

UNITED COMMUNITY BANKS INC
Form 424B3
June 06, 2011

Filed Pursuant to Rule 424(b)(3)

File No. 333-159958; 333-165831

PROSPECTUS SUPPLEMENT
(To prospectus dated March 17, 2011)

UNITED COMMUNITY BANKS, INC.

65,000 SHARES OF SERIES C CONVERTIBLE PREFERRED STOCK

WARRANT TO PURCHASE \$65 MILLION
OF COMMON STOCK EQUIVALENT JUNIOR PREFERRED STOCK

RECENT DEVELOPMENTS

We have attached to this prospectus supplement, and incorporated by reference into it, our Quarterly Report on Form 10-Q for the period ended March 31, 2011, our Current Report Form 8-K filed with the Securities and Exchange Commission on April 22, 2011 and our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2011.

June 6, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2011

OR

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

For the Transition Period from _____ to _____

Commission file number 001-39095

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

Georgia
(State of Incorporation)

58-1807304
(I.R.S. Employer Identification
No.)

125 Highway 515
East
Blairsville, Georgia
Address of Principal
Executive Offices

30512
(Zip Code)

(706) 781-2265
(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer Accelerated
filer

Non-accelerated filer (Do not check if a smaller reporting
company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES NO

Common stock, par value \$1 per share 104,568,558 shares
outstanding as of April 30, 2011

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Part I – Financial Information

Item 1 – Financial Statements

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Operations (Unaudited)

	Three Months Ended March 31,	
(in thousands, except per share data)	2011	2010
Interest revenue:		
Loans, including fees	\$ 61,107	\$ 72,215
Investment securities, including tax exempt of \$259 and \$311	13,604	16,203
Federal funds sold, commercial paper and deposits in banks	819	938
Total interest revenue	75,530	89,356
Interest expense:		
Deposits:		
NOW	1,324	1,854
Money market	2,028	1,757
Savings	77	84
Time	11,732	20,198
Total deposit interest expense	15,161	23,893
Federal funds purchased, repurchase agreements and other short-term borrowings	1,042	1,038
Federal Home Loan Bank advances	590	977
Long-term debt	2,780	2,662
Total interest expense	19,573	28,570
Net interest revenue	55,957	60,786
Provision for loan losses	190,000	75,000
Net interest expense after provision for loan losses	(134,043)	(14,214)
Fee revenue:		
Service charges and fees	6,720	7,447
Mortgage loan and other related fees	1,494	1,479
Brokerage fees	677	567
Securities gains, net	55	61
Other	2,892	2,112
Total fee revenue	11,838	11,666
Total revenue	(122,205)	(2,548)
Operating expenses:		
Salaries and employee benefits	24,924	24,360
Communications and equipment	3,344	3,273
Occupancy	4,074	3,814
Advertising and public relations	978	1,043
Postage, printing and supplies	1,118	1,225
Professional fees	3,330	1,943
Foreclosed property	64,899	10,813
FDIC assessments and other regulatory charges	5,413	3,626
Amortization of intangibles	762	802
Other	6,429	3,921
Total operating expenses	115,271	54,820

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Loss from continuing operations before income taxes	(237,476)	(57,368)
Income tax benefit	(94,990)	(22,910)
Net loss from continuing operations	(142,486)	(34,458)
Loss from discontinued operations, net of income taxes	-	(101)
Gain from sale of subsidiary, net of income taxes and selling costs	-	1,266
Net loss	(142,486)	(33,293)
Preferred stock dividends and discount accretion	2,778	2,572
Net loss available to common shareholders	\$ (145,264)	\$ (35,865)
Loss from continuing operations per common share - Basic / Diluted	\$ (1.57)	\$ (.39)
Loss per common share - Basic / Diluted	(1.57)	(.38)
Weighted average common shares outstanding - Basic / Diluted	92,330	94,390

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet

(in thousands, except share and per share data)	March 31, 2011 (unaudited)	December 31, 2010 (audited)	March 31, 2010 (unaudited)
ASSETS			
Cash and due from banks	\$ 153,891	\$95,994	\$ 105,613
Interest-bearing deposits in banks	465,656	111,901	99,893
Federal funds sold, commercial paper and short-term investments	470,087	441,562	183,049
Cash and cash equivalents	1,089,634	649,457	388,555
Securities available for sale	1,638,494	1,224,417	1,526,589
Securities held to maturity (fair value \$248,361 and \$267,988)	245,430	265,807	-
Loans held for sale	80,629	-	-
Mortgage loans held for sale	25,364	35,908	21,998
Loans, net of unearned income	4,194,372	4,604,126	4,992,045
Less allowance for loan losses	133,121	174,695	173,934
Loans, net	4,061,251	4,429,431	4,818,111
Assets covered by loss sharing agreements with the FDIC	125,789	131,887	169,287
Premises and equipment, net	179,143	178,239	181,217
Accrued interest receivable	21,687	24,299	30,492
Goodwill and other intangible assets	10,684	11,446	224,394
Foreclosed property	54,378	142,208	136,275
Net deferred tax asset	266,367	166,937	92,986
Other assets	174,742	183,160	247,114
Total assets	\$7,973,592	\$7,443,196	\$7,837,018
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$864,708	\$793,414	\$740,727
NOW	1,320,136	1,424,781	1,344,973
Money market	967,938	891,252	729,283
Savings	193,591	183,894	186,699
Time:			
Less than \$100,000	1,576,505	1,496,700	1,643,059
Greater than \$100,000	990,289	1,002,359	1,132,034
Brokered	684,581	676,772	710,813
Total deposits	6,597,748	6,469,172	6,487,588
Federal funds purchased, repurchase agreements, and other short-term borrowings	102,107	101,067	102,480
Federal Home Loan Bank advances	55,125	55,125	114,303
Long-term debt	150,166	150,146	150,086
Unsettled securities purchases	177,532	-	17,588
Accrued expenses and other liabilities	40,766	32,171	39,078
Total liabilities	7,123,444	6,807,681	6,911,123
Shareholders' equity:			
Preferred stock, \$1 par value; 10,000,000 shares authorized;			

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Series A; \$10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; \$1,000 stated value; 180,000 shares issued and outstanding	176,049	175,711	174,727
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613	-	-
Series F; \$1,000 stated value; 195,872 shares issued and outstanding	195,872	-	-
Series G; \$1,000 stated value; 151,185 shares issued and outstanding	151,185	-	-
Common stock, \$1 par value; 200,000,000 shares authorized; 104,515,553, 94,685,003 and 94,175,857 shares issued and outstanding	104,516	94,685	94,176
Common stock issuable; 397,138, 336,437 and 262,002 shares	3,681	3,894	4,127
Capital surplus	655,350	665,496	622,803
Accumulated deficit	(480,831)	(335,567)	(15,481)
Accumulated other comprehensive income	27,496	31,079	45,326
Total shareholders' equity	850,148	635,515	925,895
Total liabilities and shareholders' equity	\$7,973,592	\$7,443,196	\$7,837,018

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Shareholders'
Equity (Unaudited)
For the Three Months
Ended March 31,

(in thousands, except share and per share data)	Preferred Stock					Series G	Common			(Accumulated)	Accumulated
	Series A	Series B	Series D	Series F	Series G		Common Stock	Capital	Retained	Deficit)	Other
Balance, December 31, 2009	\$217	\$174,408	\$-	\$-	\$-	\$94,046	\$3,597	\$622,034	\$20,384	\$47,635	\$
Comprehensive income:											
Net loss									(33,293)		
Other comprehensive income (loss):											
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment											783
Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit											(3,092)
Comprehensive loss									(33,293)	(2,309)	
Common stock issued to dividend Reinvestment plan and employee											

benefit plans (125,021 shares)						124		387		
Amortization of stock option and restricted stock								832		
Vesting of restricted stock (12,447 shares issued, 16,162 shares deferred)						6	444	(450)		
Deferred compensation plan, net, including dividend equivalents								86		
Dividends on Series A preferred stock									(3)	
Dividends on Series B preferred stock	319									(2,569)
Balance, March 31, 2010	\$217	\$174,727	\$-	\$-	\$-	\$94,176	\$4,127	\$622,803	\$(15,481)	\$45,326
Balance, December 31, 2010	\$217	\$175,711	\$-	\$-	\$-	\$94,685	\$3,894	\$665,496	\$(335,567)	\$31,079
Comprehensive loss:										
Net loss									(142,486)	
Other comprehensive loss:										
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment										(1,003)
Unrealized losses on derivative financial instruments qualifying										

as cash					
flow hedges, net					
of					
deferred					
tax benefit					(2,580)
Comprehensive					
loss				(142,486)	(3,583)
Preferred for common					
equity exchange					
related to tax					
benefits preservation					
plan (7,755,631					
common shares)	16,613		(7,756)	(8,857)	
Common stock issued					
to dividend					
reinvestment plan					
and employee					
benefit plans					
(230,096 shares)			232	143	
Common and					
preferred stock issued					
(17,338,497					
common shares)	195,872	151,185	17,338	(1,866)	
Amortization of stock					
options and					
restricted					
stock awards					549
Vesting of					
restricted stock					
(7,097					
shares					
issued, 31,910					
shares					
deferred)			7	54	(61)
Deferred					
compensation plan,					
net,					
including					
dividend equivalents				65	
Shares issued					
from deferred					
compensation					
plan (10,491 shares)			10	(332)	322
Tax on option exercise					
and restricted					
stock					
vesting					(376)
Dividends on Series A					
preferred stock					(3)
Dividends on Series B					
preferred stock	338				(2,602)

Dividends on
 Series D
 preferred stock
 Balance, March
 31, 2011

									(173)	
\$217	\$176,049	\$16,613	\$195,872	\$151,185	\$104,516	\$3,681	\$655,350	\$(480,831)	\$27,496	\$

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Cash Flows (Unaudited)

(in thousands)	Three Months Ended March 31,	
	2011	2010
Operating activities:		
Net loss	\$ (142,486)	\$ (33,293)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	4,743	3,814
Provision for loan losses	190,000	75,000
Stock based compensation	549	832
Securities gains, net	(55)	(61)
Losses and write downs on sales of other real estate owned	60,605	8,097
Gain from sale of subsidiary	-	(2,110)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(90,321)	(11,557)
Accrued expenses and other liabilities	6,518	(4,956)
Mortgage loans held for sale	10,544	8,228
Net cash provided by operating activities	40,097	43,994
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls	21,116	-
Purchases	(1,500)	-
Investment securities available for sale:		
Proceeds from sales	51,240	40,817
Proceeds from maturities and calls	116,175	200,578
Purchases	(405,979)	(219,354)
Net decrease in loans	93,949	65,889
Proceeds from sales of premises and equipment	160	8
Purchases of premises and equipment	(3,604)	(2,024)
Net cash received from sale of subsidiary	-	290
Proceeds from sale of other real estate	36,003	21,692
Net cash (used in) provided by investing activities	(92,440)	107,896
Financing activities:		
Net change in deposits	128,576	(139,051)
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	1,040	1,091
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	375	511
Proceeds from issuance of common and preferred stock, net of offering costs	362,529	-
Cash dividends on preferred stock	-	(2,253)
Net cash provided by (used in) financing activities	492,520	(139,702)
Net change in cash and cash equivalents	440,177	12,188

Cash and cash equivalents at beginning of period	649,457	376,367
Cash and cash equivalents at end of period	\$ 1,089,634	\$ 388,555
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 17,936	\$ 33,283
Income taxes	1,287	767
Unsettled securities purchases	177,532	17,588

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United’s accounting policies is included in the 2010 annual report filed on Form 10-K.

