UNITED COMMUNITY BANKS INC
Form 10-Q
August 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2014

OR

o 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 001-35095

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 x NO o

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

YES x NO o

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

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

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

YES o NO x

Common stock, par value $1 per share 50,062,635 shares voting and 10,080,787 shares non-voting outstanding as of July 31, 2014.

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Part I – Financial Information
Item 1 – Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2014	2013	2014	2013
Interest revenue:				
Loans, including fees	$ 48,261	$ 50,730	$ 95,949	$ 101,665
Investment securities, including tax exempt of $193, $210, $381 and $422	12,165	10,074	23,772	20,018
Deposits in banks and short-term investments	980	916	1,823	1,786
Total interest revenue	61,406	61,720	121,544	123,469
Interest expense:				
Deposits:				
NOW	411	419	851	873
Money market	757	534	1,320	1,096
Savings	21	36	41	72
Time	2,018	2,950	3,789	6,241
Total deposit interest expense	3,207	3,939	6,001	8,282
Short-term borrowings	908	522	1,748	1,038
Federal Home Loan Bank advances	80	30	138	49
Long-term debt	2,638	2,666	5,272	5,328
Total interest expense	6,833	7,157	13,159	14,697
Net interest revenue	54,573	54,563	108,385	108,772
Provision for credit losses	2,200	48,500	4,700	59,500
Net interest revenue after provision for credit losses	52,373	6,063	103,685	49,272
Fee revenue:				
Service charges and fees	8,527	7,972	16,425	15,375
Mortgage loan and other related fees	1,877	3,003	3,231	5,658
Brokerage fees	1,245	1,063	2,422	1,830
Securities gains, net	4,435	—	4,652	116
Loss from prepayment of debt	(4,446)	—	(4,446)	—
Other	2,505	3,905	4,035	5,875
Total fee revenue	14,143	15,943	26,319	28,854
Total revenue	66,516	22,006	130,004	78,126
Operating expenses:				
Salaries and employee benefits	24,287	24,734	48,683	48,326
Communications and equipment	3,037	3,468	6,276	6,514
Occupancy	3,262	3,449	6,640	6,816
Advertising and public relations	1,139	1,037	1,765	1,975
Postage, printing and supplies	804	894	1,580	1,757

Professional fees	2,172	2,499	3,599	4,865
Foreclosed property	102	5,151	218	7,484
FDIC assessments and other regulatory charges	1,425	2,505	2,778	5,010
Amortization of intangibles	361	491	748	1,196
Other	3,943	4,595	7,295	8,650
Total operating expenses	40,532	48,823	79,582	92,593
Net income (loss) before income taxes	25,984	(26,817)	50,422	(14,467)
Income tax expense (benefit)	9,627	(256,781)	18,665	(256,196)
Net income	16,357	229,964	31,757	241,729
Preferred stock dividends and discount accretion	—	3,055	439	6,107
Net income available to common shareholders	$ 16,357	$ 226,909	$ 31,318	$ 235,622
Earnings per common share:				
Basic	$ .27	$ 3.90	$ .52	$ 4.05
Diluted	.27	3.90	.52	4.05
Weighted average common shares outstanding:				
Basic	60,712	58,141	60,386	58,111
Diluted	60,714	58,141	60,388	58,111

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
2014	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$25,984	$(9,627)	$16,357	$50,422	$(18,665)	$31,757
Other comprehensive income:						
Unrealized gains (losses) on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	11,184	(4,216)	6,968	15,053	(5,657)	9,396
Reclassification adjustment for gains included in net income	(4,435)	1,725	(2,710)	(4,652)	1,817	(2,835)
Net unrealized gains (losses)	6,749	(2,491)	4,258	10,401	(3,840)	6,561
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	409	(154)	255	739	(277)	462
Net unrealized gains	409	(154)	255	739	(277)	462
Amounts reclassified into net income on cash flow hedges	573	(223)	350	670	(261)	409
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	(3,547)	1,380	(2,167)	(6,379)	2,482	(3,897)
Net unrealized losses	(2,974)	1,157	(1,817)	(5,709)	2,221	(3,488)
Net actuarial gain on defined benefit pension plan	—	—	—	296	(115)	181
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	92	(36)	56	183	(71)	112
Net defined benefit pension plan activity	92	(36)	56	479	(186)	293
Total other comprehensive income	4,276	(1,524)	2,752	5,910	(2,082)	3,828
Comprehensive income	$30,260	$(11,151)	$19,109	$56,332	$(20,747)	$35,585
2013						
Net (loss) income	$(26,817)	$256,781	$229,964	$(14,467)	$256,196	$241,729
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
	(15,358)	5,798	(9,560)	(13,717)	5,177	(8,540)

