 2015, Four Oaks' common stock traded on the OTC Bulletin Board under the same symbol. As described above, Four Oaks completed the Reverse Stock Split on March 8, 2017, at which time every five shares of Four Oaks' common stock issued and outstanding were consolidated into one issued and outstanding share of common stock. As a result, on March 9, 2017, Four Oaks' common stock began trading under the symbol "FOFND" for 20 business days in order to reflect Four Oaks' completion of the Reserve Stock Split. After this time period elapsed, Four Oaks' symbol returned to "FOFN."

The range of high and low bid prices of Four Oaks' common stock for each quarter during the two most recent fiscal years, as published by the OTC Bulletin Board and OTCQX, adjusted to reflect the Reverse Stock Split, is as follows (prices reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions):

	Fiscal Year Ended December 31,					
	2017		2016		2015	
	High	Low	High	Low	High	Low
First quarter	\$ 18.25	\$ 13.10	\$ 9.60	\$ 8.75	\$ 8.60	\$ 7.00
Second quarter	\$ 18.64	\$ 13.01	\$ 10.75	\$ 9.25	\$ 8.35	\$ 7.10
Third quarter (through [•], 2017)	\$ [•]	\$ [•]	\$ 11.85	\$ 10.25	\$ 9.40	\$ 7.60
Fourth quarter	—	—	\$ 14.40	\$ 11.05	\$ 9.15	\$ 8.00

As of [•], 2017, the approximate number of holders of record of Four Oaks' common stock was [•]. Holders of record are defined as those shareholders whose shares are registered in their names in Four Oaks' stock records and do not include beneficial owners of common stock whose shares are held in the names of brokers, dealers, or clearing agencies. Four Oaks has no other issued class of equity securities.

In general, Four Oaks' ability to pay cash dividends is dependent in part upon the amount of dividends paid to Four Oaks by Four Oaks Bank. No dividends were paid to Four Oaks by Four Oaks Bank during 2016 and therefore Four Oaks paid no cash dividends on its common stock. Four Oaks Bank paid a dividend to Four Oaks in April 2017 totaling \$1.0 million. Four Oaks paid a cash dividend of \$0.01 per share on May 23, 2017 to shareholders of record as of May 8, 2017. Additionally, Four Oaks announced that the Four Oaks Board of Directors declared a cash dividend of \$0.02 per share payable on or after August 24, 2017, to shareholders of record on August 10, 2017. Prior to the effective time, the Four Oaks Board of Directors will continue to evaluate the payment of cash dividends quarterly and determine whether such cash dividends are in Four Oaks' best interest, in the business judgment of the Four Oaks Board of Directors, and are consistent with maintaining Four Oaks' and Four Oaks Bank's status as a "well capitalized" bank holding company and banking institution, respectively, under applicable banking laws and regulations.

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Management's Discussion and Analysis of Financial Condition and Results of Operations for the Years Ended December 31, 2016 and 2015

Comparison of Financial Condition at December 31, 2016 and 2015

Overview

Total assets were \$719.9 million at December 31, 2016 compared to \$691.4 million at December 31, 2015, an increase of \$28.5 million or 4.1%. Cash and cash equivalents were \$32.6 million at December 31, 2016 compared to \$26.8 million at December 31, 2015. The investment portfolio decreased \$26.3 million or 19.4% during the twelve month period ended December 31, 2016, from \$135.6 million at December 31, 2015, to \$109.3 million at December 31, 2016. Strong loan demand offset the reductions in the investment portfolio resulting in growth of \$48.7 million or 10.6% as outstanding gross loans grew to \$507.0 million at December 31, 2016 compared to \$458.3 million at December 31, 2015. Investments in life insurance totaled \$20.0 million at December 31, 2016 compared to \$14.8 million at December 31, 2015, an increase of \$5.2 million, which was primarily due to a \$5.0 million additional investment in life insurance executed in the fourth quarter of 2016.

Total liabilities were \$651.9 million at December 31, 2016, an increase of \$20.9 million or 3.3%, from \$631.0 million at December 31, 2015. Total deposits increased \$11.2 million or 2.1% during the twelve month period ended December 31, 2016, from \$542.3 million at December 31, 2015, to \$553.5 million at December 31, 2016. Demand, savings, and money market deposit accounts increased \$40.0 million or 12.8% for the year ended December 31, 2016 totaling \$352.3 million compared to \$312.3 million as of December 31, 2015. This growth was offset by reductions in time deposits of \$28.8 million or 12.5%, which totaled \$201.3 million as of December 31, 2016 compared to \$230.1 million at December 31, 2015. Long-term borrowings were \$70.0 million at December 31, 2016 compared to \$60.0 million at December 31, 2015. Total shareholders' equity increased \$7.6 million or 12.6% ending the year at \$68.0 million.

As of December 31, 2016, nonperforming assets had declined \$2.4 million or 28.2% when compared to December 31, 2015. Four Oaks' ratio of nonperforming assets to regulatory Tier 1 capital plus the allowance has also improved during the year falling from 12% at December 31, 2015, to 7.9% at December 31, 2016.

Prior to 2010, for 73 consecutive years, Four Oaks paid dividends (prior to 1997 when Four Oaks reorganized into a holding company, it was Four Oaks Bank which paid dividends). Four Oaks suspended dividends in the fourth quarter of 2010 due to losses for the year and continue to monitor Four Oaks' ability to pay dividends based on Four Oaks' and Four Oak Bank's risk profile, capital levels, and expected earnings.

The following table indicates the ratios for return on average assets and average equity, dividend payout, and average equity to average assets in addition to earnings (loss) per common share and book value per common share for the years ended December 31, 2016, 2015, and 2014:

Performance Ratios:	As of and for the Year Ended December 31,		
	2016	2015	2014
Return on average assets	0.96%	2.70%	(0.50)%
Return on average equity	10.74%	38.60%	(13.09)%
Dividend payout ratio	0.00%	0.00%	0.00%
Average equity to average assets	8.96%	7.00%	3.85%
Earnings (Loss) per Common Share(1):			
Basic earnings per common share	\$ 1.06	\$ 3.12	\$ (1.20)
Diluted earnings per common share	\$ 1.04	\$ 3.10	\$ (1.20)
Book Value per Common Share(1):			
Book value per common share	\$ 10.06	\$ 8.99	\$ 6.36

(1)

Per common share amounts used in the computation of basic and diluted earnings per common share, as well as book value per common share, were adjusted to reflect the Reverse Stock Split.