In management’s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the fair value, less cost to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to operating expenses. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification Topic 360, Subtopic 20, Real Estate Sales (“ASC 360-20”).

Note 2 – Accounting Standards Updates

In April 2011, the FASB issued Accounting Standards Update No. 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (“ASU No. 2011-02”). ASU No. 2011-02 requires a creditor to separately conclude that 1.) the restructuring constitutes a concession and 2.) the debtor is experiencing financial difficulties in order for a modification to be considered a troubled debt restructuring (“TDR”). The guidance was issued to provide clarification and to address diversity in practice in identifying TDR’s. It is effective for United in the third quarter of 2011 and will be applied retrospectively to the beginning of the year. Although evaluation of the impact is not complete, it is not expected to have a material impact on United’s results of operations, financial position, or disclosures.

In April 2011, the FASB issued Accounting Standards Update No. 2011-03, Reconsideration of Effective Control in Repurchase Agreements (“ASU No. 2011-03”). ASU No. 2011-03 removes from the assessment of effective control the criterion related to the transferor’s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. In addition, this guidance also eliminates the requirement to demonstrate that a transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. It is effective for United for the first quarter of 2012, and is not expected to have a material impact on United’s results of operations, financial position, or disclosures.

Note 3 – Mergers and Acquisitions

On June 19, 2009, United Community Bank (“UCB” or the “Bank”) purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank (“SCB”) from the Federal Deposit Insurance Corporation (“FDIC”), as Receiver of SCB. UCB and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the

FDIC will absorb 80 percent of losses and share 80 percent of loss recoveries on the first \$109 million of losses and, absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding \$109 million. The term for loss sharing on 1-4 Family loans is ten years, while the term for loss sharing on all other loans is five years.

Under the loss sharing agreement, the portion of the losses expected to be indemnified by FDIC is considered an indemnification asset in accordance with ASC 805 Business Combinations. The indemnification asset, referred to as “estimated loss reimbursement from the FDIC” is included in the balance of “Assets covered by loss sharing agreements with the FDIC” on the Consolidated Balance Sheet. The indemnification asset was recognized at fair value, which was estimated at the acquisition date based on the terms of the loss sharing agreement. The indemnification asset is expected to be collected over a four-year average life. No valuation allowance was required.

Loans, foreclosed property and the estimated FDIC reimbursement resulting from the loss sharing agreements with the FDIC are reported as “assets covered by loss sharing agreements with the FDIC” in the consolidated balance sheet.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The table below shows the components of covered assets at March 31, 2011 (in thousands).

(in thousands)	Purchased Impaired Loans	Other Purchased Loans	Other	Total
Commercial (secured by real estate)	\$-	\$35,129	\$-	\$35,129
Commercial (commercial and industrial)	-	3,478	-	3,478
Construction and land development	1,644	13,335	-	14,979
Residential mortgage	145	9,322	-	9,467
Installment	7	229	-	236
Total covered loans	1,796	61,493	-	63,289
Covered foreclosed property	-	-	30,833	30,833
Estimated loss reimbursement from the FDIC	-	-	31,667	31,667
Total covered assets	\$1,796	\$61,493	\$62,500	\$125,789

Note 4 – Securities

During the second quarter of 2010, securities available for sale with a fair value of \$315 million were transferred to held to maturity. The securities were transferred at their fair value on the date of transfer. The unrealized gain of \$7.1 million on the transferred securities on the date of transfer is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities. Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost.

The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at March 31, 2011 and December 31, 2010, are as follows (in thousands). There were no securities classified as held to maturity at March 31, 2010.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2011				
U.S. Government agencies	\$4,989	\$12	\$-	\$5,001
State and political subdivisions	48,497	616	731	48,382
Mortgage-backed securities (1)	191,944	3,041	7	194,978
Total	\$245,430	\$3,669	\$738	\$248,361
As of December 31, 2010				
U.S. Government agencies	\$11,939	\$79	\$-	\$12,018
State and political subdivisions	47,007	416	1,005	46,418
Mortgage-backed securities (1)	206,861	2,700	9	209,552
Total	\$265,807	\$3,195	\$1,014	\$267,988

(1) All are residential type mortgage-backed securities

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The cost basis, unrealized gains and losses, and fair value of securities available for sale at March 31, 2011, December 31, 2010 and March 31, 2010 are presented below (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2011				
U.S. Government agencies	\$94,966	\$16	\$1,204	\$93,778
State and political subdivisions	26,870	983	20	27,833
Mortgage-backed securities (1)	1,388,702	27,617	1,474	1,414,845
Other	103,408	150	1,520	102,038
Total	\$1,613,946	\$28,766	\$4,218	\$1,638,494
As of December 31, 2010				
U.S. Government agencies	\$99,969	\$67	\$1,556	\$98,480
State and political subdivisions	27,600	878	36	28,442
Mortgage-backed securities (1)	963,475	29,204	1,671	991,008
Other	107,811	192	1,516	106,487
Total	\$1,198,855	\$30,341	\$4,779	\$1,224,417
As of March 31, 2010				
U.S. Government agencies	\$306,916	\$553	\$891	\$306,578
State and political subdivisions	63,175	1,450	81	64,544
Mortgage-backed securities (1)	1,101,456	41,754	1,031	1,142,179
Other	13,006	290	8	13,288
Total	\$1,484,553	\$44,047	\$2,011	\$1,526,589

(1) All are residential type mortgage-backed securities

The following table summarizes held to maturity securities in an unrealized loss position as of March 31, 2011 and December 31, 2010 (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2011						
State and political subdivisions	\$21,313	\$731	\$-	\$-	\$21,313	\$731
Mortgage-backed securities	1,942	7	-	-	1,942	7
Total unrealized loss position	\$23,255	\$738	\$-	\$-	\$23,255	\$738
As of December 31, 2010						
State and political subdivisions	\$28,949	\$1,005	\$-	\$-	\$28,949	\$1,005
Mortgage-backed securities	1,951	9	-	-	1,951	9
Total unrealized loss position	\$30,900	\$1,014	\$-	\$-	\$30,900	\$1,014

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The following table summarizes available for sale securities in an unrealized loss position as of March 31, 2011, December 31, 2010 and March 31, 2010 (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2011						
U.S. Government agencies	\$73,763	\$1,204	\$-	\$-	\$73,763	\$1,204
State and political subdivisions	1,098	15	11	5	1,109	20
Mortgage-backed securities	292,379	1,474	-	-	292,379	1,474
Other	79,386	1,520	-	-	79,386	1,520
Total unrealized loss position	\$446,626	\$4,213	\$11	\$5	\$446,637	\$4,218
As of December 31, 2010						
U.S. Government agencies	\$68,412	\$1,556	\$-	\$-	\$68,412	\$1,556
State and political subdivisions	1,082	30	12	6	1,094	36
Mortgage-backed securities	59,505	1,630	2,799	41	62,304	1,671
Other	69,985	1,516	-	-	69,985	1,516
Total unrealized loss position	\$198,984	\$4,732	\$2,811	\$47	\$201,795	\$4,779
As of March 31, 2010						
U.S. Government agencies	\$138,233	\$891	\$-	\$-	\$138,233	\$891
State and political subdivisions	2,035	15	3,191	66	5,226	81
Mortgage-backed securities	20,382	151	34,358	880	54,740	1,031
Other	-	-	500	8	500	8
Total unrealized loss position	\$160,650	\$1,057	\$38,049	\$954	\$198,699	\$2,011

At March 31, 2011, there were 38 available for sale securities and 26 held to maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at March 31, 2011 were primarily attributable to changes in interest rates.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analyst's reports. During the first quarter of 2010, United recorded impairment losses of \$950,000 on investments in financial institutions that showed evidence of other-than-temporary impairment. No impairment losses were identified in the first quarter of 2011.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three-month periods ended March 31, 2011 and 2010 (in thousands).

Three Months Ended
March 31,

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	2011	2010
Proceeds from sales	\$ 51,240	\$ 40,817
Gross gains on sales	\$ 331	\$ 1,260
Gross losses on sales	(276)	(249)
Impairment losses	-	(950)
Net gains on sales of securities	\$ 55	\$ 61
Income tax expense attributable to sales	\$ 21	\$ 24

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Securities with a carrying value of \$1.83 billion, \$1.43 billion, and \$1.48 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at March 31, 2011, December 31, 2010 and March 31, 2010.

The amortized cost and fair value of held to maturity and available for sale securities at March 31, 2011, by contractual maturity, are presented in the following table (in thousands).

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government agencies:				
5 to 10 years	\$81,387	\$80,729	\$-	\$-
More than 10 years	13,579	13,049	-	-
	94,966	93,778	-	-
State and political subdivisions:				
Within 1 year	5,265	5,344	-	-
1 to 5 years	13,946	14,523	-	-
5 to 10 years	6,311	6,595	4,989	5,001
More than 10 years	1,348	1,371	-	-
	26,870	27,833	4,989	5,001
Other:				
1 to 5 years	9,906	9,785	1,002	990
5 to 10 years	90,050	89,501	22,040	22,269
More than 10 years	3,452	2,752	25,455	25,123
	103,408	102,038	48,497	48,382
Total securities other than mortgage-backed securities:				
Within 1 year	5,265	5,344	-	-
1 to 5 years	23,852	24,308	1,002	990
5 to 10 years	177,748	176,825	27,029	27,270
More than 10 years	18,379	17,172	25,455	25,123
Mortgage-backed securities	1,388,702	1,414,845	191,944	194,978
	\$1,613,946	\$1,638,494	\$245,430	\$248,361

Expected maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 5 – Loans and Allowance for Loan Losses

Major classifications of loans as of March 31, 2011, December 31, 2010 and March 31, 2010, are summarized as follows (in thousands).