Unrealized holding gains (losses) arising during period						
Reclassification adjustment for gains included in net income	—	—	—	(116)	45	(71)
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities and release of valuation allowance	—	(3,526)	(3,526)	—	(2,950)	(2,950)
Net unrealized gains (losses)	(15,358)	2,272	(13,086)	(13,833)	2,272	(11,561)
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	(271)	103	(168)	(590)	227	(363)
Adjustment of valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity and release of valuation allowance	—	1,415	1,415	—	1,293	1,293
Net unrealized losses	(271)	1,518	1,247	(590)	1,520	930
Amounts reclassified into net income on cash flow hedges	(306)	119	(187)	(844)	328	(516)
Unrealized gains on derivative financial instruments accounted for as cash flow hedges	11,672	(4,540)	7,132	12,102	(4,707)	7,395
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges and release of valuation allowance	—	13,740	13,740	—	13,698	13,698
Net unrealized gains	11,366	9,319	20,685	11,258	9,319	20,577
Net actuarial loss on defined benefit pension plan	—	—	—	(415)	161	(254)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	133	(52)	81	265	(103)	162
Adjustment of valuation allowance for the change in deferred taxes arising from reclassification of unamortized	—	110	110	—	—	—

prior service cost and actuarial losses and amortization of prior service cost and actuarial losses and release of valuation allowance						
Net defined benefit pension plan activity	133	58	191	(150)	58	(92)
Total other comprehensive income (loss)	(4,130)	13,167	9,037	(3,315)	13,169	9,854
Comprehensive income	$(30,947)	$269,948	$239,001	$(17,782)	$269,365	$251,583

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet (Unaudited)

(in thousands, except share and per share data)	June 30, 2014	December 31, 2013	June 30, 2013
ASSETS			
Cash and due from banks	$91,791	$71,230	$62,564
Interest-bearing deposits in banks	100,270	119,669	141,016
Short-term investments	47,999	37,999	57,000
Cash and cash equivalents	240,060	228,898	260,580
Securities available for sale	1,741,268	1,832,217	1,937,264
Securities held to maturity (fair value $458,864, $485,585 and $226,695)	448,752	479,742	214,947
Mortgage loans held for sale	14,918	10,319	19,150
Loans, net of unearned income	4,410,285	4,329,266	4,189,368
Less allowance for loan losses	(73,248)	(76,762)	(81,845)
Loans, net	4,337,037	4,252,504	4,107,523
Assets covered by loss sharing agreements with the FDIC	3,595	22,882	35,675
Premises and equipment, net	161,614	163,589	167,197
Bank owned life insurance	80,922	80,670	82,276
Accrued interest receivable	19,141	19,598	19,279
Intangible assets	2,731	3,480	4,315
Foreclosed property	2,969	4,221	3,936
Net deferred tax asset	233,149	258,518	272,287
Derivative financial instruments	22,024	23,833	9,017
Other assets	43,886	44,948	29,189
Total assets	$7,352,066	$7,425,419	$7,162,635
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Liabilities:			
Deposits:			
Demand	$1,519,635	$1,388,512	$1,349,804
NOW	1,334,883	1,427,939	1,225,664
Money market	1,245,912	1,227,575	1,167,889
Savings	279,203	251,125	247,821
Time:			
Less than $100,000	805,289	892,961	982,009
Greater than $100,000	554,310	588,689	664,112
Brokered	424,313	424,704	374,530
Total deposits	6,163,545	6,201,505	6,011,829
Short-term borrowings	76,256	53,241	54,163
Federal Home Loan Bank advances	175,125	120,125	70,125
Long-term debt	129,865	129,865	124,845
Derivative financial instruments	36,545	46,232	29,330
Unsettled securities purchases	7,264	29,562	1,582
Accrued expenses and other liabilities	41,497	49,174	41,458
Total liabilities	6,630,097	6,629,704	6,333,332

Shareholders’ equity:			
Preferred stock, $1 par value; 10,000,000 shares authorized;			
Series A; $10 stated value; 0, 0 and 21,700 shares issued and outstanding	—	—	217
Series B; $1,000 stated value; 0, 105,000 and 180,000 shares issued and outstanding	—	105,000	179,323
Series D; $1,000 stated value; 0, 16,613 and 16,613 shares issued and outstanding	—	16,613	16,613
Common stock, $1 par value; 100,000,000 shares authorized; 50,058,295, 46,243,345 and 43,356,492 shares issued and outstanding	50,058	46,243	43,356
Common stock, non-voting, $1 par value; 26,000,000 shares authorized; 10,080,787, 13,188,206 and 14,474,810 shares issued and outstanding	10,081	13,188	14,475
Common stock issuable; 314,039, 241,832 and 271,215 shares	4,649	3,930	4,705
Capital surplus	1,091,780	1,078,676	1,057,931
Accumulated deficit	(418,583)	(448,091)	(473,531)
Accumulated other comprehensive loss	(16,016)	(19,844)	(13,786)
Total shareholders’ equity	721,969	795,715	829,303
Total liabilities and shareholders’ equity	$7,352,066	$7,425,419	$7,162,635