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Investment Portfolio

Four Oaks' investment portfolio as of December 31, 2016 consists of primarily residential mortgage-backed securities ("MBSs") and taxable municipal securities. The MBSs consist of fixed-rate mortgage securities underwritten and guaranteed by Ginnie Mae ("GNMA"), Fannie Mae ("FNMA") and Freddie Mac ("FHLMC") with the U.S. Department of the Treasury. In addition to economic and market conditions, Four Oaks' overall management strategy for Four Oaks' investment portfolio is determined by, among other factors, loan demand, deposit mix, liquidity and collateral needs, Four Oaks' interest rate risk position and the overall structure of Four Oaks' balance sheet.

Available for sale securities are reported at fair value and consist of taxable municipal securities, MBSs, and other debt securities. As of December 31, 2016, Four Oaks' available-for-sale investment portfolio consisted of \$25.4 million in FNMA and FHLMC MBSs, \$20.0 million of taxable municipal securities, \$11.7 million in GNMA MBSs, and \$1.0 million of other debt securities.

Held-to-maturity securities are carried at book value and consist of taxable municipal securities and MBSs. As of December 31, 2016, Four Oaks owned \$46.0 million in GNMA MBSs, \$3.4 million in taxable municipal securities, and \$1.9 million in FNMA MBSs that are accounted for as held-to-maturity.

During 2016, total investments decreased \$26.3 million or 19.4%. Cash received from sales and paydowns totaled \$26.6 million of which \$500,000 was deployed to purchase new securities and the remainder was used to fund loan growth.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary would result in permanent write-downs of the individual securities to their fair value. If Four Oaks does not intend to sell the security prior to recovery and it is more likely than not Four Oaks will not be required to sell the impaired security prior to recovery, the credit loss portion of the impairment is recognized in earnings and the remaining impairment is recognized in other comprehensive income. Otherwise, the full impairment loss is recognized in earnings. At December 31, 2016, management had the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the twelve months ended December 31, 2016.

The valuations of investment securities, available-for-sale, at December 31, 2016, 2015 and 2014 were as follows (amounts in thousands):

	Available for Sale					
	2016		2015		2014	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Taxable Municipals	\$ 19,846	\$ 20,049	\$ 24,789	\$ 24,567	\$ 16,412	\$ 17,078
Mortgage-backed securities						
GNMA	11,704	11,680	13,512	13,530	16,204	16,264
FNMA & FHLMC	25,684	25,412	32,024	31,673	30,992	30,858
Other debt securities	1,000	1,000	500	500	—	—
Equity securities	—	—	11	11	11	11
Total securities	\$ 58,234	\$ 58,141	\$ 70,836	\$ 70,281	\$ 63,619	\$ 64,211
Pledged securities		\$ —		\$ 14,290		\$ 20,618

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The valuations of investment securities, held-to-maturity, at December 31, 2016, 2015 and 2014 were as follows (amounts in thousands):

	Held to Maturity					
	2016		2015		2014	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Taxable Municipals	\$ 3,380	\$ 3,386	\$ 3,531	\$ 3,512	\$ 3,584	\$ 3,556
Mortgage-backed securities						
GNMA	45,968	46,188	59,185	59,464	74,482	75,125
FNMA	1,857	1,878	2,638	2,657	3,517	3,561
Total securities	\$ 51,205	\$ 51,452	\$ 65,354	\$ 65,633	\$ 81,583	\$ 82,242
Pledged securities		\$ 28,429		\$ 47,031		\$ 81,225

The following table sets forth the carrying value of Four Oaks' available-for-sale investment portfolio at December 31, 2016 by expected maturities (amounts in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Carrying Value				
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Taxable Municipals	\$ —	\$ —	\$ —	\$ 20,049	\$ 20,049
Mortgage-backed securities					
GNMA	—	—	—	11,680	11,680
FNMA & FHLMC	—	—	—	25,412	25,412
Other debt securities	—	—	1,000	—	1,000
Total securities	\$ —	\$ —	\$ 1,000	\$ 57,141	\$ 58,141

The following table sets forth the weighted average yield (computed on a tax equivalent basis) by maturity of Four Oaks' available-for-sale investment portfolio at December 31, 2016 amortized cost:

	Available-for-Sale Weighted Average Yields				
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Taxable Municipals	—%	—%	—%	4.07%	4.07%
Mortgage-backed securities					
GNMA	—%	—%	—%	2.40%	2.40%
FNMA & FHLMC	—%	—%	—%	1.60%	1.60%
Other debt securities	—%	—%	6.00%	—%	6.00%

Total weighted average yields	—%	—%	6.00%	2.62%	2.68%
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The following table sets forth the carrying value of Four Oaks' held-to-maturity investment portfolio at December 31, 2016 by expected maturities (amounts in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity Carrying Value				
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Taxable Municipals	\$ 155	\$ 2,700	\$ 525	\$ —	\$ 3,380
Mortgage-backed securities					
GNMA	—	—	5,231	40,737	45,968
FNMA	—	—	1,857	—	1,857
Total securities	\$ 155	\$ 2,700	\$ 7,613	\$ 40,737	\$ 51,205

The following table sets forth the weighted average yield (computed on a tax equivalent basis) by maturity of Four Oaks' held-to-maturity investment portfolio at December 31, 2016 amortized cost:

	Held to Maturity Weighted Average Yields				
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Taxable Municipals	2.46%	3.36%	3.90%	—%	3.40%
Mortgage-backed securities					
GNMA	—%	—%	2.61%	2.06%	2.12%
FNMA	—%	—%	1.75%	—%	1.75%
Total weighted average yields	2.46%	3.36%	2.49%	2.06%	2.19%

Loan Portfolio

Four Oaks and Four Oaks Bank have a loan policy in place that relates to loan administration, documentation, underwriting, approval, and reporting requirements for various types of loans. The policy is designed to comply with all applicable federal and state regulatory requirements and establishes minimum standards for the extension of credit. The lending policy also provides for pre-determined lending authorities for loan officers commensurate with their abilities and experience. In addition, the policy outlines guidelines for authorities for approval of credit requests at various lending amounts. This includes the Executive Loan Committee, comprised of the Chief Executive Officer, the Chief Credit Officer, and three non-management directors, and the Board of Directors, which reviews the larger requests beyond certain dollar limits and requests that fall under Regulation O. Approval authorities are under regular review and are subject to adjustment. Loan requests outside of standard policy or guidelines may be made on a case by case basis when justified, documented, and approved by the appropriate authority.