	March 31, 2011	December 31, 2010	March 31, 2010
Commercial (secured by real estate)	\$ 1,692,154	\$ 1,761,424	\$ 1,765,204
Commercial construction	213,177	296,582	357,188
Commercial (commercial and industrial)	431,473	441,518	380,331
Total commercial	2,336,804	2,499,524	2,502,723
Residential construction	549,618	695,166	960,372
Residential mortgage	1,186,531	1,278,780	1,390,270
Consumer installment	121,419	130,656	138,680
Total loans	4,194,372	4,604,126	4,992,045
Less allowance for loan losses	133,121	174,695	173,934
Loans, net	\$ 4,061,251	\$ 4,429,431	\$ 4,818,111

The Bank makes loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in north Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, coastal Georgia, western North Carolina and east Tennessee. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Changes in the allowance for loan losses for the three months ended March 31, 2011 and 2010 are summarized as follows (in thousands).

	Three Months Ended March 31,	
	2011	2010
Balance beginning of period	\$ 174,695	\$ 155,602
Provision for loan losses	190,000	75,000
Charge-offs:		
Commercial (secured by real estate)	48,707	2,936
Commercial construction	49,715	2,211
Commercial (commercial and industrial)	4,362	4,554
Residential construction	92,255	44,190
Residential mortgage	36,676	4,640
Consumer installment	1,096	1,129
Total loans charged-off	232,811	59,660
Recoveries:		
Commercial (secured by real estate)	100	972
Commercial construction	-	5
Commercial (commercial and industrial)	322	444
Residential construction	117	1,090
Residential mortgage	293	89

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Consumer installment	405	392
Total recoveries	1,237	2,992
Net charge-offs	231,574	56,668
Balance end of period	\$ 133,121	\$ 173,934

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

At March 31, 2011, December 31, 2010 and March 31, 2010, loans with a carrying value of \$857 million, \$1.02 billion and \$1.56 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

The following table presents the balance and activity in the allowance for loan losses by portfolio segment and the recorded investment in loans by portfolio segment based on impairment method as of March 31, 2011, December 31, 2010 and March 31, 2010 (in thousands).

	Commercial (Secured by Real Estate)	Commercial Construction	Commercial and Industrial	Residential Construction	Residential Mortgage	Consumer Installment	Unallocated
Three Months Ended March 31, 2011							
Allowance for loan losses:							
Beginning balance	\$31,191	\$6,780	\$7,580	\$92,571	\$22,305	\$3,030	\$11,238
Charge-offs	(46,101)	(24,158)	(4,363)	(119,874)	(37,220)	(1,095)	-
Recoveries	100	-	322	117	293	405	-
Provision	35,069	23,359	4,048	89,706	39,751	216	(2,149)
Ending balance	\$20,259	\$5,981	\$7,587	\$62,520	\$25,129	\$2,556	\$9,089
Ending allowance attributable to loans:							
Individually evaluated for impairment	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Collectively evaluated for impairment	20,259	5,981	7,587	62,520	25,129	2,556	9,089
Total ending allowance balance	\$20,259	\$5,981	\$7,587	\$62,520	\$25,129	\$2,556	\$9,089
Loans:							
Individually evaluated for impairment	\$17,154	\$3,624	\$-	\$22,667	\$5,157	\$-	\$-
Collectively evaluated for impairment	1,675,000	209,553	431,473	526,951	1,181,374	121,419	-
Total loans	\$1,692,154	\$213,177	\$431,473	\$549,618	\$1,186,531	\$121,419	\$-
December 31, 2010							
Allowance for loan losses:							
Ending allowance attributable to loans:							
Individually evaluated for impairment	\$268	\$-	\$-	\$644	\$137	\$-	\$-
Collectively evaluated for impairment	30,923	6,780	7,580	91,927	22,168	3,030	11,238
Total ending allowance balance	\$31,191	\$6,780	\$7,580	\$92,571	\$22,305	\$3,030	\$11,238
Loans:							
Individually evaluated for impairment	\$41,818	\$20,311	\$5,874	\$39,505	\$15,468	\$-	\$-
Collectively evaluated for impairment	1,719,606	276,271	435,644	655,661	1,263,312	130,656	-
Total loans	\$1,761,424	\$296,582	\$441,518	\$695,166	\$1,278,780	\$130,656	\$-
Three Months Ended March 31, 2010							
Allowance for loan losses:							
Beginning balance	\$19,208	\$5,861	\$6,892	\$93,585	\$17,266	\$2,545	\$10,245
Charge-offs	(2,936)	(2,211)	(4,554)	(44,190)	(4,640)	(1,129)	-
Recoveries	972	5	444	1,090	89	392	-
Provision	4,564	4,772	3,898	53,349	6,642	1,086	689
Ending balance	\$21,808	\$8,427	\$6,680	\$103,834	\$19,357	\$2,894	\$10,934
Ending allowance attributable to loans:							
Individually evaluated for impairment	\$1,272	\$627	\$-	\$4,398	\$529	\$6	\$-
Collectively evaluated for impairment	20,536	7,800	6,680	99,436	18,828	2,888	10,934

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Total ending allowance balance	\$21,808	\$8,427	\$6,680	\$103,834	\$19,357	\$2,894	\$10,934
Loans:							
Individually evaluated for impairment	\$38,519	\$22,268	\$-	\$131,249	\$22,056	\$941	\$-
Collectively evaluated for impairment	1,726,685	334,920	380,331	829,123	1,368,214	137,739	-
Total loans	\$1,765,204	\$357,188	\$380,331	\$960,372	\$1,390,270	\$138,680	\$-

United reviews all loans that are on nonaccrual with a balance of \$500,000 or greater for impairment. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest payments received on impaired loans are applied as a reduction of the outstanding principal balance.

In the first quarter 2011, following the completion of a transaction to raise \$380 million in new capital, United's Board of Directors adopted an asset disposition plan which included the bulk sale of \$267 million in classified loans. Those loans were classified as held for sale at the end of the first quarter and were written down to the expected proceeds from the sale. The charge-offs on the loans transferred to held for sale in anticipation of the bulk loan sale which closed on April 18, 2011, increased first quarter 2011 loan charge offs by \$186 million.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Individually evaluated impaired loans at March 31, 2011, December 31, 2010 and March 31, 2010 were as follows (in thousands).

	March 31, 2011	December 31, 2010	March 31, 2010
Period-end loans with no allocated allowance for loan losses	\$ 48,602	\$ 115,338	\$ 158,559
Period-end loans with allocated allowance for loan losses	-	7,638	56,474
Total	\$ 48,602	\$ 122,976	\$ 215,033
 Amount of allowance for loan losses allocated	 \$ -	 \$ 1,049	 \$ 6,832

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the three months ended March 31, 2011 and March 31, 2010 (in thousands).

	Three Months Ended March 31, 2011	2010
Average balance of individually evaluated impaired loans during period	\$ 95,163	\$ 210,854
Interest income recognized during impairment	-	-
Cash-basis interest income recognized	-	-

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2011, December 31, 2010 and March 31, 2010 (in thousands).

	March 31, 2011			December 31, 2010			March 31, 2010		
	Unpaid Principal Balance	Allowance for Recorded Investment Losses Allocated	Unpaid Principal Balance	Unpaid Principal Balance	Allowance for Recorded Investment Losses Allocated	Unpaid Principal Balance	Recorded Investment Losses Allocated	Unpaid Principal Balance	Allowance for Recorded Investment Losses Allocated
With no related allowance recorded:									
Commercial (secured by real estate)	\$ 27,811	\$ 17,154	\$ -	\$ 60,238	\$ 39,588	\$ -	\$ 42,498	\$ 34,589	\$ -
Commercial construction	4,360	3,624	-	33,898	20,311	-	21,855	16,018	-
Commercial (commercial and	-	-	-	10,115	5,874	-	-	-	-

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industrial)									
Total									
commercial	32,171	20,778	-	104,251	65,773	-	64,353	50,607	-
Residential									
construction	49,205	22,667	-	59,502	34,597	-	167,166	89,863	-
Residential									
mortgage	8,801	5,157	-	21,528	14,968	-	24,261	18,089	-
Consumer									
installment	-	-	-	-	-	-	-	-	-
Total with no									
related allowance									
recorded	90,177	48,602	-	185,281	115,338	-	255,780	158,559	-
With an									
allowance									
recorded:									
Commercial									
(secured by real									
estate)	-	-	-	2,230	2,230	268	4,228	3,930	1,272
Commercial									
construction	-	-	-	-	-	-	8,372	6,250	627
Commercial									
(commercial and									
industrial)	-	-	-	-	-	-	-	-	-
Total									
commercial	-	-	-	2,230	2,230	268	12,600	10,180	1,899
Residential									
construction	-	-	-	14,480	4,908	644	53,971	41,386	4,398
Residential									
mortgage	-	-	-	500	500	137	5,488	3,967	529
Consumer									
installment	-	-	-	-	-	-	1,111	941	6
Total with an									
allowance									
recorded	-	-	-	17,210	7,638	1,049	73,170	56,474	6,832
Total	\$ 90,177	\$ 48,602	\$ -	\$ 202,491	\$ 122,976	\$ 1,049	\$ 328,950	\$ 215,033	\$ 6,832

There were no loans more than 90 days past due and still accruing interest at March 31, 2011, December 31, 2010 or March 31, 2010. Nonaccrual loans at March 31, 2011, December 31, 2010 and March 31, 2010 were \$83.8 million, \$179 million and \$281 million, respectively. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans with larger balances.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The following table presents the recorded investment in nonaccrual loans by loan class as of March 31, 2011, December 31, 2010 and March 31, 2010 (in thousands).

	Nonaccrual Loans		
	March 31, 2011	December 31, 2010	March 31, 2010
Commercial (secured by real estate)	\$ 20,648	\$ 44,927	\$ 45,918
Commercial construction	3,701	21,374	23,556
Commercial (commercial and industrial)	2,198	5,611	3,610
Total commercial	26,547	71,912	73,084
Residential construction	32,038	54,505	147,326
Residential mortgage	23,711	51,083	57,920
Consumer installment	1,473	1,594	2,472
Total	\$ 83,769	\$ 179,094	\$ 280,802
Balance as a percentage of unpaid principal	57.3	%	62.2
			%
			71.6
			%

The following table presents the aging of the recorded investment in past due loans as of March 31, 2011, December 31, 2010 and March 31, 2010 by class of loans (in thousands).