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended June 30,

(in thousands, except share and per share data)	Preferred Stock Series A	Series B	Series D	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulat Other Comprehe Income (Loss)
Balance, December 31, 2012	$217	$178,557	$16,613	$42,424	$15,317	$3,119	$1,057,951	$(709,153)	$(23,640)
Net income								241,729	
Other comprehensive income									9,854
Common stock issued to dividend reinvestment plan and employee benefit plans (35,667 shares)				35			348		
Conversion of non-voting common stock to voting (841,984 shares)				842	(842)				
Amortization of stock options and restricted stock awards							1,359		
Vesting of restricted stock (50,450 shares issued, 133,914 shares deferred)				50		1,934	(2,161)		
Deferred compensation plan, net, including dividend equivalents						91			
Shares issued from deferred compensation plan (4,521 shares)				5		(439)	434		
Preferred stock dividends:									
Series A								(6)	
Series B		766						(5,266)	
Series D								(835)	
Balance, June 30, 2013	$217	$179,323	$16,613	$43,356	$14,475	$4,705	$1,057,931	$(473,531)	$(13,786)
Balance, December 31, 2013	$—	$105,000	$16,613	$46,243	$13,188	$3,930	$1,078,676	$(448,091)	$(19,844)
Net income								31,757	
Other comprehensive income									3,828
Redemption of Series B preferred stock (105,000 shares)		(105,000)							
			(16,613)						

Redemption of Series D preferred stock (16,613 shares)									
Cash dividends declared on common stock ($.03 per share)								(1,810)	
Common stock issued at market (640,000 shares)				640			11,566		
Common stock issued to dividend reinvestment plan and to employee benefit plans (19,299 shares)				19			309		
Conversion of non-voting common stock to voting (3,107,419 shares)				3,107	(3,107)				
Amortization of stock options and restricted stock awards							2,228		
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (40,751 shares issued, 72,797 shares deferred)				41		749	(1,140)		
Deferred compensation plan, net, including dividend equivalents						119			
Shares issued from deferred compensation plan (7,481 shares)				8		(149)	141		
Preferred stock dividends:									
Series B								(159)	
Series D								(280)	
Balance, June 30, 2014	$—	$—	$—	$50,058	$10,081	$4,649	$1,091,780	$(418,583)	$(16,016)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
(in thousands)	2014	2013
Operating activities:		
Net income	$31,757	$241,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	9,966	14,574
Provision for credit losses	4,700	59,500
Stock based compensation	2,228	1,359
Deferred income tax expense (benefit)	18,716	(258,987)
Securities gains, net	(4,652)	(116)
Loss on prepayment of borrowings	4,446	—
Net (gains) losses on sales of foreclosed property	(362)	5,460
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(2,567)	12,872
Accrued expenses and other liabilities	(19,691)	19,487
Mortgage loans held for sale	(4,599)	9,671
Net cash provided by operating activities	39,942	105,549
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	31,159	33,141
Purchases	(173)	(4,993)
Investment securities available-for-sale:		
Proceeds from sales	390,227	15,751
Proceeds from maturities and calls	111,378	260,967
Purchases	(411,443)	(397,907)
Net increase in loans	(55,199)	(203,903)
Proceeds from note sales	4,561	91,913
Cash paid for acquisition	(31,243)	—
Funds collected from FDIC under loss sharing agreements	2,112	3,714
Proceeds from sales of premises and equipment	2,392	1,547
Purchases of premises and equipment	(1,934)	(4,488)
Proceeds from sale of other real estate	5,877	21,815
Net cash provided by (used in) investing activities	47,714	(182,443)
Financing activities:		
Net change in deposits	(37,960)	59,689
Net change in short-term borrowings	18,569	1,589
Proceeds from Federal Home Loan Bank advances	560,000	485,000
Repayment of Federal Home Loan Bank advances	(505,000)	(455,000)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	328	383
Retirement of preferred stock	(121,613)	—
Issuance of common stock	12,206	—
Cash dividends on common stock	(1,810)	—

Cash dividends on preferred stock	(1,214)	(5,336)
Net cash (used in) provided by financing activities	(76,494)	86,325
Net change in cash and cash equivalents	11,162	9,431
Cash and cash equivalents at beginning of period	228,898	251,149
Cash and cash equivalents at end of period	$240,060	$260,580
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$13,558	$16,768
Income taxes	2,044	2,355
Unsettled securities purchases	7,264	1,582
Transfers of loans to foreclosed property	6,054	15,721

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 its Annual Report on Form 10-K for the year ended December 31, 2013.

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.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. During the fourth quarter of 2013, United reclassified hedge ineffectiveness gains and losses from other fee revenue to net interest revenue. The impact of the reclassification has been reflected in all periods and was not material to any period.

Note 2 –Accounting Standards Updates and Recently Adopted Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. This ASU provides guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and will be applied retrospectively either to each prior reporting period or with a cumulative effect recognized at the date of initial application. United is in the process of evaluating this guidance, but its effect on United's financial condition or results of operations is not expected to be material.