Underwriting criteria for all types of loans are prescribed within the lending policy. The following is a description of each loan type and related criteria.

Commercial Real Estate. Commercial real estate, including acquisition and development, and real estate construction makes up the largest segment of Four Oaks' loan portfolio. This segment is closely monitored at the management and

Board level. The Four Oaks Board of Directors receives reports on a quarterly basis detailing trends. Underwriting criteria and procedures for commercial real estate loans generally include:

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Procurement of federal income tax returns and financial statements, preferably for the past three years if available, and related supplemental information deemed relevant.

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- Rent rolls, tenant listings, and other similar documents are requested as needed.
- Detailed financial and credit analysis related to cash flow, collateral, the borrower's capital and character, and the operational environment is performed and presented to the appropriate officer or committee for approval.
- Cash flows from the project financed and aggregate cash flows of the principals and their entities generally should produce a minimum debt service coverage ratio of 1.25:1.
- Cash or collateral equity injection by the applicant, ranging from 15% to 35% based on regulatory loan to value ratio limits, in order to meet minimum federal guidelines for each loan category.
- Past experience of the investor in commercial real estate.
- Past experience of the customer with Four Oaks Bank.
- Tangible net worth analysis of the borrower and any guarantors.
- General and local commercial real estate conditions are monitored and considered in the decision-making process.
- Alternative uses of the security are considered in the event of default.
- Credit enhancements are utilized when necessary and desirable, such as the use of guarantors and take out commitments.
- Non-construction real estate loans typically have a 15 to 20 year amortization with a five or seven year balloon payment. If appropriate, a loan may be set up as an interest only single payment if the identified repayment source coincides with the maturity.
- Commercial construction projects generally require that an engineer or architect review the applicant's cost figures for accuracy. In addition, all draw requests must be approved by either the engineer or architect for accuracy before payment is made.
- On-site progress inspections are completed to protect Four Oaks Bank.
- Requests for residential construction loans are closely monitored at the contractor level and subdivision level for concentrations. A request is generally denied if either the predetermined builder's concentration or Bank's

concentration limit has been attained.

-

Real estate construction loans are made for terms not to exceed 12 to 18 months for residential construction and 18 to 24 months for commercial construction.

-

Collateral is investigated using current valuations and is supplemented by the loan officer's knowledge of the local market. Outside appraisals are completed by appraisers on Four Oaks Bank's approved list. The appraisals on loans greater than \$250,000 are reviewed to ensure they are compliant with Uniform Standards of Professional Appraisal Practice.

Residential Real Estate. Residential real estate makes up the second largest segment of Four Oaks' loan portfolio and outstanding balances have generally been very stable, as a percentage of loans outstanding. Terms generally range up to 15 years with amortizations of up to 30 years. Underwriting criteria and procedures for residential real estate mortgage loans generally include:

-

Monthly debt payments of the borrower to gross monthly income should not exceed 45% with stable employment of two years.

-

Loan to value ratio limits of up to 90% of the appraised value.

-

A credit investigation, which includes an Equifax credit report with a Beacon score of at least 620.

-

Verification of income by various methods.

-

Appropriate insurance to protect Four Oaks Bank, typically in the amount of the loan.

-

Flood certifications are procured.

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- Collateral is investigated using current valuations and is supplemented by the loan officer's knowledge of the local market. Outside appraisals are completed by appraisers on Four Oaks Bank's approved list. The appraisals on loans greater than \$250,000 are reviewed to ensure they are compliant with Uniform Standards of Professional Appraisal Practice.

Financial. Financial loans are secured by stocks, bonds, and mutual funds. Underwriting procedures and criteria for financial loans generally include:

- Stock loans should be structured to coincide with the identified source of repayment.

- The maximum loan to value ratio for stock listed for sale on the NYSE, AMEX, or NASDAQ is 85% of its market value.

- Generally, stock loans should not exceed 60 months.

Agricultural. Crop production lending presents many risks to the lender because of weather uncertainty and fluctuations in commodity prices. Underwriting procedures and criteria for agricultural loans generally include:

- The farmer should have the financial capacity to withstand at least one bad crop year.

- The farmer must possess sufficient equity in equipment or farmland for Four Oaks Bank to term, within acceptable collateral margins (ranging from 50% to 80%) and cash flow debt service coverage requirements (generally 1.25:1), any line outstanding after the sale of crops.

- Farmers should meet certain qualitative criteria with respect to the farmer's knowledge and experience.

- For new customers, documentation on where the farmer previously banked and the circumstances underlying the new loan request.

Commercial Inventory and Accounts Receivable. Underwriting procedures and loan to value ratios for commercial inventory loans and accounts receivable loans generally include:

- Up to 80% of eligible accounts receivable.

- Up to 80% of the individually assigned accounts receivable. The customer assigns individual invoices, sometimes with shipping documents attached. These may be stamped or marked to show that they have been assigned to Four Oaks Bank. The customer brings payments to Four Oaks Bank for processing against individual invoices.

- 50% or less of the cost or market on materials and qualified finished goods, depending on their quality and stability.

- 0% on work-in-progress.

Installment Loans. These loans are predominantly direct loans to established customers of Four Oaks Bank and primarily include the financing of automobiles, boats, and other consumer goods. The character, capacity, collateral, and conditions are evaluated using policy limitations. Installment loans are typically made for terms that do not exceed 60 months with any exceptions being documented. Installment loan underwriting criteria and procedures for such financing generally include:

- Financial statements are generally required on all consumer loans secured by a primary residence, all unsecured loans of \$10,000 or more, and all secured transactions of \$50,000 or more.
- Income verification is generally required on all consumer loans.
- Past experience of the customer with Four Oaks Bank.
- A debt to income ratio that does not exceed 45%.
- Stable employment record of two years.
- Stable residency record of two years.
- A Beacon score of at least 620.

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Terms to match the usefulness or life of the security.

•
If unsecured, the total unsecured loans of the applicant should not exceed 15% of adjusted net worth or 20% of the applicant's gross annual income.

Interest Only Loans. Interest only loans are generally limited to construction lending, properties recently completed and undergoing occupancy stabilization period, and revolving lines of credit. Any other loans made as interest only should have a reason and proper approval.

Bank policy generally prohibits underwriting negative amortization loans or hybrid loans.