As of March 31, 2011	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial (secured by real estate)	\$11,522	\$9,244	\$9,659	\$30,425	\$1,661,729	\$1,692,154
Commercial construction	5,458	1,880	1,237	8,575	204,602	213,177
Commercial (commercial and industrial)	1,485	854	876	3,215	428,258	431,473
Total commercial	18,465	11,978	11,772	42,215	2,294,589	2,336,804
Residential construction	13,349	9,514	13,405	36,268	513,350	549,618
Residential mortgage	16,439	6,658	10,789	33,886	1,152,645	1,186,531
Consumer installment	1,705	346	573	2,624	118,795	121,419
Total loans	\$49,958	\$28,496	\$36,539	\$114,993	\$4,079,379	\$4,194,372
As of December 31, 2010						
Commercial (secured by real estate)	\$10,697	\$3,672	\$19,457	\$33,826	\$1,727,598	\$1,761,424
Commercial construction	4,616	2,917	9,189	16,722	279,860	296,582
Commercial (commercial and industrial)	2,016	2,620	3,092	7,728	433,790	441,518
Total commercial	17,329	9,209	31,738	58,276	2,441,248	2,499,524

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Residential construction	13,599	5,158	34,673	53,430	641,736	695,166
Residential mortgage	24,375	7,780	38,209	70,364	1,208,416	1,278,780
Consumer installment	2,104	462	808	3,374	127,282	130,656
Total loans	\$57,407	\$22,609	\$105,428	\$185,444	\$4,418,682	\$4,604,126

As of March 31, 2010

Commercial (secured by real estate)	\$21,315	\$16,281	\$36,334	\$73,930	\$1,691,274	\$1,765,204
Commercial construction	1,666	7,524	14,876	24,066	333,122	357,188
Commercial (commercial and industrial)	3,327	2,005	1,680	7,012	373,319	380,331
Total commercial	26,308	25,810	52,890	105,008	2,397,715	2,502,723
Residential construction	26,354	22,284	102,193	150,831	809,541	960,372
Residential mortgage	33,570	17,181	47,936	98,687	1,291,583	1,390,270
Consumer installment	1,941	1,213	1,093	4,247	134,433	138,680
Total loans	\$88,173	\$66,488	\$204,112	\$358,773	\$4,633,272	\$4,992,045

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

There were no specific reserves established for loans considered to be troubled debt restructurings at March 31, 2011. As of December 31, 2010, \$173,000 of specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings. United has committed to lend additional amounts totaling up to \$519,000 and \$1.17 million as of March 31, 2011 and December 31, 2010, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment. Also included in the table are the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted (dollars in thousands).

	Number of Contracts	Pre-	Post-	Troubled Debt	
		Modification Outstanding	Modification Outstanding	Restructurings That Have Subsequently Defaulted	
		Recorded	Recorded	Number of	Recorded
As of March 31, 2011		Investment	Investment	Contracts	Investment
Commercial (secured by real estate)	29	\$ 25,094	\$ 22,211	3	\$ 1,799
Commercial construction	6	9,622	9,622	-	-
Commercial (commercial and industrial)	5	155	155	-	-
Total commercial	40	34,871	31,988	3	1,799
Residential construction	54	14,582	13,759	4	972
Residential mortgage	32	4,013	3,882	3	278
Consumer installment	7	122	117	-	-
Total loans	133	\$ 53,588	\$ 49,746	10	\$ 3,049
As of December 31, 2010					
Commercial (secured by real estate)	41	\$ 40,649	\$ 36,759	3	\$ 1,402
Commercial construction	16	37,980	37,067	2	1,083
Commercial (commercial and industrial)	7	645	364	1	7
Total commercial	64	79,274	74,190	6	2,492
Residential construction	63	22,012	20,782	11	2,028
Residential mortgage	43	6,574	6,285	4	324
Consumer installment	7	124	124	-	-
Total loans	177	\$ 107,984	\$ 101,381	21	\$ 4,844
As of March 31, 2010					
Commercial (secured by real estate)	36	\$ 30,367	\$ 30,264	1	\$ 747
Commercial construction	8	19,793	18,008	1	311
Commercial (commercial and industrial)	5	248	248	-	-
Total commercial	49	50,408	48,520	2	1,058
Residential construction	31	16,439	14,955	6	1,259
Residential mortgage	25	5,911	5,860	1	3

Consumer installment	6	1,331	1,331	-	-
Total loans	111	\$ 74,089	\$ 70,666	9	\$2,320

Risk Ratings

United categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. United uses the following definitions for its risk ratings:

Watch. Weakness exists that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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Substandard. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Doubtful. Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

Loss. Loans categorized as Loss have the same characteristics as Doubtful however probability of loss is certain. Loans classified as such are generally charged-off.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are generally new loans that have not yet been assigned a grade or loan payments that have not yet been posted to the loan accounting system.

As of March 31, 2011, December 31, 2010 and March 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands).

As of March 31, 2011	Pass	Watch	Substandard	Doubtful / Loss	Not Rated	Total
Commercial (secured by real estate)	\$1,466,583	\$82,715	\$140,299	\$-	\$2,557	\$1,692,154
Commercial construction	166,780	8,205	38,586	-	(394)	213,177
Commercial (commercial and industrial)	410,133	6,824	18,608	-	(4,092)	431,473
Total commercial	2,043,496	97,744	197,493	-	(1,929)	2,336,804
Residential construction	377,590	60,463	112,572	-	(1,007)	549,618
Residential mortgage	1,052,604	40,779	92,843	-	305	1,186,531
Consumer installment	114,401	626	3,829	-	2,563	121,419
Total loans	\$3,588,091	\$199,612	\$406,737	\$-	\$(68)	\$4,194,372

As of December 31, 2010

Commercial (secured by real estate)	\$1,475,992	\$82,762	\$201,688	\$-	\$982	\$1,761,424
Commercial construction	174,049	10,413	112,120	-	-	296,582
Commercial (commercial and industrial)	403,986	15,153	22,379	-	-	441,518
Total commercial	2,054,027	108,328	336,187	-	982	2,499,524
Residential construction	398,926	82,973	213,267	-	-	695,166
Residential mortgage	1,101,645	38,378	136,915	-	1,842	1,278,780
Consumer installment	122,056	650	4,872	-	3,078	130,656
Total loans	\$3,676,654	\$230,329	\$691,241	\$-	\$5,902	\$4,604,126

As of March 31, 2010

	\$1,492,357	\$74,964	\$196,711	\$-	\$1,172	\$1,765,204
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Commercial (secured by real estate)						
Commercial construction	245,795	11,833	98,862	-	698	357,188
Commercial (commercial and industrial)	331,798	6,711	39,671	70	2,081	380,331
Total commercial	2,069,950	93,508	335,244	70	3,951	2,502,723
Residential construction	542,627	114,747	300,882	238	1,878	960,372
Residential mortgage	1,203,330	45,996	138,720	136	2,088	1,390,270
Consumer installment	134,194	333	6,388	8	(2,243)	138,680
Total loans	\$3,950,101	\$254,584	\$781,234	\$452	\$5,674	\$4,992,045

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 6 – Foreclosed Property

Major classifications of foreclosed properties at March 31, 2011, December 31, 2010 and March 31, 2010 are summarized as follows (in thousands).

	March 31, 2011	December 31, 2010	March 31, 2010		
Commercial (secured by real estate)	\$ 15,500	\$ 25,893	\$ 22,694		
Commercial construction	11,568	17,808	14,435		
Total commercial	27,068	43,701	37,129		
Residential construction	67,406	91,385	82,095		
Residential mortgage	12,927	23,687	27,043		
Total foreclosed property	107,401	158,773	146,267		
Less valuation allowance	53,023	16,565	9,992		
Foreclosed property, net	\$ 54,378	\$ 142,208	\$ 136,275		
 Balance as a percentage of original loan unpaid principal	 30.3	 %	 64.4	 %	 65.9
					%

Activity in the valuation allowance for foreclosed property is presented in the following table (in thousands).

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of year	\$ 16,565	\$ 7,433
Additions charged to expense	48,585	4,579
Direct write downs	(12,127)	(2,020)
Balance at end of year	\$ 53,023	\$ 9,992

Expenses related to foreclosed assets include (in thousands).

	Three Months Ended March 31,	
	2011	2010
Net loss on sales	\$ 12,020	\$ 3,518
Provision for unrealized losses	48,585	4,579
Operating expenses, net of rental income	4,294	2,716
Total foreclosed property expense	\$ 64,899	\$ 10,813

Note 7 – Earnings Per Share

United is required to report on the face of the statement of operations, loss per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. During the three months ended March 31, 2011 and 2010, United accrued dividends on Series A preferred stock totaling \$3,000. In the first quarter of 2011 and 2010, United accrued dividends of \$2.60 million and \$2.57 million on Series B preferred stock. Additionally, in the first quarter of 2011, United accrued \$173,000 of dividends on Series D preferred stock. The preferred stock dividends were subtracted from net loss in order to arrive at net loss available to common shareholders. There is no dilution from potentially dilutive securities for the three months ended March 31, 2011 and 2010, due to the antidilutive effect of the net loss for those periods.

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The following table sets forth the computation of basic and diluted loss per share for the three months ended March 31, 2011 and 2010 (in thousands, except per share data).

	Three Months Ended	
	March 31,	
	2011	2010
Net loss available to common shareholders	\$ (145,264)	\$ (35,865)
Weighted average shares outstanding:		
Basic	92,330	94,390
Effect of dilutive securities		
Stock options	-	-
Warrants	-	-
Diluted	92,330	94,390
Loss per common share:		
Basic	\$ (1.57)	\$ (.38)
Diluted	\$ (1.57)	\$ (.38)

At March 31, 2011, United had a number of potentially dilutive securities outstanding including 182,661,503 shares issuable upon the expected conversion of Series F and Series G preferred stock. Such securities are mandatorily convertible to common stock upon shareholder approval. United is requesting shareholder approval at its annual shareholders' meeting on June 16, 2011. Other potentially dilutive securities include a warrant to purchase 1,099,542 common shares at \$12.28 per share issued to the U.S. Treasury in connection with the issuance of United's Series B preferred stock; 648,350 shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of \$20.00 per share; 3,326,543 shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$18.71; 77,075 shares issuable upon completion of vesting of restricted stock awards; 7,058,824 shares issuable upon exercise of warrants exercisable at \$4.25 per share, granted to Fletcher International in connection with the 2010 asset purchase and sale agreement; 12,380,952 shares issuable upon conversion of preferred stock if Fletcher International exercises its option to purchase \$65 million in convertible preferred stock, convertible at \$5.25 per share; 5,813,953 shares issuable upon exercise of warrants, exercisable at \$6.02 per share to be granted to Fletcher International upon exercise of its option to acquire preferred stock; and 7,755,631 shares issuable upon exercise of warrants owned by Elm Ridge Off Shore Fund and Elm Ridge Value Fund, exercisable at \$2.50 per share. Additionally, there were 48,000,000 shares potentially issuable under the indemnification provisions of United's first quarter private equity transaction if a change of ownership is deemed to have occurred under Section 382 of the Internal Revenue Code. Management does not believe there was an ownership change prior to, or in connection with, the private equity transaction completed in the first quarter. Therefore management does not expect the indemnity shares to be issued. A final determination on whether a change of ownership occurred and whether the indemnity shares will be issued as a result, is expected to be completed by June 30, 2011.