In June 2014, FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures. This ASU changes the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting. The ASU also requires new disclosures for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. The Update is effective for the first interim or annual period beginning after December 15, 2014. United is currently evaluating the guidance's impact on its financial position, results of operation and disclosures.

In June 2014, FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and should not be reflected in estimating the grant-date fair value of the award. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. This guidance is not expected to have a material impact on United's financial position, results of operations or disclosures.

Note 3 – Acquisition

On June 26, 2014, United completed the acquisition of substantially all of the assets of Business Carolina, Inc., a specialty SBA/USDA lender headquartered in Columbia, South Carolina. United is still in the process of determining the values of the assets acquired. On the closing date, United paid $31.2 million in cash for loans of $26.2 million, accrued interest of $83,000, servicing rights of $2.13 million and premises and equipment of $2.84 million. Final settlement, which is not expected to be materially different from the initial settlement, is scheduled to occur within 60 days of closing. United has not identified any material separately identifiable intangible assets resulting from the acquisition.

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

Note 4 – Balance Sheet Offsetting

United enters into reverse repurchase agreements in order to invest short-term funds. In addition, United enters into repurchase agreements and reverse repurchase agreements with the same counterparty in transactions commonly referred to as collateral swaps that are subject to master netting agreements under which the balances are netted in the balance sheet in accordance with ASC 210-20, Offsetting.

The following table presents a summary of amounts outstanding under reverse repurchase agreements and derivative financial instruments including those entered into in connection with the same counterparty under master netting agreements as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

June 30, 2014	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Gross Amounts not Offset in the Balance Sheet: Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 420,000	$ (375,000)	$ 45,000	$ —	$ (48,933)	$ —
Derivatives	22,024	—	22,024	(1,962)	(162)	19,900
Total	$ 442,024	$ (375,000)	$ 67,024	$ (1,962)	$ (49,095)	$ 19,900
Weighted average interest rate of reverse repurchase agreements	1.09 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Gross Amounts not Offset in the Balance Sheet: Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 375,000	$ (375,000)	$ —	$ —	$ —	$ —
Derivatives	36,545	—	36,545	(1,962)	(35,245)	—
Total	$ 411,545	$ (375,000)	$ 36,545	$ (1,962)	$ (35,245)	$ —
Weighted average interest rate of repurchase agreements	.27 %					

December 31, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Gross Amounts not Offset in the Balance Sheet: Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 385,000	$ (350,000)	$ 35,000	$ —	$ (38,982)	$ —
Derivatives	23,833	—	23,833	(4,378)	(2,912)	16,543
Total	$ 408,833	$ (350,000)	$ 58,833	$ (4,378)	$ (41,894)	$ 16,543
Weighted average interest rate of reverse repurchase agreements	1.09 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Gross Amounts not Offset in the Balance Sheet: Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 350,000	$ (350,000)	$ —	$ —	$ —	$ —
Derivatives	46,232	—	46,232	(4,378)	(38,145)	3,709
Total	$ 396,232	$ (350,000)	$ 46,232	$ (4,378)	$ (38,145)	$ 3,709
Weighted average interest rate of repurchase agreements	.27 %					

June 30, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Gross Amounts not Offset in the Balance Sheet: Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 400,000	$ (350,000)	$ 50,000	$ —	$ (53,722)	$ —
Derivatives	9,017	—	9,017	(4,299)	(3,316)	1,402
Total	$ 409,017	$ (350,000)	$ 59,017	$ (4,299)	$ (57,038)	$ 1,402
Weighted average interest rate of reverse repurchase	1.09 %					

agreements

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 350,000	$ (350,000)	$ —	$ —	$ —	$ —
Derivatives	29,330	—	29,330	(4,299)	(21,514)	3,517
Total	$ 379,330	$ (350,000)	$ 29,330	$ (4,299)	$ (21,514)	$ 3,517
Weighted average interest rate of repurchase agreements	.25 %					

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

Note 5 – Securities

The cost basis, gross unrealized gains and losses and fair value of securities held-to-maturity at June 30, 2014, December 31, 2013 and June 30, 2013 are as follows (in thousands).

As of June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 50,669	$ 3,872	$ —	$ 54,541
Mortgage-backed securities (1)	398,083	8,257	2,017	404,323
Total	$ 448,752	$ 12,129	$ 2,017	$ 458,864
As of December 31, 2013				
State and political subdivisions	$ 51,733	$ 2,718	$ 42	$ 54,409
Mortgage-backed securities (1)	428,009	6,690	3,523	431,176
Total	$ 479,742	$ 9,408	$ 3,565	$ 485,585
As of June 30, 2013				
State and political subdivisions	$ 51,757	$ 4,332	$ 4	$ 56,085
Mortgage-backed securities (1)	163,190	7,658	238	170,610
Total	$ 214,947	$ 11,990	$ 242	$ 226,695