The following loan table describes Four Oaks' loan portfolio composition by segment based on the loan classifications discussed in Note D — Loans and Allowance for Loan Losses to the financial statements for December 31, 2016, 2015, 2014, 2013, and 2012 (amounts in thousands):

	Loan Portfolio Classification				
	2016	2015	2014	2013	2012
Loans receivable:					
Commercial and industrial	\$ 21,742	\$ 23,163	\$ 24,286	\$ 25,858	\$ 28,377
Commercial construction and land development	46,114	50,510	53,642	66,253	90,899
Commercial real estate	253,086	208,737	200,510	214,159	181,194
Residential construction	42,660	36,618	28,130	28,697	20,445
Residential mortgage	132,971	128,442	135,022	147,300	165,009
Consumer	6,896	6,638	7,248	6,750	7,399
Consumer credit cards	2,114	2,240	2,276	2,339	2,265
Business credit cards	1,235	1,168	1,251	1,124	1,186
Other	502	1,257	499	738	1,278
	507,320	458,773	452,864	493,218	498,052
Net deferred loan fees	(316)	(460)	(608)	(506)	(123)
Net loans before allowance	507,004	458,313	452,256	492,712	497,929
Allowance for loan losses	(9,647)	(9,616)	(9,377)	(11,590)	(16,549)
Total net loans	\$ 497,357	\$ 448,697	\$ 442,879	\$ 481,122	\$ 481,380
Loans held for sale	\$ 206	\$ 1,145	\$ 2,882	\$ —	\$ 19,297
Commitments and contingencies:					
Commitments to make loans	\$ 135,100	\$ 139,577	\$ 100,843	\$ 66,341	\$ 71,924
Standby letters of credit	\$ 861	\$ 671	\$ 1,441	\$ 991	\$ 2,838

The maturities and carrying amounts of loans, excluding credit cards, as of December 31, 2016 are summarized as follows (amounts in thousands):

Loan Maturities

Commercial & Industrial	Commercial Construction & Land Development	Commercial Real Estate	Residential Construction	Residential Mortgage	Consumer	Other	Total
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Due within one year:								
Fixed rate	\$ 2,161	\$ 6,857	\$ 9,564	\$ 3,249	\$ 6,695	\$ 2,916	\$ 139	\$ 31,581
Variable rate	7,485	9,821	19,461	38,043	8,578	65	144	83,597
Due after one year through five years:								
Fixed rate	7,769	19,654	134,810	395	44,969	3,791	51	211,439
Variable rate	445	6,690	19,043	973	16,885	1	168	44,205
Due after five years:								
Fixed rate	3,298	2,738	64,141	—	15,903	123	—	86,203
Variable rate	584	354	6,067	—	39,941	—	—	46,946
Total	\$ 21,742	\$ 46,114	\$ 253,086	\$ 42,660	\$ 132,971	\$ 6,896	\$ 502	\$ 503,971

As of December 31, 2016, Four Oaks had approximately \$147.0 million of variable rate loans with interest rate floors in effect (i.e., the floor rate exceeded the variable rate). Interest rates on these loans will not adjust until the underlying index plus any rate adjuster increases above the floor rate.

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Asset Quality

Nonperforming Assets. Nonperforming assets are comprised of nonperforming loans, accruing loans which are past due 90 days or more, repossessed assets, other real estate owned (“foreclosed assets”), and certain loans held for sale which are classified as nonperforming. Nonperforming loans are loans that have been placed into nonaccrual status when doubts arise regarding the full collectability of principal or interest and Four Oaks is therefore uncertain that the borrower can satisfy the contractual terms of the loan agreement. Four Oaks’ policy is to place a loan on nonaccrual status at the point when the loan becomes past due 90 days unless there is sufficient documentation to establish that the loan is well secured and in the process of collection. These nonaccrual loans may be returned to accrual status when the factors which initially indicated the doubtful collectability of the loans have ceased to exist. Foreclosed assets consists typically of real estate assets acquired either through foreclosure proceedings or deed in lieu of foreclosure. Foreclosed assets are recorded at an estimated fair value less costs to sell the property, or the recorded investment in the loan at the time of foreclosure, whichever is less. These assets are periodically evaluated and any decreases in the property’s fair value result in corresponding write downs of the asset’s carrying value.

As of December 31, 2016, nonperforming assets declined \$2.4 million or 28.2% when compared to December 31, 2015. Four Oaks’ ratio of nonperforming assets to regulatory Tier 1 capital plus the allowance has improved during the year. At December 31, 2016, this ratio was 8% compared to 12% at December 31, 2015.

The following table describes Four Oaks’ nonperforming asset portfolio composition by category based on the loan classifications discussed in Note D - Loans and Allowance for Loan Losses to the financial statements for December 31, 2016, 2015, 2014, 2013, and 2012 (amounts in thousands):

	Nonperforming Assets				
	2016	2015	2014	2013	2012
Nonaccrual loans:					
Commercial and industrial	\$ 36	\$ 119	\$ —	\$ 651	\$ 664
Commercial construction and land development	691	1,626	5,533	9,536	15,941
Commercial real estate	2,153	2,929	983	6,391	9,091
Residential construction	—	721	—	695	833
Residential mortgage	1,444	1,203	1,271	9,943	9,408
Consumer	—	—	472	11	33
Total nonaccrual loans	\$ 4,324	\$ 6,598	\$ 8,259	\$ 27,227	\$ 35,970
Past due 90 days or more and still accruing:					
Consumer credit cards	\$ 19	\$ 29	\$ 14	\$ 23	\$ 32
Business credit cards	21	36	3	—	—
Total past due 90 days and still accruing	\$ 40	\$ 65	\$ 17	\$ 23	\$ 32
Foreclosed assets:					
Commercial and industrial	\$ 3	\$ 3	\$ 44	\$ 44	\$ 71
Commercial construction and land development	988	1,493	2,613	6,364	8,363
Commercial real estate	637	82	485	1,077	2,420
Residential construction	—	69	—	42	602
Residential mortgage	54	113	640	975	3,680
Total foreclosed assets	\$ 1,682	\$ 1,760	\$ 3,782	\$ 8,502	\$ 15,136
Nonperforming loans held for sale	\$ —	\$ —	\$ 1,865	\$ —	\$ —