Note 8 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and through the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. United's derivative financial instruments are used to manage differences in the amount, timing, and duration of United's known or expected cash receipts and its known or expected cash payments principally related to United's loans and wholesale borrowings.

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The table below presents the fair value of United's derivative financial instruments as well as their classification on the consolidated balance sheet as of March 31, 2011, December 31, 2010 and March 31, 2010.

Derivatives designated as hedging instruments under ASC 815 Hedge Accounting (in thousands).

Interest Rate Products	Balance Sheet Location	Fair Value		
		March 31, 2011	December 31, 2010	March 31, 2010
Asset derivatives	Other assets	\$ -	\$ -	\$ 6,113

As of March 31, 2011, December 31, 2010 and March 31, 2010, United did not have any derivatives in a net liability position.

Cash Flow Hedges of Interest Rate Risk

United's objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United primarily uses interest rate swaps as part of its interest rate risk management strategy. For United's variable-rate loans, interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up front premium. United had no active derivative contracts outstanding at March 31, 2011 or December 31, 2010 that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated, and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During 2010, such derivatives were used to hedge the variable cash flows associated with existing prime-based, variable-rate loans. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2011 and 2010, \$1.30 million and \$522,000, respectively, in hedge ineffectiveness was recognized in other fee revenue.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest revenue as interest payments are received on United's prime-based, variable-rate loans. At March 31, 2011, the amount included in other comprehensive income represents deferred gains from terminated cash flow hedges where the forecasted hedging transaction is expected to remain effective over the remaining unexpired term of the original contract. Such gains are being deferred and recognized over the remaining life of the contract on a straight line basis. During the three months ended March 31, 2011, United accelerated the reclassification of \$1.30 million in gains from terminated positions as a result of forecasted transactions becoming probable not to occur. During the next twelve months, United estimates that an additional \$10.2 million of the deferred gains on terminated cash flow hedging positions will be reclassified as an increase to interest revenue.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in LIBOR, a benchmark interest rate. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the benchmark interest rate. Interest rate swaps designated as fair value hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. As of March 31, 2011 and December 31, 2010, United had no active derivatives designated as fair value hedges of interest rate risk.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related derivatives. During the three months ended March 31, 2010, United recognized net gains of \$88,000 related to ineffectiveness of the fair value hedging relationships. United also recognized a net reduction of interest expense of \$1.39 million for the three months ended March 31, 2010 related to United's fair value hedges, which includes net settlements on the derivatives. There were no active fair value hedges during the first quarter of 2011.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of United's derivative financial instruments on the consolidated statement of operations for the three months ended March 31, 2011 and 2010.

Derivatives in Fair Value Hedging Relationships (in thousands).

Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Hedged Item	
	2011	2010	2011	2010
Other fee revenue	\$ -	\$ (1,195)	\$ -	\$ 1,283

Derivatives in Cash Flow Hedging Relationships (in thousands).

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	
	2011	2010	Location	
			Interest revenue	\$2,923
			Other income	1,303
Interest rate products	\$-	\$1,475	Total	\$4,226
				\$6,012
				522
				\$6,534

Credit-risk-related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bi-lateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. At March 31, 2011, United had no active derivative positions and therefore no credit support agreements remained in effect.

Note 9 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock awards (also referred to as “nonvested stock” awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain option and restricted stock awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of March 31, 2011, approximately 1,276,000

additional awards could be granted under the plan. Through March 31, 2011, only incentive stock options, nonqualified stock options and restricted stock awards and units had been granted under the plan.

The following table shows stock option activity for the first three months of 2011.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2010	3,391,577	\$ 18.60		
Expired	(65,034)	12.98		
Outstanding at March 31, 2011	3,326,543	18.71	4.5	\$-
Exercisable at March 31, 2011	2,681,281	19.81	3.8	-

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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No options were granted during the first three months of 2011. The fair value of each option is estimated on the date of grant using the Black-Scholes model. Because United's option plan has not been in place long enough to gather sufficient information about exercise patterns to establish an expected life, United uses the formula provided by the SEC in SAB No. 107 to determine the expected life of options.

The weighted average assumptions used to determine the fair value of stock options are presented in the table below.

	Three Months Ended March 31,		
	2011	2010	
Expected volatility	NA	55.00	%
Expected dividend yield	NA	0.00	%
Expected life (in years)	NA	6.25	
Risk-free rate	NA	3.12	%

For 2010, expected volatility was determined using United's historical monthly volatility for over a period of 25 quarters ending December 31, 2009. Compensation expense relating to stock options of \$441,000 and \$662,000, was included in earnings for the three months ended March 31, 2011 and 2010, respectively. Deferred tax benefits of \$172,000 and \$266,000, respectively, were included in the determination of income tax benefit for the three-month periods ended March 31, 2011 and 2010. The amount of compensation expense for both periods was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that are expected to vest, which was then amortized over the vesting period. The forfeiture rate for options is estimated to be approximately 3% per year. No options were exercised during the first three months of 2011 or 2010.

The table below presents the activity in restricted stock awards for the first three months of 2011.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2010	116,082	\$ 11.94
Vested	(39,007)	10.38
Outstanding at March 31, 2011	77,075	12.73

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the three months ended March 31, 2011 and 2010, compensation expense of \$107,000 and \$170,000, respectively, was recognized related to restricted stock awards. The total intrinsic value of the restricted stock was \$180,000 at March 31, 2011.

As of March 31, 2011, there was \$1.73 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 1.6 years. The aggregate grant date fair value of options and restricted stock awards that vested during the

three months ended March 31, 2011, was \$423,000.

Note 10 – Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan (“DRIP”) that allows participants who already own United’s common stock to purchase additional shares directly from the company. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. United’s 401(k) retirement plan regularly purchases shares of United’s common stock directly from United. In addition, United has an Employee Stock Purchase Program (“ESPP”) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the three months ended March 31, 2011 and 2010, United issued 230,096 and 125,021 shares, respectively, and increased capital by \$375,000 and \$511,000, respectively, through these programs. The DRIP program has been suspended until 2012 when United expects to regain its S-3 filing status.

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United offers its common stock as an investment option in its deferred compensation plan. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. At March 31, 2011 and 2010, 397,138 and 262,002 shares, respectively, were issuable under the deferred compensation plan.

On February 22, 2011, United entered into a share exchange agreement (the "Share Exchange Agreement") with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively referred to as "Elm Ridge Parties"). Under the Share Exchange Agreement, the Elm Ridge Parties agreed to transfer to the Company 7,755,631 shares of the Company's common stock in exchange for 16,613 shares of the Company's cumulative perpetual preferred stock, Series D and warrants to purchase 7,755,631 common shares with an exercise price of \$2.50 per share that expires on August 22, 2013. This exchange transaction did not result in a net increase or decrease to total shareholder's equity for the quarter ended March 31, 2011.

During the first quarter of 2011, United entered into investment agreements (the "Investment Agreements") with Corsair Georgia, L.P. ("Corsair") and a group of institutional investors (the "Additional Investors"). United issued 17,338,497 of the Company's common stock for \$1.90 per share, 195,872 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the "Series F Preferred Stock"), and 151,185 shares of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the "Series G Preferred Stock"). Under the terms of the Investment Agreements and following receipt of required shareholder approvals, the Series F Preferred Stock will be mandatorily convertible into 103,090,506 shares of voting common stock and the Series G Preferred Stock will be mandatorily convertible into 79,570,997 shares of non-voting common stock. This private placement transaction resulted in an increase to shareholders' equity of \$363 million, net of \$17.5 million in issuance costs. Upon the conversion of the convertible preferred sock, Corsair will own approximately 22.5% of United's pro forma outstanding common stock. The Additional Investors will own approximately 47.2% of United's pro forma outstanding common stock.

Note 11 – Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 12 – Discontinued Operations

On March 31, 2010, United completed the sale of its consulting subsidiary, Brintech, Inc. ("Brintech"). The sales price was \$2.9 million with United covering certain costs related to the sale transaction resulting in a net, pre-tax gain of \$2.1 million. As a result of the sale, Brintech is presented in the consolidated financial statements as a discontinued operation with all revenue and expenses related to the sold operations deconsolidated from the consolidated statement of operations for all periods presented. The net results of operations from Brintech are reported on a separate line on the consolidated statement of operations titled "Loss from discontinued operations, net of income taxes." The gain from the sale, net of income taxes and selling costs, is presented on a separate line titled "Gain from sale of subsidiary, net of income taxes and selling costs."

Note 13 – Transaction with Fletcher International

On April 1, 2010, United entered into a securities purchase agreement with Fletcher International, Ltd. and the Bank entered into an asset purchase and sale agreement with Fletcher International, Inc. and certain affiliates thereof. Under the terms of the agreements, the Bank sold \$103 million in nonperforming commercial and residential mortgage loans and foreclosed properties to Fletcher's affiliates with a nominal aggregate sales price equal to the Bank's carrying

amount. The nonperforming assets sale transaction closed on April 30, 2010. The consideration for the sale consisted of \$20.6 million in cash and a loan for \$82.4 million. As part of the agreement, Fletcher received a warrant to acquire 7,058,824 shares of United's common stock at a price of \$4.25 per share. In accordance with the terms of the securities purchase agreement, Fletcher has the right during the next two years to purchase up to \$65 million in United's Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock pays a dividend equal to the lesser of 8% or LIBOR plus 4%. The Series C Convertible Preferred Stock is convertible by Fletcher into common stock at \$5.25 per share (12,380,952 shares). If Fletcher has not purchased all of the Series C Convertible Preferred Stock by May 31, 2011, it must pay United 5% of the commitment amount not purchased by such date, and it must pay United an additional 5% of the commitment amount not purchased by May 31, 2012. In addition, Fletcher will receive an additional warrant to purchase \$35 million in common stock at \$6.02 per share (5,813,953 shares) when it purchases the last \$35 million of Series C Convertible Preferred Stock. All of the warrants settle on a cashless exercise basis and the net shares to be delivered upon cashless exercise will be less than what would have been issuable if the warrant had been exercised for cash.

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All of the components of the transaction, including all equity instruments issued under the securities purchase agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of \$45.3 million on the transaction with Fletcher.