(1) All are residential type mortgage-backed securities

The following table summarizes held-to-maturity securities in an unrealized loss position as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	194,724	1,898	2,955	119	197,679	2,017
Total unrealized loss position	$194,724	$1,898	$2,955	$119	$197,679	$2,017
As of December 31, 2013						
State and political subdivisions	$1,595	$42	$—	$—	$1,595	$42
Mortgage-backed securities	259,870	3,523	—	—	259,870	3,523

Total unrealized loss position	$261,465	$3,565	$—	$—	$261,465	$3,565
As of June 30, 2013						
State and political subdivisions	$374	$4	$—	$—	$374	$4
Mortgage-backed securities	4,715	238	—	—	4,715	238
Total unrealized loss position	$5,089	$242	$—	$—	$5,089	$242

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 analysts' reports. No impairment charges were recognized during the three or six months ended June 30, 2014 or 2013.

In the fourth quarter of 2013, securities available-for-sale with a fair value of $301 million were transferred to held-to-maturity. The securities were transferred at their fair value on the date of transfer. The unrealized loss of $8.31 million on the transferred securities is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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The cost basis, unrealized gains and losses, and fair value of securities available-for-sale at June 30, 2014, December 31, 2013 and June 30, 2013 are presented below (in thousands).

As of June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 15,579	$ —	$ 71	$ 15,508
State and political subdivisions	21,080	773	38	21,815
Mortgage-backed securities(1)	1,068,593	17,470	8,623	1,077,440
Corporate bonds	175,975	1,426	1,430	175,971
Asset-backed securities	444,910	3,664	251	448,323
Other	2,211	—	—	2,211
Total	$ 1,728,348	$ 23,333	$ 10,413	$ 1,741,268
As of December 31, 2013				
State and political subdivisions	$ 22,558	$ 823	$ 139	$ 23,242
Mortgage-backed securities(1)	1,145,800	13,296	13,749	1,145,347
Corporate bonds	255,316	1,304	6,324	250,296
Asset-backed securities	409,086	2,535	988	410,633
Other	2,699	—	—	2,699
Total	$ 1,835,459	$ 17,958	$ 21,200	$ 1,832,217
As of June 30, 2013				
State and political subdivisions	$ 22,369	$ 1,112	$ 41	$ 23,440
Mortgage-backed securities(1)	1,410,189	15,935	13,538	1,412,586
Corporate bonds	260,464	1,585	8,181	253,868
Asset-backed securities	242,690	2,645	491	244,844
Other	2,526	—	—	2,526
Total	$ 1,938,238	$ 21,277	$ 22,251	$ 1,937,264

(1) All are residential type mortgage-backed securities

The following table summarizes available-for-sale securities in an unrealized loss position as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

U.S. Treasury securities	$	10,508	$	71	$	—	$	—	$	10,508	$	71
State and political subdivisions		—		—		3,634		38		3,634		38
Mortgage-backed securities		100,949		519		277,556		8,104		378,505		8,623
Corporate bonds		19,130		114		46,010		1,316		65,140		1,430
Asset-backed securities		83,620		166		11,486		85		95,106		251
Total unrealized loss position	$	214,207	$	870	$	338,686	$	9,543	$	552,893	$	10,413
As of December 31, 2013												
State and political subdivisions	$	4,539	$	139	$	—	$	—	$	4,539	$	139
Mortgage-backed securities		334,996		6,480		175,865		7,269		510,861		13,749
Corporate bonds		137,318		4,494		54,130		1,830		191,448		6,324
Asset-backed securities		164,933		722		22,370		266		187,303		988
Total unrealized loss position	$	641,786	$	11,835	$	252,365	$	9,365	$	894,151	$	21,200

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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As of June 30, 2013	Less than 12 Months Fair Value	Unrealized Loss	12 Months or More Fair Value	Unrealized Loss	Total Fair Value	Unrealized Loss
State and political subdivisions	$ 3,645	$ 39	$ 10	$ 2	$ 3,655	$ 41
Mortgage-backed securities	636,449	13,538	—	—	636,449	13,538
Corporate bonds	97,501	4,635	77,404	3,546	174,905	8,181
Asset-backed securities	56,817	208	32,495	283	89,312	491
Total unrealized loss position	$ 794,412	$ 18,420	$ 109,909	$ 3,831	$ 904,321	$ 22,251

At June 30, 2014, there were 79 available-for-sale securities and 25 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 June 30, 2014 and December 31, 2013 were primarily attributable to changes in interest rates. Unrealized losses at June 30, 2013 were primarily related to changes in interest rates; however, the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings since the time of acquisition. The bonds remain above investment grade and have recovered much of their initial market value loss. Therefore, United does not consider them to be impaired.

The amortized cost and fair value of held-to-maturity and available-for-sale securities at June 30, 2014, by contractual maturity, are presented in the following table (in thousands).