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Total nonperforming assets	\$ 6,046	\$ 8,423	\$ 13,923	\$ 35,752	\$ 51,138
Nonperforming loans to gross loans	0.85%	1.44%	1.83%	5.53%	7.22%
Nonperforming assets to total assets	0.84%	1.22%	1.70%	4.35%	5.91%
Allowance coverage of nonperforming loans	221.06%	144.32%	113.30%	42.53%	45.97%

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Foreclosed Assets. As of December 31, 2016, there were 26 foreclosed properties valued at \$1.7 million compared to 35 foreclosed properties valued at \$1.8 million as of December 31, 2015. For the twelve months ended December 31, 2016, a significant portion of the \$1.7 million value of foreclosed properties was due to the addition of one property in the amount of \$863,000 in the first quarter of 2016. The amount of loans transferred into foreclosed assets decreased from \$1.2 million for the year ending December 31, 2015 to \$1.0 million for the year ending December 31, 2016. Sales of foreclosed assets decreased to \$700,000 in 2016 compared to \$3.0 million in 2015 as the number and value of properties in the portfolio continues to decline. The continued decline in foreclosed assets resulted primarily from sales of foreclosed properties and reductions in the number of properties added to foreclosed assets.

Nonaccrual and TDR Loans. Interest income is calculated by the relevant interest method based upon the daily outstanding balance of the loan. The recognition of interest income ceases however when it becomes probable that full collectability of all interest due under the contractual terms of the loan agreement may not occur. As a result, loans may either be placed in nonaccrual status and/or restructured to allow for a payment stream which may appropriately accommodate a borrower's diminished repayment capacity. Restructured loans are those for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal have been granted due to the borrower's weakened financial condition. Such restructured loans are typically initially placed into nonaccrual status and may later be returned to accrual status depending upon a demonstrated ability by the borrower to meet the repayment terms of the restructured loan. Payments received on nonaccrual loans are applied first to principal and thereafter interest only after all principal has been collected. Four Oaks accrues interest on restructured loans at the restructured rates when Four Oaks anticipates that no loss of original principal will occur.

Nonaccrual loans as a percentage of gross loans decreased to 0.85% as of December 31, 2016 compared to 1.44% as of December 31, 2015. At December 31, 2016, there were 29 nonaccrual loans totaling \$4.3 million compared to 42 loans totaling \$6.6 million at December 31, 2015. The gross interest income that would have been recorded for loans accounted for on a nonaccrual basis at December 31, 2016 and 2015 was approximately \$196,000 and \$153,000, respectively. These amounts represent interest income that would have been recorded if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period.

Loans are classified as a troubled debt restructuring ("TDR") when, for economic or legal reasons which result in a debtor experiencing financial difficulties, Four Oaks grants a concession through a modification of the original loan agreement that would not otherwise be considered. Loans in the process of renewal or modification are reviewed by Four Oaks to determine if the risk grade assigned is accurate based on updated information. Four Oaks' policy with respect to accrual of interest on loans restructured in a TDR process follows relevant supervisory guidance. If a borrower has demonstrated performance under the previous loan terms and shows capacity to perform under the restructured loan terms, continued accrual of interest at the restructured interest rate is considered and the loan is considered performing. If the borrower was materially delinquent on payments prior to the restructuring but shows the capacity to meet the restructured loan terms, the loan will likely continue as nonaccrual and nonperforming until such time as continued performance has been demonstrated, which is typically a period of at least six consecutive payments. If the borrower does not perform under the restructured terms, the loan is placed on nonaccrual status.

As of December 31, 2016, there were six restructured loans in accrual status compared to eight as of December 31, 2015. Regardless of whether any individual TDR is performing, all TDRs are considered to be impaired and are evaluated as such in the allowance for loan losses calculation. As of December 31, 2016, the recorded investment in performing TDRs and their related allowance for loan losses totaled \$1.2 million and \$0, respectively, compared to \$2.3 million and \$328,000 as of December 31, 2015. Outstanding nonperforming TDRs totaled \$802,000 with \$156,000 in specific reserves as of December 31, 2016 compared to \$1.1 million in outstanding nonperforming TDRs with \$139,000 in related allowance for loan losses as of December 31, 2015. The amount of interest recognized for performing and nonperforming TDRs during the twelve months of 2016 was approximately \$73,000 and \$10,000, respectively.

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The following table describes performing and nonperforming TDRs for December 31, 2016, 2015, 2014, 2013, and 2012 (amounts in thousands):

	2016	2015	2014	2013	2012
Performing TDRs:					
Commercial and industrial	\$ —	\$ —	\$ —	\$ 37	\$ 349
Commercial construction and land development	—	1,059	1,336	227	3,484
Commercial real estate	714	1,028	2,469	4,447	5,522
Residential mortgage	474	226	950	2,319	3,945
Consumer	—	—	4	—	—
Total performing TDRs	\$ 1,188	\$ 2,313	\$ 4,759	\$ 7,030	\$ 13,300
	2016	2015	2014	2013	2012
Nonperforming TDRs:					
Commercial and industrial	\$ 24	\$ —	\$ —	\$ 301	\$ 87
Commercial construction and land development	—	557	2,776	6,699	10,659
Commercial real estate	657	574	552	4,204	4,437
Residential mortgage	121	—	54	3,055	3,113
Consumer	—	—	467	1	—
Total nonperforming TDRs	\$ 802	\$ 1,131	\$ 3,849	\$ 14,260	\$ 18,296

Allowance for Loan Losses and Summary of Loan Loss Experience. The allowance for loan losses is established through periodic charges to earnings in the form of a provision for loan losses. Increases to the allowance for loan losses occur as a result of provisions charged to operations and recoveries of amounts previously charged-off, and decreases to the allowance occur when loans are charged-off because management believes that the uncollectibility of a loan balance is confirmed. Management evaluates the adequacy of Four Oaks' allowance for loan losses on at least a quarterly basis. The evaluation of the adequacy of the allowance for loan losses involves the consideration of loan growth, loan portfolio composition and industry diversification, historical loan loss experience, current delinquency levels, adverse conditions that might affect a borrower's ability to repay the loan, estimated value of underlying collateral, prevailing economic conditions and all other relevant factors derived from Four Oaks' history of operations. Additionally, regulatory agencies review Four Oaks' allowance for loan losses and may require additional provisions for estimated losses based on judgments that differ from those of management.