The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values (\$ in thousands, except per share amounts).

	Valuation Approach	Fair Value Hierarchy	Fair Value
Warrants Issued / Assets Transferred to Fletcher at Fair Value:			
Warrant to purchase \$30 million in common stock at \$4.25 per share	Black-Scholes	Level 3	\$17,577
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236
Fair value of equity instruments recognized in capital surplus			39,813
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655
Total nonperforming assets transferred			103,089
Total value of assets and equity instruments transferred			142,902
Less - Cash and Notes Receivable Received in Exchange at Fair Value:			
Cash down payment received from asset sale	NA	NA	20,618
Notes receivable (par value \$82,471, net of \$4,531 discount)	Discounted Cash Flows	Level 3	77,940
Total value of cash and notes receivable received			98,558
Fair value of assets and equity instruments transferred in excess of cash and notes received			44,344
Transaction fees			1,005
Loss recognized on Fletcher transaction			\$45,349

The \$17.6 million value of the warrant to purchase \$30 million in common stock was determined as of April 1, 2010, the date the terms were agreed to. The following modeling assumptions were used: dividend yield - 0%; risk-free interest rate - 3.89%; current stock price - \$4.77; term - 9 years; and volatility - 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.

The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and

incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.

The \$103 million of nonperforming assets sold were transferred at United's carrying amount which had previously been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.

The \$82.5 million of notes receivable were recorded at their estimated fair value of \$77.9 million, net of a \$4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing time for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 14 – Assets and Liabilities Measured at Fair Value

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of March 31, 2011, December 31, 2010 and March 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

March 31, 2011	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale:				
U.S. Government agencies	\$-	\$93,778	\$-	\$93,778
State and political subdivisions	-	27,833	-	27,833
Mortgage-backed securities	-	1,410,411	4,434	1,414,845
Other	-	101,688	350	102,038
Deferred compensation plan assets	3,107	-	-	3,107
Total	\$3,107	\$1,633,710	\$4,784	\$1,641,601
Liabilities				
Deferred compensation plan liability	\$3,107	\$-	\$-	\$3,107
Total liabilities	\$3,107	\$-	\$-	\$3,107
December 31, 2010	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale:				
U.S. Government agencies	\$-	\$98,480	\$-	\$98,480
State and political subdivisions	-	28,442	-	28,442
Mortgage-backed securities	-	986,074	4,934	991,008
Other	-	106,137	350	106,487
Deferred compensation plan assets	3,252	-	-	3,252
Total	\$3,252	\$1,219,133	\$5,284	\$1,227,669
Liabilities				
Deferred compensation plan liability	\$3,252	\$-	\$-	\$3,252
Total liabilities	\$3,252	\$-	\$-	\$3,252
March 31, 2010	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale:				
U.S. Government agencies	\$-	\$296,578	\$10,000	\$306,578
State and political subdivisions	-	64,544	-	64,544

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Mortgage-backed securities	-	1,115,153	27,026	1,142,179
Other	-	12,238	1,050	13,288
Deferred compensation plan assets	3,420	-	-	3,420
Derivative financial instruments	-	6,113	-	6,113
Total	\$3,420	\$1,494,626	\$38,076	\$1,536,122
Liabilities				
Deferred compensation plan liability	\$3,420	\$-	\$-	\$3,420
Total liabilities	\$3,420	\$-	\$-	\$3,420

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table shows a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs that are classified as Level 3 values (in thousands).

	Securities Available for Sale
Balance at December 31, 2010	\$ 5,284
Amounts included in earnings	(8)
Purchases, sales, issuances, settlements, maturities, paydowns, net	(492)
Balance at March 31, 2011	\$ 4,784

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United's assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2011, December 31, 2010 and March 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

	Level 1	Level 2	Level 3	Total
March 31, 2011				
Assets				
Loans	\$-	\$-	\$34,241	\$34,241
Loans held for sale	-	-	80,629	80,629
Foreclosed properties	-	-	53,102	53,102
Total	\$-	\$-	\$167,972	\$167,972
December 31, 2010				
Assets				
Loans	\$-	\$-	\$106,904	\$106,904
Foreclosed properties	-	-	85,072	85,072
Total	\$-	\$-	\$191,976	\$191,976
March 31, 2010				
Assets				
Loans	\$-	\$-	\$175,166	\$175,166
Foreclosed properties	-	-	93,060	93,060
Total	\$-	\$-	\$268,226	\$268,226

Assets and Liabilities Not Measured at Fair Value

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a

market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

The short maturity of United's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased, repurchase agreements and other short-term borrowings. The fair value of securities available for sale equals the balance sheet value. As of March 31, 2010 the fair value of interest rate contracts used for balance sheet management was an asset of approximately \$6.11 million. United did not have any active derivative contracts outstanding at March 31, 2011 or December 31, 2010.

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Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect the premium or discount on any particular financial instrument that could result from the sale of United's entire holdings. Because no ready market exists for a significant portion of United's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have significant effect on fair value estimates and have not been considered in the estimates.

Off-balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

The carrying amount and fair values for other financial instruments that are not measured at fair value in United's balance sheet at March 31, 2011, December 31, 2010, and March 31, 2010 are as follows (in thousands).

	March 31, 2011		December 31, 2010		March 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:						
Securities held to maturity	\$245,430	\$248,361	\$265,807	\$267,988	\$-	\$-
Loans, net	4,061,251	3,933,549	4,429,431	4,196,142	4,818,111	4,477,941
Liabilities:						
Deposits	6,597,748	6,588,398	6,469,172	6,481,867	6,487,588	6,513,488
Federal Home Loan Bank advances	55,125	58,965	55,125	59,498	114,303	120,422
Long-term debt	150,166	124,603	150,146	93,536	150,086	119,400

Note 15 – Subsequent Event

On April 18, 2011, United completed the bulk sale of \$80.6 million of loans that were reported as held for sale at March 31, 2011. The proceeds from the bulk sale were \$86.5 million which will result in an allowance for loan loss recovery in the second quarter of 2011.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

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

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

- the condition of the banking system and financial markets;
 - our ability to become profitable;
- the results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy was to continue to deteriorate;
 - our ability to raise capital as may be necessary;
 - our ability to maintain liquidity or access other sources of funding;
 - changes in the cost and availability of funding;
 - the success of the local economies in which we operate;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
 - changes in prevailing interest rates may negatively affect our net income and the value of our assets;
 - the accounting and reporting policies of United;
 - if our allowance for loan losses is not sufficient to cover actual loan losses;
- we may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
 - our ability to fully realize our deferred tax asset balances;
 - competition from financial institutions and other financial service providers;
- the United States Department of Treasury may change the terms of our Series B Preferred Stock;
 - risks with respect to future expansion and acquisitions;
 - conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
 - the failure of other financial institutions;
- a special assessment that may be imposed by the Federal Deposit Insurance Corporation (“FDIC”) on all FDIC-insured institutions in the future, similar to the assessment in 2009 that decreased our earnings; and
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that occur, or any such proceedings or enforcement actions that is more

severe than we anticipate.

All written or oral forward-looking statements attributable to us or any person acting on our behalf made after the date of this prospectus supplement are expressly qualified in their entirety by the risk factors and cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2010.

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Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United Community Bank, Inc. (“United”) and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

United is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At March 31, 2011, United had total consolidated assets of \$7.97 billion, total loans of \$4.19 billion, excluding the loans acquired from Southern Community Bank (“SCB”) that are covered by loss sharing agreements and therefore have a different risk profile and loans that were classified as held for sale that have been written down to the expected proceeds from sales based on indicative bids. United also had total deposits of \$6.60 billion and stockholders’ equity of \$850 million.

United’s activities are primarily conducted by its wholly owned Georgia banking subsidiary (the “Bank”). The Bank operations are conducted under a community bank model that operates 27 “community banks” with local bank presidents and boards in north Georgia, the Atlanta-Sandy Springs-Marietta, Georgia metropolitan statistical area (the “Atlanta MSA”), the Gainesville, Georgia metropolitan statistical area (the “Gainesville MSA”), coastal Georgia, western North Carolina, and east Tennessee. On March 31, 2010, United sold Brintech, Inc., (“Brintech”) a consulting services firm for the financial services industry, resulting in a pre-tax gain of \$2.1 million, net of selling costs. The income statements for all periods presented reflect Brintech as a discontinued operation with revenue, expenses and income taxes related to Brintech removed from revenue, expenses, income taxes and loss from continuing operations. The balance sheet and cash flow statement have not been adjusted to reflect Brintech as a discontinued operation as Brintech’s assets and contribution to cash flows were not material.

Operating loss from continuing operations and operating loss from continuing operations per diluted share are non-GAAP performance measures. United’s management believes that operating performance is useful in analyzing United’s financial performance trends since it excludes items that are non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 34.

United reported a net operating loss from continuing operations of \$142 million for the first quarter of 2011. This compared to a net operating loss from continuing operations of \$34.5 million for the first quarter of 2010. Diluted operating loss from continuing operations per common share was \$1.57 for the first quarter of 2011, compared to a diluted operating loss from continuing operations per common share of \$.39 for the first quarter of 2010. The first quarter of 2011 operating loss reflects the Board of Director’s decision to adopt the Problem Asset Disposition Plan described below under “Recent Developments” to quickly dispose of problem assets following United’s successful Private Placement described below under “Recent Developments.”

United’s operating provision for loan losses was \$190 million for the three months ended March 31, 2011, compared to \$75.0 million for the same period in 2010. During the first quarter of 2011, performing substandard loans with a pre-charge down carrying amount of \$166 million and nonperforming loans with a pre-charge down carrying amount of \$101 million were collectively written down to the expected sales proceeds of \$80.6 million, in conjunction with the Bulk Loan Sale described below under “Recent Developments.” Net charge-offs for the first quarter of 2011 were \$232 million, of which \$186 million related to the transfer of loans to the held for sale classification and \$26.1 million of charge-offs for other first quarter bulk loan sales and foreclosure write downs for accelerated disposition in accordance with the Problem Asset Disposition Plan. As of March 31, 2011, United’s allowance for loan losses of \$133 million, or 3.17% of loans, compared to \$174 million, or 3.48% of loans, at March 31, 2010. Nonperforming assets of \$138 million, which excludes assets of SCB that are covered by loss sharing agreements with the FDIC,

decreased to 1.73% of total assets at March 31, 2011, compared to 4.32% as of December 31, 2010 and 5.32% as of March 31, 2010. The decrease in this ratio was due to the execution of the Problem Asset Disposition Plan and a general improving trend in credit quality indicators.