	Available-for-Sale Amortized Cost	Fair Value	Held-to-Maturity Amortized Cost	Fair Value
U.S. Treasury Securities:				
1 to 5 years	$ 15,579	$ 15,508	$ —	$ —
	15,579	15,508	—	—
State and political subdivisions:				
Within 1 year	7,042	7,180	1,000	1,031
1 to 5 years	11,083	11,600	17,126	18,446
5 to 10 years	2,107	2,134	20,552	22,148
More than 10 years	848	901	11,991	12,916
	21,080	21,815	50,669	54,541
Corporate bonds:				
1 to 5 years	49,010	48,740	—	—
5 to 10 years	125,965	126,931	—	—
More than 10 years	1,000	300	—	—
	175,975	175,971	—	—
Asset-backed securities:				
Within 1 year	9,986	10,000	—	—

1 to 5 years	72,700	73,966	—	—
5 to 10 years	263,551	265,624	—	—
More than 10 years	98,673	98,733	—	—
	444,910	448,323	—	—
Other:				
More than 10 years	2,211	2,211	—	—
	2,211	2,211	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	17,028	17,180	1,000	1,031
1 to 5 years	148,372	149,814	17,126	18,446
5 to 10 years	391,623	394,689	20,552	22,148
More than 10 years	102,732	102,145	11,991	12,916
Mortgage-backed securities	1,068,593	1,077,440	398,083	404,323
	$ 1,728,348	$ 1,741,268	$ 448,752	$ 458,864

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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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.

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 and six months ended June 30, 2014 and 2013 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Proceeds from sales	$ 236,911	$ —	$ 390,227	$ 15,751
Gross gains on sales	$ 5,374	$ —	$ 5,784	$ 116
Gross losses on sales	(939)	—	(1,132)	—
Net gains on sales of securities	$ 4,435	$ —	$ 4,652	$ 116
Income tax expense attributable to sales	$ 1,725	$ —	$ 1,817	$ 45

Securities with a carrying value of $1.37 billion, $1.53 billion and $1.30 billion were pledged to secure public deposits and other secured borrowings at June 30, 2014, December 31, 2013 and June 30, 2013, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the Federal Home Loan Bank of Atlanta (“FHLB”) with currently pledged securities.

Note 6 – Loans and Allowance for Loan Losses
Major classifications of loans as of June 30, 2014, December 31, 2013 and June 30, 2013, are summarized as follows (in thousands).

	June 30, 2014	December 31, 2013	June 30, 2013
Owner occupied commercial real estate	$ 1,163,327	$ 1,133,543	$ 1,119,016
Income producing ommercial real estate	598,318	623,167	629,129
Commercial & industrial	554,089	471,961	436,988
Commercial construction	159,755	148,903	132,562
Total commercial	2,475,489	2,377,574	2,317,695
Residential mortgage	860,525	875,077	876,608
Home equity lines of credit	451,435	440,887	401,951
Residential construction	301,737	328,579	331,681
Consumer installment	105,160	111,045	109,223
Indirect auto	215,939	196,104	152,210
Total loans	4,410,285	4,329,266	4,189,368
Less allowance for loan losses	(73,248)	(76,762)	(81,845)
Loans, net	$ 4,337,037	$ 4,252,504	$ 4,107,523

At June 30, 2014, December 31, 2013 and June 30, 2013, loans with a carrying value of $2.09 billion, $1.77 billion and $2.00 billion, respectively, were pledged as collateral to secure FHLB advances and other contingent funding sources.

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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The table below shows the allocation among impaired loans, loans that were not considered impaired and foreclosed properties, including United's recorded investment in those assets, the sales proceeds and the resulting net charge-offs of assets sold in the bulk sale transaction (in thousands).

	Recorded Investment	Net Sales Proceeds	Net Charge-Off
Loans considered impaired	$ 96,829	$ 56,298	$ (40,531)
Loans not considered impaired	25,687	15,227	(10,460)
Foreclosed properties	8,398	5,933	(2,465)
Total assets sold	$ 130,914	$ 77,458	$ (53,456)

The loans considered impaired in the table above were assigned specific reserves of $6.86 million in the most recent analysis of the allowance for loan losses prior to the sale. Because the assets were sold at liquidation prices in a bulk transaction with no recourse, the sales price was generally lower than the appraised value of the foreclosed properties and loan collateral. Although the classified asset sales increased charge-offs during the second quarter of 2013, they accomplished management's goal of moving classified asset levels toward the pre-crisis range.

The allowance for loan losses represents management's estimate of probable incurred losses in the loan portfolio as of the end of the period. In 2013, United established an allowance for unfunded commitments separate from the allowance for loan losses due to significant growth in unfunded loan commitments. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheet. Combined, the allowance for loan losses and allowance for unfunded commitments are referred to as the allowance for credit losses.

The following table presents the balance and activity in the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2014 and 2013 (in thousands).