Management has developed a model for evaluating the adequacy of the allowance for loan losses. The model uses Four Oaks' internal grading system to quantify the risk of each loan. The grade is initially assigned by the lending officer and/or the credit administration function. The internal grading system is reviewed and tested periodically by an independent internal loan review function as well as an independent external credit review firm. The testing process involves the evaluation of a sample of new loans, loans having been identified as possessing potential weakness in credit quality, and past due and nonaccrual loans to determine the ongoing effectiveness of the internal grading system. Additionally, regulatory agencies review the adequacy of the risk grades assigned as well as the risk grade process and may require changes based on judgments that differ from those of management that could impact the allowance for loan losses.

The grading system is comprised of seven risk categories for active loans. Grades 1 through 4 demonstrate various degrees of risk, but each is considered to have the capacity to perform in accordance with the terms of the loan. Loans possessing a grade of 5 exhibit characteristics which indicate higher risk that the loan may not be able to perform in accordance with the terms of the loan. Grade 6 loans are considered sub-standard and are generally impaired, however, certain of these loans continue to accrue interest, and are not TDRs and are not considered impaired. Grade 7 loans are considered doubtful and would be included in nonaccrual loans. Grade 8 loans are considered uncollectable

and identified as a confirmed loss. Loans can also be classified as non-accrual, TDR, or otherwise impaired, all of which are considered impaired and evaluated for specific reserve under FASB Accounting Standard Codification (“ASC”) 310-10 regardless of the risk grade assigned.

Once a loan has been determined to meet the definition of impairment, the amount of that impairment is measured through one of two available methods: a calculation of the net present value of the

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expected future cash flows of the loan discounted by the effective interest rate of the loan or upon the fair market value of the underlying assets securing the loan. If the fair market value of collateral method is selected for use, an updated collateral value is generally obtained based on where the loan is in the collection process and the age of the existing appraisal. Each loan is then analyzed to determine the net value of collateral or cash flows and an estimate of potential loss. The net value of collateral per Four Oaks' analysis is determined using various subjective discounts, selling expenses and a review of the assumptions used to generate the current appraisal. If collection is deemed to be collateral dependent then the deficiency is generally charged off. Appraised values on real estate collateral are subject to constant change and management makes certain assumptions about how the age of an appraisal impacts current value. Impaired loans are re-evaluated periodically to determine the adequacy of specific reserves and charge-offs. Groups of small dollar impaired loans with similar risk characteristics may be evaluated for impairment collectively. Loans that are not assessed for specific reserves under FASB ASC 310-10 are reserved for under FASB ASC 450. The loans analyzed under FASB ASC 450 are assigned a reserve based on a quantitative factor and a qualitative factor. The quantitative factor is based on historical charge-off levels and is adjusted for the loan's risk grade. The qualitative factors address loan growth, loan portfolio composition and industry diversification, historical loan loss experience, current delinquency levels, prevailing economic conditions and all other relevant factors derived from Four Oaks' history of operations. Together these two components comprise the ASC 450, or general reserve.

Four Oaks utilizes a five year look back period to determine historical loss rates under the quantitative ASC 450 reserve. Four Oaks calculates historical loss rates from the most recent five years on a rolling quarter basis to provide an estimate of potential losses and to provide for the highest base charge-off rate regardless of whether the historical charge-offs are improving or declining. In addition, Four Oaks Bank assigns a different percentage ("multiplier") of the base charge-off rate to the balances for each risk grade within a loan category to reflect the varied risk of charge-off for each. The standard multipliers range from 0% for a risk grade 1 to 300% for a risk grade 6 that is unimpaired. In addition, categories that have a concentrated level of charge-offs associated with a particular risk grade could have an additional reserve factor of 50% to 100% added to that particular risk grade. Lastly, categories that have had historically high charge-offs also have an additional reserve factor between 25% to 100% added to the risk grade 5s and 6s to account for the additional risk in those categories. The reserve amount by risk grade is calculated and then combined for a blended quantitative reserve factor for each loan category.

The allowance for loan losses at December 31, 2016 was \$9.6 million, which represents 1.9% of total loans outstanding compared to \$9.6 million or 2.1% as of December 31, 2015. For the year ended December 31, 2016, net loan recoveries were \$31,000 compared to \$239,000 for the prior year period because the volume of total charge-offs and recoveries continued to decline as asset quality normalizes. Non-accrual loans were \$4.3 million and \$6.6 million at December 31, 2016 and 2015, respectively. The 30-89 day past due numbers are down to \$493,000 as of December 31, 2016 compared to \$1.2 million as of December 31, 2015, a 57.9% decrease.

The ASC 450 reserve as of December 31, 2015 was 2.2% compared to 1.7% as of December 31, 2016. As of December 31, 2016, Four Oaks had \$5.1 million in loans in the coastal North Carolina region which are collateralized by properties that have seen significant declines in value since the loans' origination, compared to \$6.6 million as of December 31, 2015. Those loans in this category that are evaluated as part of the ASC 450 general reserve are being reserved at an average of 43.8% as of December 31, 2016.

Impaired loans evaluated for specific reserve as of December 31, 2016 were \$5.4 million compared to \$8.6 million for the year ended December 31, 2015, a decline of \$3.2 million or 37.6%. The ASC 310 reserve was \$1.0 million as of December 31, 2016 compared to \$1.3 million as of December 31, 2015.

The allowance for loan losses represents management's estimate of an appropriate amount to provide for known and inherent losses in the loan portfolio in the normal course of business. While management believes the methodology used to establish the allowance for loan losses incorporates the best information available at the time, future adjustments to the level of the allowance may be necessary and the results of operations could be adversely affected should circumstances differ substantially from the assumptions initially used. Four Oaks management believes that the allowance for loan losses was established in conformity with generally accepted accounting principles; however, there can be no assurances that the

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regulatory agencies, after reviewing the loan portfolio, will not require management to increase the level of the allowance. Likewise, there can be no assurance that the existing allowance for loan losses is adequate should there be deterioration in the quality of any loans or changes in any of the factors discussed above. Any increases in the provision for loan losses resulting from such deterioration or change in condition could adversely affect Four Oaks' financial condition and results of operations.