Taxable equivalent net interest revenue was \$56.4 million for the first quarter of 2011, compared to \$61.3 million for the same period of 2010. The decrease in net interest revenue was primarily the result of lower levels of loans. Average loans for the quarter declined \$574 million from the first quarter of 2010. Net interest margin decreased from 3.49% for the three months ended March 31, 2010 to 3.30% for the same period in 2011. Interest reversals on performing loans that were moved to held for sale accounted for 11 basis points of the 19 basis points decrease. Over the past year, United has maintained above normal levels of liquidity. The level of excess liquidity peaked in the first quarter of 2011 and lowered the margin by approximately 49 basis points. Excess liquidity in the first quarter of 2010 lowered the margin by approximately 18 basis points.

Operating fee revenue increased \$172,000, or 1%, from the first quarter of 2010. The increase was primarily attributable to the acceleration of deferred gains related to the ineffectiveness of terminated cash flow hedges. This helped to offset a decline in service charges and fees, which were down \$727,000, due to regulatory changes requiring customer consent prior to utilizing United's overdraft services.

For the first quarter of 2011, operating expenses of \$115 million were up \$60.5 million from the first quarter of 2010. The increase was primarily due to an increase in foreclosed property costs, in anticipation of the Bulk Loan Sale and other accelerated asset dispositions described below under "Recent Developments." Foreclosed property costs were up \$54.1 million from the first quarter of 2010. Professional fees were \$1.39 million higher in the first quarter of 2011 compared to the same period last year, primarily due to fees related to the Private Placement and Bulk Loan Sale. In addition, FDIC assessments and other regulatory charges increased \$1.79 million, or 49%, from the prior year as a result of a higher assessment rate and a higher level of insured deposits.

Recent Developments

On February 22, 2011, the Company entered into a share exchange agreement with Elm Ridge Offshore Master Fund, Ltd. and Elm Ridge Value Partners, L.P. (collectively, the “Elm Ridge Parties”). Under the share exchange agreement, the Elm Ridge Parties agreed to transfer to the Company 7,755,631 shares of the Company’s common stock in exchange for 16,613 shares of the Company’s cumulative perpetual preferred stock, Series D and warrants to purchase 7,755,631 common shares. See Note 10 to the consolidated financial statements for further details of the share exchange agreement.

During the first quarter of 2011, United announced its plans to sell \$380 million of common stock in a private placement to a group of investors (the “Private Placement”). United entered into investment agreements (the “Investment Agreements”) with Corsair Georgia, L.P. and a group of institutional investors (collectively, the “Investors”) and closed the Private Placement on March 30, 2011. Pursuant to the Private Placement, the Investors purchased and United issued 17,338,497 of the Company’s existing common stock for \$1.90 per share, \$196 million of mandatorily convertible cumulative non-voting perpetual preferred stock, Series F (the “Series F Preferred Stock”), and \$151 million of mandatorily convertible cumulative non-voting perpetual preferred stock, Series G (the “Series G Preferred Stock”). Under the terms of the Private Placement Agreement and following receipt of required shareholder approvals, the Series F Preferred Stock will be mandatorily convertible into 103,090,506 shares of voting common stock and the Series G Preferred Stock will be mandatorily convertible into 79,570,997 shares of non-voting common stock. Following such conversion at \$1.90 per common share, the Investors will own an aggregate of 120,429,003 shares of common stock and 79,570,997 shares of non-voting common stock, or 69.7% of the Company’s pro forma outstanding common stock. The Private Placement resulted in an increase to shareholders’ equity of \$363 million.

Also during the first quarter of 2011, the Board of Directors approved a plan to sell approximately \$293 million in substandard and nonperforming loans, and to accelerate the disposition of approximately \$142 million in foreclosed properties (the “Problem Asset Disposition Plan”). The substandard and nonperforming loans were sold for an aggregate purchase price of approximately \$86.5 million by the Bank in a bulk transaction (the “Bulk Loan Sale”) on April 18, 2011 pursuant to an asset purchase and sale agreement (the “Asset Purchase Agreement”) entered into by the Bank, CF Southeast LLC (“CF Southeast”) and CF Southeast Trust 2011-1 (“CF Trust” and together with CF Southeast, the “Purchasers”). United plans to sell substantially all of the foreclosed properties in the second and third quarters of 2011.

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and conform to general practices within the banking industry. The more critical accounting and reporting policies include United’s accounting for the allowance for loan losses, fair value measurements, and income taxes. In particular, United’s accounting policies related to allowance for loan losses, fair value measurements and income taxes involve the use of estimates and require significant judgment to be made by management. Different assumptions in the application of these policies could result in material changes in United’s consolidated financial position or consolidated results of operations. See “Asset Quality and Risk Elements” herein for additional discussion of United’s accounting methodologies related to the allowance for loan losses.

GAAP Reconciliation and Explanation

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: operating provision for loan losses, operating fee revenue, operating revenue, operating expense, operating (loss) income from continuing operations, operating (loss) income, operating earnings (loss) from continuing operations per

share, operating earnings (loss) per share, operating earnings (loss) from continuing operations per diluted share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 34.

Discontinued Operations

Effective March 31, 2010, United sold its Brintech subsidiary. As a result, the operations of Brintech are being accounted for as a discontinued operation. All revenue, including the gain from the sale, expenses and income taxes relating to Brintech have been deconsolidated from the consolidated statement of operations and are presented on one line titled "Loss from discontinued operations" for all periods presented. Because Brintech's assets, liabilities and cash flows were not material to the consolidated balance sheet and statement of cash flows, no such adjustments have been made to those financial statements.

Transaction with Fletcher International

Description of Transaction

On April 1, 2010, the Bank entered into an asset purchase and sale agreement (the "Asset Purchase Agreement") with Fletcher International Inc. ("Fletcher Inc.") and five affiliated limited liability companies ("LLCs") formed by Fletcher Inc. for the purpose of acquiring nonperforming assets under the Asset Purchase Agreement. United has no ownership interest in the LLCs. The asset sale transaction was completed on April 30, 2010 with the Bank transferring nonperforming commercial and residential construction loans and foreclosed properties having a carrying value of \$103 million in exchange for cash of \$20.6 million and notes receivable for \$82.5 million. The loans accrue interest at a fixed rate of 3.5% and mature in five years. Principal and interest payments will be made quarterly based on a 30-year amortization schedule. Fletcher Inc. also contributed cash and securities to the LLCs equal to 17.5% of the purchase price to pre-fund the estimated carrying costs of the assets for approximately three years. These funds are held in escrow as additional collateral on the loans and cannot be removed by Fletcher Inc. without United's consent. The securities that can be held by the LLCs are marketable equity securities and funds managed by Fletcher affiliates. Carrying costs include debt service payments, servicing fees and other direct costs associated with holding and managing the underlying properties.

Also on April 1, 2010, United and Fletcher International Ltd ("Fletcher Ltd", together with Fletcher Inc. and their affiliates, "Fletcher") entered into a securities purchase agreement (the "Securities Purchase Agreement") pursuant to which Fletcher Ltd. agreed to purchase from United, and United agreed to issue and sell to Fletcher Ltd., 65,000 shares of United's Series C convertible preferred stock, par value \$1.00 per share (the "Convertible Preferred Stock"), at a purchase price of \$1,000 per share, for an aggregate purchase price of \$65 million. The Convertible Preferred Stock will bear interest at an annual rate equal to the lesser of 8% or LIBOR + 4%. If all conditions precedent to Fletcher Ltd.'s obligations to purchase the Convertible Preferred Stock have been satisfied and Fletcher Ltd. has not purchased all of the Convertible Preferred Stock by May 26, 2011, it must pay United 5% of the commitment amount not purchased by that date, and it must also pay United an additional 5% of any commitment amount not purchased by May 26, 2012.

The Convertible Preferred Stock is redeemable by Fletcher Ltd. at any time into common stock or non-voting Common Stock Equivalent Junior Preferred Stock ("Junior Preferred Stock") of United, at an equivalent price of \$5.25 per share of common stock (equal to 12,380,952 shares of common stock), subject to certain adjustments. After May 26, 2015, if the closing stock price for United's common stock is above \$12.04, United has the right to require conversion and it is United's intent to convert all of the then outstanding Convertible Preferred Stock into an equivalent amount of common stock or Junior Preferred Stock.

The Securities Purchase Agreement provides that United shall not effect any conversion or redemption of the Convertible Preferred Stock, and Fletcher Ltd. shall not have the right to convert or redeem any portion of the Convertible Preferred Stock, into common stock to the extent such conversion or redemption would result in aggregate issuances to Fletcher Ltd. in excess of 9.75% of the number of shares of common stock that would be

outstanding after giving effect to such conversion or redemption. In the event that United cannot effect a conversion or redemption of the Convertible Preferred Stock into common stock due to this limit, the conversion or redemption shall be effected into an equal number of shares of Junior Preferred Stock.

Concurrently with the payment of the \$10 million deposit under the Asset Purchase Agreement by Fletcher, United granted a warrant to Fletcher to purchase Junior Preferred Stock. The warrant was initially equal to \$15 million and was increased to \$30 million upon the completion of the asset sale pursuant to the Asset Purchase Agreement. An additional \$35 million warrant will be issued on a dollar for dollar basis by the aggregate dollar amount of the Convertible Preferred Stock purchased under the Securities Purchase Agreement in excess of \$30 million. The \$30 million warrant price is equivalent to \$4.25 per common share (cash exercise equal to 7,058,824 shares of common stock). The \$35 million warrant price is equivalent to \$6.02 per common share (cash exercise equal to 5,813,953 shares of common stock). The warrants may only be exercised by net share settlement (cashless exercise) and are exercisable for nine years from April 1, 2010, subject to limited extension upon certain events specified in the warrant agreement. All of the warrants settle on a cashless basis and the net shares to be issued to Fletcher Ltd. upon exercise of the warrants will be less than the total shares that would have been issuable if the warrants had been exercised for cash payments.

Also, as part of the transaction, United and Fletcher entered into a servicing agreement whereby United will act as servicer of the nonperforming assets for Fletcher in exchange for a servicing fee of 20 basis points. Because the servicing arrangement is considered a normal servicing arrangement and the fee is appropriate for the services provided, United did not recognize a servicing asset or liability related to the servicing agreement.