	2014						2013				
Three Months Ended June 30,	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	Provision	Endi Bala
Owner occupied commercial real estate	$20,292	$(918)	$2,753	$—	$(4,323)	$17,804	$19,765	$(19,438)	$1,025	$14,433	$15,7
Income producing commercial real estate	10,926	(632)	197	—	1,270	11,761	10,643	(7,302)	249	3,433	7,02
Commercial & industrial	4,247	(1,012)	350	—	300	3,885	5,626	(15,932)	356	18,004	8,05
Commercial construction	3,977	(131)	—	—	221	4,067	8,108	(6,305)	10	2,462	4,27
Residential mortgage	15,967	(2,800)	292	—	3,304	16,763	19,223	(5,557)	88	744	14,4
Home equity lines of credit	6,120	(624)	158	—	684	6,338	7,705	(1,161)	121	(1,136)	5,52
Residential construction	12,181	(1,946)	275	—	698	11,208	23,326	(18,530)	24	12,502	17,3
Consumer installment	717	(455)	391	—	(54)	599	1,780	(511)	500	(254)	1,5
Indirect auto	796	(89)	16	—	100	823	312	(54)	9	608	875
Unallocated	—	—	—	—	—	—	9,265	—	—	(2,296)	6,96
Total allowance for loan losses	75,223	(8,607)	4,432	—	2,200	73,248	105,753	(74,790)	2,382	48,500	81,8

Allowance for unfunded commitments	2,165	—	—	—	—	2,165	—	—	—	—	—
Total allowance for credit losses	$77,388	$(8,607)	$4,432	$—	$2,200	$75,413	$105,753	$(74,790)	$2,382	$48,500	$81,8

Six Months Ended June 30,	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	Provisi
Owner occupied commercial real estate	$17,164	$(1,284)	$2,843	$1,278	$(2,197)	$17,804	$17,265	$(21,732)	$1,225	$19,02
Income producing commercial real estate	7,174	(837)	197	688	4,539	11,761	10,582	(10,462)	260	6,643
Commercial & industrial	6,527	(1,975)	891	318	(1,876)	3,885	5,537	(17,755)	678	19,59
Commercial construction	3,669	(132)	—	388	142	4,067	8,389	(6,350)	59	2,177
Residential mortgage	15,446	(4,381)	357	1,452	3,889	16,763	19,117	(7,354)	250	2,485
Home equity lines of credit	5,528	(1,627)	168	391	1,878	6,338	7,525	(1,720)	168	(444
Residential construction	12,532	(2,251)	369	1,728	(1,170)	11,208	26,662	(21,512)	33	12,13
Consumer installment	1,353	(1,131)	718	—	(341)	599	2,527	(1,176)	681	(517
Indirect auto	1,126	(166)	27	—	(164)	823	220	(96)	11	740
Unallocated	6,243	—	—	(6,243)	—	—	9,313	—	—	(2,34
Total allowance for loan losses	76,762	(13,784)	5,570	—	4,700	73,248	107,137	(88,157)	3,365	59,50
Allowance for unfunded commitments	2,165	—	—	—	—	2,165	—	—	—	—
Total allowance for credit losses	$78,927	$(13,784)	$5,570	$—	$4,700	$75,413	$107,137	$(88,157)	$3,365	$59,50

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The following table represents the recorded investment in loans by portfolio segment and the balance of the allowance for loan losses assigned to each segment based on the method of evaluating the loans for impairment as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

	June 30, 2014			December 31, 2013			June 30, 2013		
Allowance for Loan Losses	Individually evaluated for impairment	Collectively evaluated for impairment	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	E B
Owner occupied commercial real estate	$2,483	$15,321	$17,804	$1,023	$16,141	$17,164	$1,364	$14,421	$
Income producing commercial real estate	1,404	10,357	11,761	990	6,184	7,174	1,498	5,525	
Commercial & industrial	399	3,486	3,885	66	6,461	6,527	129	7,925	
Commercial construction	412	3,655	4,067	112	3,557	3,669	440	3,835	
Residential mortgage	3,117	13,646	16,763	2,914	12,532	15,446	1,197	13,301	
Home equity lines of credit	115	6,223	6,338	5	5,523	5,528	—	5,529	
Residential construction	1,054	10,154	11,208	688	11,844	12,532	417	16,905	
Consumer installment	33	566	599	224	1,129	1,353	12	1,503	
Indirect auto	—	823	823	—	1,126	1,126	—	875	
Unallocated	—	—	—	—	6,243	6,243	—	6,969	
Total allowance for loan losses	9,017	64,231	73,248	6,022	70,740	76,762	5,057	76,788	
Allowance for unfunded commitments	—	2,165	2,165	—	2,165	2,165	—	—	
Total allowance for credit losses	$9,017	$66,396	$75,413	$6,022	$72,905	$78,927	$5,057	$76,788	$
Loans Outstanding									
Owner occupied commercial real estate	$31,952	$1,131,375	$1,163,327	$32,969	$1,100,574	$1,133,543	$27,147	$1,091,869	$
Income producing commercial real estate	26,045	572,273	598,318	27,239	595,928	623,167	25,150	603,979	
Commercial & industrial	3,641	550,448	554,089	4,217	467,744	471,961	5,738	431,250	
Commercial construction	11,214	148,541	159,755	13,715	135,188	148,903	12,955	119,607	
Residential mortgage	20,455	840,070	860,525	20,167	854,910	875,077	18,393	858,215	
Home equity lines of credit	540	450,895	451,435	505	440,382	440,887	—	401,951	
Residential construction	13,320	288,417	301,737	14,808	313,771	328,579	14,095	317,586	
Consumer installment	329	104,831	105,160	999	110,046	111,045	337	108,886	
Indirect auto	—	215,939	215,939	—	196,104	196,104	—	152,210	
Total loans	$107,496	$4,302,789	$4,410,285	$114,619	$4,214,647	$4,329,266	$103,815	$4,085,553	$