The following table summarizes Four Oaks' loan loss experience for the years ending December 31, 2016, 2015, 2014, 2013, and 2012 (amounts in thousands, except ratios):

	Allowance for Loan Losses				
	2016	2015	2014	2013	2012
Balance at beginning of period	\$ 9,616	\$ 9,377	\$ 11,590	\$ 16,549	\$ 21,141
Charge-offs:					
Commercial and industrial	73	74	492	411	703
Commercial construction and land development	229	196	3,106	3,759	7,929
Commercial real estate	565	578	3,315	2,220	3,691
Residential construction	—	41	171	138	103
Residential mortgage	45	713	4,847	1,559	1,801
Consumer	161	210	183	271	516
Other	9	69	—	—	—
Total charge-offs	1,082	1,881	12,114	8,358	14,743
Recoveries:					
Commercial and industrial	97	234	208	514	622
Commercial construction and land development	788	1,176	397	587	1,176
Commercial real estate	21	393	334	1,506	366
Residential construction	21	—	—	—	—
Residential mortgage	70	201	866	599	458
Consumer	113	113	120	154	148
Other	3	3	23	4	—
Total recoveries	1,113	2,120	1,948	3,364	2,770
Net recoveries (charge-offs)	31	239	(10,166)	(4,994)	(11,973)
Provision for loan losses	—	—	7,953	35	7,381
Balance at end of year	\$ 9,647	\$ 9,616	\$ 9,377	\$ 11,590	\$ 16,549
Ratio of net charge-offs during the year to average gross loans outstanding during the year	—%	—%	2.14%	1.01%	2.21%

The following table summarizes Four Oaks' allocation of allowance for loan losses at December 31, 2016, 2015, 2014, 2013, and 2012 (amounts in thousands, except ratios).

Allowance for Loan Losses by Loan Classification								
2016		2015		2014		2013		2012
Amount	% Total Loans(1)	Amount	% Total Loans(1)	Amount	% Total Loans(1)	Amount	% Total Loans(1)	Amount
\$ 58	5%	\$ 221	5%	\$ 119	6%	\$ 487	6%	\$ 1,185

Commercial and industrial									
Commercial construction and land development	4,915	9%	5,470	11%	5,105	12%	5,037	13%	7,251
Commercial real estate	3,198	50%	2,268	46%	2,382	44%	2,981	43%	2,961
Residential construction	258	8%	305	8%	436	6%	713	6%	423
Residential mortgage	1,078	26%	1,191	28%	1,206	30%	2,146	30%	4,471
Consumer	98	2%	113	2%	89	2%	188	2%	188
Other	42	—%	48	—%	40	—%	38	—%	70
Total	\$ 9,647	100%	\$ 9,616	100%	\$ 9,377	100%	\$ 11,590	100%	\$ 16,549

(1)

Represents total of all outstanding loans in each category as a percentage of total loans outstanding.

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Deposits

Deposits are the primary source of funds for Four Oaks' portfolio loans, loan pipeline and investments. Four Oaks' deposit strategy is to obtain deposit funds from within Four Oaks Bank's market areas through relationship banking. The majority of Four Oaks' deposits are from individuals and entities located in Four Oaks Bank's primary markets of Johnston and Wake counties. Four Oaks Bank is positioned to obtain wholesale deposits, including brokered deposits, from various sources in order to supplement Four Oaks' liquidity if needed. As of December 31, 2016, total deposits were approximately \$553.5 million, up from \$542.3 million at December 31, 2015.

Noninterest-bearing demand deposits and interest-bearing transaction accounts, which include savings, money market and interest checking, increased \$40.0 million or 12.8%. Time deposits declined \$28.8 million as Four Oaks Bank did not replace wholesale time deposits that matured during 2016 and continue to execute a strategy of exiting high cost time deposits for non-relationship customers.

Wholesale deposits, including time deposits placed in the Certificate of Deposit Account Registry Service ("CDARS"), and various brokered deposit programs decreased \$17.2 million, or 41.4%, from \$41.5 million as of December 31, 2015, to \$24.3 million at December 31, 2016 as some brokered deposit maturities were not replaced. The CDARS program provides full FDIC insurance on deposit balances greater than posted FDIC limits by exchanging larger depository relationships with other CDARS members. CDARS is offered as a service to Four Oaks' customers who either require or desire full FDIC insurance coverage of their deposits.

Time certificates in amounts of \$250,000 or more outstanding at December 31, 2016, 2015, 2014, 2013, and 2012, by maturity were as follows (amounts in thousands):

	Time Certificates of \$250,000 or More by Maturity				
	2016	2015	2014	2013	2012
Three months or less	\$ 3,980	\$ 2,820	\$ 4,350	\$ 3,555	\$ 14,394
Over three months through six months	7,835	10,680	6,454	8,380	6,223
Over six months through twelve months	3,731	5,196	8,203	5,857	5,401
Over twelve months through three years	8,236	10,970	13,428	16,316	17,791
Over three years	5,985	5,595	5,183	4,068	10,613
Total	\$ 29,767	\$ 35,261	\$ 37,618	\$ 38,176	\$ 54,422

Borrowings

Four Oaks borrows funds principally from the Federal Home Loan Bank of Atlanta (the "FHLB"). During 2016, Four Oaks increased total advances by \$10.0 million as compared to December 31, 2015.

Information regarding borrowings at December 31, 2016, 2015, and 2014, are as follows (amounts in thousands, except rates):

	FHLB Advances		
	2016	2015	2014
Balance outstanding at December 31	\$ 70,000	\$ 60,000	\$ 90,000
Weighted average rate at December 31	2.06%	2.38%	3.42%
Maximum borrowings during the year	\$ 80,000	\$ 90,000	\$ 112,000
Average amounts outstanding during year	\$ 69,672	\$ 88,773	\$ 110,416
Weighted average rate during year	2.09%	3.39%	3.57%

In late 2015, Four Oaks sold \$11.5 million aggregate principal amount of subordinated promissory notes. These notes are due on November 30, 2025 and Four Oaks is obligated to pay interest at an annualized rate of 6.25% payable in quarterly installments commencing on March 1, 2016. Four Oaks may prepay the notes at any time after November 30, 2020, subject to compliance with applicable law. The proceeds of the offering were used to refinance Four Oaks' then outstanding subordinated promissory notes issued in 2009.

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On March 30, 2006, \$12.4 million of trust preferred securities (the “Trust Preferred Securities”) were placed through the Trust. The Trust has invested the net proceeds from the sale of the Trust Preferred Securities in Junior Subordinated Deferrable Interest Debentures (the “Debentures”) issued by Four Oaks and recorded in borrowings on the accompanying consolidated balance sheets. The Trust Preferred Securities pay cumulative cash distributions quarterly at an annual rate, reset quarterly, equal to three month LIBOR plus 1.35%. The dividends paid to holders of the Trust Preferred Securities, which will be recorded as interest expense, are deductible for income tax purposes. The Trust Preferred Securities are redeemable in whole or in part, on any June 15, September 15, December 15, or March 15. Redemption is mandatory by June 15, 2036.