Accounting Treatment

Although the Asset Purchase Agreement and the Securities Purchase Agreement are two separate agreements, they were accounted for as part of one transaction because they were entered into simultaneously and the Securities Purchase Agreement was dependent upon the sale of nonperforming assets. United evaluated this transaction to determine whether the transfer should be accounted for as a sale or a secured borrowing and whether the Fletcher LLCs should be consolidated with United. When evaluating whether the transfer should be accounted for as a sale, United primarily evaluated whether control had been surrendered, the rights of Fletcher to exchange and pledge the assets, and whether United retains effective control, which included evaluating any continuing involvement in the assets. Based on the evaluation, the transfer of assets under the Asset Purchase Agreement meets the definition as a sale under current accounting standards and was accounted for as such. United further evaluated whether the Fletcher LLCs should be consolidated which included evaluating whether United has a controlling financial interest and is therefore the primary beneficiary. This evaluation principally included determining whether United directs the activities that have the most significant impact on the LLCs economic performance and whether United has an obligation to absorb losses or the right to receive benefits that could be significant to the LLCs. Based on that evaluation, the LLCs have not been included as part of the consolidated group of subsidiaries in United's consolidated financial statements.

In addition to evaluating the accounting for the transfer of assets, United considered whether the warrant and the option to purchase convertible preferred stock with an additional warrant should be accounted for as liabilities or equity instruments. In making this evaluation, United considered whether Fletcher or any subsequent holders of the instruments could require settlement of the instruments in cash or other assets rather than common or preferred stock. Because the transaction was structured so that the warrants and option to purchase convertible preferred stock and the additional warrant can only be settled through the issuance of common or preferred stock, United concluded that the warrant and option to purchase convertible preferred stock with an additional warrant should be accounted for as equity instruments.

All of the components of the transaction, including all equity instruments issued under the Securities Purchase Agreement and the notes receivable received as consideration from the sale of nonperforming assets were recorded at fair value. Because the value of the equity instruments and assets exchanged in the transaction exceeded the value of the cash and notes receivable received, United recorded a loss of \$45.3 million on the transaction with Fletcher.

The table below presents a summary of the assets and equity instruments transferred and received at their respective fair values (\$ in thousands, except per share amounts).

	Valuation Approach	Fair Value Hierarchy	Fair Value	
Warrants Issued / Assets Transferred to Fletcher at Fair Value:				
Warrant to purchase \$30 million in common stock at \$4.25 per share	Black-Scholes	Level 3	\$ 17,577	(1)
Option to purchase convertible preferred stock and warrant	Monte-Carlo Simulation	Level 3	22,236	(2)
Fair value of equity instruments recognized in capital surplus			39,813	
Foreclosed properties transferred under Asset Purchase Agreement	Appraised Value	Level 2	33,434	(3)
Nonperforming loans transferred under Asset Purchase Agreement	Collateral Appraised Value	Level 2	69,655	(3)

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Total nonperforming assets transferred			103,089	
Total value of assets and equity instruments transferred			142,902	
Cash and Notes Receivable Received in Exchange at Fair Value:				
Cash down payment received from asset sale	NA	NA	20,618	
Notes receivable (par value \$82,471, net of \$4,531 discount)	Discounted Cash Flows	Level 3	77,940	(4)
Total value of cash and notes receivable received			98,558	
Fair value of assets and equity instruments transferred in excess of cash and notes received			44,344	
Transaction fees			1,005	
Loss recognized on Fletcher transaction			45,349	
Tax benefit			(15,367)	
After tax loss			\$ 29,982	

Notes

- (1) The \$17.6 million value of the \$30 million warrant was determined as of April 1, 2010, the date the terms were agreed to and signed. The following modeling assumptions were used: dividend yield - 0%; risk-free interest rate - 3.89%; current stock price - \$4.77; term - 9 years; and volatility - 33%. Although most of the modeling assumptions were based on observable data, because of the subjectivity involved in estimating expected volatility, the valuation is considered Level 3.
- (2) The \$22.2 million value of the option to purchase convertible preferred stock and warrant was determined by an independent valuation firm using a Monte Carlo Simulation method appropriate for valuing complex securities with derivatives. The model uses 50,000 simulations of daily stock price paths using geometric Brownian motion and incorporates in a unified way all conversion, exercise and contingency conditions. Because of the significant assumptions involved in the valuation process, not all of which were based on observable data, the valuation is considered to be Level 3.
- (3) The \$103 million of nonperforming assets sold were transferred at United's carrying value which had been written down to appraised value. Because the appraisals were based on sales of similar assets (observable data), the valuation is considered to be Level 2.
- (4) The \$82.5 million of notes receivable were recorded at their estimated fair value of \$77.9 million, net of a \$4.5 million interest discount, which was determined based on discounted expected cash flows over the term at a rate commensurate with the credit risk inherent in the notes. The contractual rate on the notes is fixed at 3.5% for five years. The discount rate used for purposes of determining the fair value of the notes was 5.48% based on the terms, structure and risk profile of the notes. Note prepayments were estimated based on the expected marketing times for the underlying collateral since the notes require that principal be reduced as the underlying assets are sold. The valuation is considered Level 3 due to estimated prepayments which have a significant impact on the value and are not based on observable data.

Table 1 - Financial Highlights
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2011				2010		First Quarter
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2011-2010 Change	
INCOME SUMMARY							
Interest revenue	\$ 75,965	\$ 81,215	\$ 84,360	\$ 87,699	\$ 89,849		
Interest expense	19,573	21,083	24,346	26,072	28,570		
Net interest revenue	56,392	60,132	60,014	61,627	61,279	(8) %	
Operating provision for loan losses (1)	190,000	47,750	50,500	61,500	75,000		
Operating fee revenue (2)	11,838	12,442	12,861	11,579	11,666	1	
Total operating revenue (1)(2)	(121,770)	24,824	22,375	11,706	(2,055)		
Operating expenses (3)	115,271	64,918	64,906	58,308	54,820	110	
Loss on sale of nonperforming assets	-	-	-	45,349	-		
Operating loss from continuing operations before taxes	(237,041)	(40,094)	(42,531)	(91,951)	(56,875)	(317)	
Operating income tax benefit	(94,555)	(16,520)	(16,706)	(32,419)	(22,417)		
Net operating loss from continuing operations (1)(2)(3)	(142,486)	(23,574)	(25,825)	(59,532)	(34,458)	(314)	
Noncash goodwill impairment charges	-	-	(210,590)	-	-		
Partial reversal of fraud loss provision, net of tax expense	-	7,179	-	-	-		
Loss from discontinued operations	-	-	-	-	(101)		
Gain from sale of subsidiary, net of income taxes and selling costs	-	-	-	-	1,266		
Net loss	(142,486)	(16,395)	(236,415)	(59,532)	(33,293)	(328)	
Preferred dividends and discount accretion	2,778	2,586	2,581	2,577	2,572		
Net loss available to common shareholders	\$ (145,264)	\$ (18,981)	\$ (238,996)	\$ (62,109)	\$ (35,865)		

PERFORMANCE
MEASURES

Per common share:

Diluted operating loss from continuing operations (1)(2)(3)	\$ (1.57)	\$ (.28)	\$ (.30)	\$ (.66)	\$ (.39)	(303)
Diluted loss from continuing operations	(1.57)	(.20)	(2.52)	(.66)	(.39)	(303)
Diluted loss	(1.57)	(.20)	(2.52)	(.66)	(.38)	(313)
Book value	2.96	4.84	5.14	7.71	7.95	(63)
Tangible book value (5)	2.89	4.76	5.05	5.39	5.62	(49)

Key performance ratios:

Return on equity (4)(6)	(147.11) %	(17.16) %	(148.04) %	(35.89) %	(20.10) %
Return on assets (6)	(7.61)	(.89)	(12.47)	(3.10)	(1.70)
Net interest margin (6)	3.30	3.58	3.57	3.60	3.49
Operating efficiency ratio from continuing operations (2)(3)	169.08	89.45	89.38	141.60	75.22
Equity to assets	8.82	8.85	11.37	11.84	11.90
Tangible equity to assets (5)	8.73	8.75	9.19	9.26	9.39
Tangible common equity to assets (5)	5.51	6.35	6.78	6.91	7.13
Tangible common equity to risk-weighted assets (5)	6.40	9.05	9.60	9.97	10.03

ASSET QUALITY *

Non-performing loans	\$ 83,769	\$ 179,094	\$ 217,766	\$ 224,335	\$ 280,802
Foreclosed properties	54,378	142,208	129,964	123,910	136,275
Total non-performing assets (NPAs)	138,147	321,302	347,730	348,245	417,077
Allowance for loan losses	133,121	174,695	174,613	174,111	173,934
Operating net charge-offs (1)	231,574	47,668	49,998	61,323	56,668
Allowance for loan losses to loans	3.17 %	3.79 %	3.67 %	3.57 %	3.48 %
Operating net charge-offs to average loans (1)(6)	20.71	4.03	4.12	4.98	4.51
NPAs to loans and foreclosed properties	3.25	6.77	7.11	6.97	8.13
NPAs to total assets	1.73	4.32	4.96	4.55	5.32

AVERAGE
BALANCES (\$ in
millions)

Loans	\$ 4,599	\$ 4,768	\$ 4,896	\$ 5,011	\$ 5,173	(11)
Investment securities	1,625	1,354	1,411	1,532	1,518	7
Earning assets	6,902	6,680	6,676	6,854	7,085	(3)
Total assets	7,595	7,338	7,522	7,704	7,946	(4)
Deposits	6,560	6,294	6,257	6,375	6,570	-
Shareholders' equity	670	649	855	912	945	(29)
Common shares - basic (thousands)	92,330	94,918	94,679	94,524	94,390	
Common shares - diluted (thousands)	92,330	94,918	94,679	94,524	94,390	

AT PERIOD END (\$ in
millions)

Loans *	\$ 4,194	\$ 4,604	\$ 4,760	\$ 4,873	\$ 4,992	(16)
Investment securities	1,884	1,490	1,310	1,488	1,527	23
Total assets	7,974	7,443	7,013	7,652	7,837	2
Deposits	6,598	6,469	5,999	6,330	6,488	2
Shareholders' equity	850	636	662	904	926	(8)
Common shares outstanding (thousands)	104,516	94,685	94,433	94,281	94,176	

(1) Excludes the partial reversal of a previously established provision for fraud-related loan losses of \$11.8 million, net of tax expense of \$4.6 million in the fourth quarter of 2010. Operating charge-offs also exclude the \$11.8 million related partial recovery of the previously charged off amount. (2) Excludes revenue generated by discontinued operations in the first quarter of 2010. (3) Excludes the goodwill impairment charge of \$211 million in the third quarter of 2010 and expenses relating to discontinued operations in the first quarter of 2010. (4) Net loss available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (5) Excludes effect of acquisition related intangibles and associated amortization. (6) Annualized.

* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

Table 1 Continued - Operating Earnings to GAAP Earnings

Reconciliation

Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2011		2010		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenue reconciliation					
Interest revenue - taxable equivalent	\$75,965	\$81,215	\$84,360	\$87,699	\$89,849
Taxable equivalent adjustment	(435)	(497)	(511)	(500)	(493)