Four Oaks may purchase federal funds through secured federal funds lines of credit with various banks. These lines are intended for short-term borrowings and are payable on demand and bear interest based upon the daily federal funds rate. For 2016, 2015, and 2014, Four Oaks purchased no federal funds except in conjunction with semi-annual testing of the borrowing lines available. At December 31, 2016 and December 31, 2015, Four Oaks had no federal funds borrowings outstanding under these lines.

Results of Operations for the Years Ended December 31, 2016 and 2015

Overview. Pre-tax net income for the twelve months ended December 31, 2016 was \$5.3 million compared to \$3.5 million for the same period in 2015, an increase of \$1.8 million or 50%. Net income for the twelve months ended December 31, 2016 was \$6.9 million, or \$1.06 net income per basic and \$1.04 per diluted share, as compared to net income of \$20.0 million, or \$3.12 net income per basic and \$3.10 per diluted share, for the twelve months ended December 31, 2016. For the twelve months ended December 31, 2016, Four Oaks reported an income tax benefit of \$1.6 million compared to an income tax benefit of \$16.5 million for the same period in 2015. The prior year income tax benefit resulted from the partial reversal of the valuation allowance against Four Oaks’ deferred tax assets executed in the second quarter of 2015. The current year income tax benefit was due to the reversal of substantially all of the remaining valuation allowance on the deferred tax assets executed in the fourth quarter of 2016.

Net interest income totaled \$24.4 million for the twelve months ended December 31, 2016 as compared to \$22.6 million for the same period in 2015, an increase of \$1.8 million or 7.8%. Net interest margin for the twelve months ended December 31, 2016 was 3.7% compared to 3.3% for the same period in 2015. The primary driver of the improved margins and overall net interest income was the reduction in funding costs due to the balance sheet strategies executed in late 2015. The 2015 balance sheet strategies included the extinguishment of high-cost long term borrowings and refinancing Four Oaks’ subordinated debt at lower rates. Additionally contributing to the increase was additional interest income on loans from the portfolio growth during 2016.

Non-interest income was \$5.8 million for the twelve months ended December 31, 2016 compared to \$9.6 million for the same period in 2015. This decrease was primarily due to reductions in gains from the sale of problem loans as Four Oaks and Four Oaks Bank completed the previously disclosed Asset Resolution Plan during 2015 and had few loan sales during 2016. Additionally, Four Oaks and Four Oaks Bank completed their exit from the ACH third party payment processor business line in 2015 and indemnification income from this exit was absent from 2016 totals. Other factors contributing to the overall decline were less significant but included reduced premium income from the sale of government guaranteed loans and reductions in service charges on deposit accounts.

Non-interest expense totaled \$24.8 million for the twelve months ended December 31, 2016 compared to \$28.6 million for the same period in 2015. As previously mentioned, Four Oaks restructured the balance sheet during the fourth quarter 2015, resulting in the extinguishment of high-cost long term borrowings. The absence of these long term debt extinguishment costs in 2016 was a primary driver in the overall decline of non-interest expense. Another significant contributor included a reduction in salary expense in 2016 as Four Oaks exited certain personnel contracts and incurred related expenses during 2015 as it transitioned the leadership team.

Net Interest Income. The primary component of earnings for Four Oaks is net interest income, which is the difference between interest income, principally from loan and investment securities, and interest expense, principally on customer deposits and borrowings. Changes in net interest income result from

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changes in volume, spread and margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities, and margin refers to net interest income divided by average interest-earning assets. Margin is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities, as well as by levels of non-interest-bearing liabilities and capital.

Net interest income increased by \$1.8 million or 7.8%, to \$24.4 million in 2016 from \$22.6 million in 2015. The net interest margin increased 40 basis points to 3.74% in 2016 from a net interest margin of 3.29% in the previous year. The increase in net interest income was primarily due to declines in interest expense of \$2.0 million driven primarily by reductions in high cost long term borrowings that were paid down or refinanced during 2015. Interest expense on FHLB borrowings declined \$1.6 million or 51.7% as compared to 2015. Also contributing to the decline in interest expense was the refinancing of Four Oaks' subordinated promissory notes during late 2015 from an interest rate of 8.50% to 6.25%. The reduction in rate and \$500,000 reduction in balances resulted in savings of approximately \$300,000 for the twelve months ended December 31, 2016. This improvement in overall net interest income was offset by a reduction in total interest income of \$178,000 as overall investment balances and resulting interest income declined and was only partially offset by increases in interest income on loans.

On average, Four Oaks' interest-earning assets declined \$36.6 million during 2016 from 2015; however, the rate earned on these assets increased 21 basis points. The primary drivers for the decline in interest-earning assets were reductions in interest earning deposits with banks and total investments offset by increases in average loans. Interest earning deposits in banks, which carried a relatively low yield, declined \$42.6 million during the year while average investments declined \$18.7 million. Part of this decline was from the ACH TPPP business line exit during 2015 which caused Four Oaks to carry elevated levels of interest bearing deposits during the exit process. This was offset by increases in average loans which grew \$25.1 million during 2016. Interest bearing liabilities declined \$9.1 million as Four Oaks remained focus on improving balance sheet efficiency to ensure any unnecessary funding was eliminated. In addition to the total reduction in interest bearing liabilities, the rate paid on these liabilities declined 36 basis points driven primarily by reductions in high cost long term borrowings paid down during 2015.

Four Oaks sets interest rates on deposits and loans at competitive rates. Interest rate spreads have increased from 3.0% in 2015 to 3.5% for 2016. The interest rate spread is the difference between the interest rates earned on average loans and investments, and the interest rates paid on average interest-bearing deposits and borrowings.

The following schedule presents average balance sheet information for the years 2016, 2015, and 2014, along with related interest earned and average yields for interest-earning assets and the interest paid and average rates for interest-bearing liabilities (amounts in thousands, except for average rates). Nonaccrual notes are included in loan amounts.

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Average Daily Balances, Interest Income/Expense, Average Yield/Rate
For the Years Ended December 31,

2016		2015		2014
Average Balance	Interest	Average Rate	Average Balance	Interest