United considers all substandard loan relationships that are on nonaccrual with a balance of $500,000 or greater and all troubled debt restructurings (“TDRs”) to be individually impaired. In addition, United reviews all accruing substandard loan relationships greater than $2 million to determine if the loan is individually impaired. A loan is considered individually 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. All TDRs are considered individually impaired regardless of accrual status. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. A specific reserve is established for individually impaired loans for the amount of calculated impairment. Interest payments received on individually impaired nonaccrual loans are applied as a reduction of the outstanding principal balance. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Loans are evaluated for individual impairment quarterly and specific reserves are established in the allowance for loan losses for any measured specific impairment on individually impaired loans.

Each quarter, United’s management prepares an analysis of the allowance for credit losses to determine the appropriate balance that measures and quantifies the amount of probable incurred loss in the loan portfolio. The allowance is comprised of specific reserves on individually impaired loans, which are determined as described above, and general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions multiplied by a loss emergence period factor. United uses eight quarters of historical loss experience weighted toward the most recent four quarters to determine the loss factors to be used in the reserve calculation for loans evaluated in the aggregate. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to minimize distortions caused by nonrecurring and unusual activity that might otherwise influence a shorter time period. In previous periods, the weighted average was calculated by multiplying each quarter’s annualized historical net charge-off rate by 1 through 8, with 8 representing the most recent quarter and 1 representing the oldest quarter. United adopted this method of weighting quarterly loss rates to capture the rapidly deteriorating credit conditions in its loss factors during the financial crisis. Now that credit conditions have begun to stabilize, management concluded in the first quarter of 2014 that it was appropriate to apply a more level weighting moving forward to capture the full range and impacts of credit losses experienced during the most recent economic and credit cycle. For the four most recent quarters, United applied a weighting factor of 1.75. For the four oldest quarters, United applied a weighting of 1.00 for each quarterly loss factor. Management believes the current weightings are more appropriate to measure the unconfirmed losses incurred within the loan portfolio.

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Also, beginning in the first quarter of 2014, United updated its measurement of the loss emergence period in the calculation of the allowance for credit losses. The rapidly deteriorating credit conditions during the peak of the credit cycle shortened the length of time between management's estimation of the incurrence of a loss and its recognition as a charge-off. In most cases, the loss emergence period was within a twelve month period which made the use of annualized loss factors appropriate for measuring the amount of incurred yet unconfirmed credit losses within the loan portfolio. As United has moved out beyond the peak of the financial crisis, management has observed that the loss emergence period has extended. United calculates the loss emergence period for each pool of loans based on the average length of time between the date a loan first exceeds 30 days past due and the date the loan is charged off.

The updates to the weightings to the eight quarters of loss history and the update to our estimation of the loss emergence period did not have a material effect on the total allowance for loan losses or the provision for loan losses for the first or second quarters of 2014. These updates resulted in the full allocation of the previously unallocated portion of the allowance for loan losses.

On junior lien home equity loans, United has limited ability to monitor the delinquency status of the first lien unless the first lien is also held by United. As a result, United applies the weighted average historical loss factor for this category and appropriately adjusts it to reflect the increased risk of loss from these credits.

Management carefully reviews the resulting loss factors for each category of the loan portfolio and evaluates whether qualitative adjustments are necessary to take into consideration recent credit trends such as increases or decreases in past due, nonaccrual, criticized and classified loans, acceleration or delays in timing of recognition of losses that may affect historical loss emergence periods, and other macro environmental factors such as changes in unemployment rates, lease vacancy rates and trends in property values and absorption rates.

United's management believes that its method of determining the balance of the allowance for loan losses provides a reasonable and reliable basis for measuring and reporting losses that are inherent in the loan portfolio as of the reporting date.

When a loan officer determines that a loan is uncollectible, he or she is responsible for recommending that the loan be charged off. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department and the Foreclosure / OREO department. Nonaccrual real estate loans that are collateral dependent are generally charged down to 80% of the appraised value of the underlying collateral at the time they are placed on nonaccrual status.

A committee consisting of the Chief Risk Officer, Senior Risk Officer and the Senior Credit Officers meets monthly to review charge-offs that have occurred during the previous month.

Closed-end retail loans (installment and residential mortgage loans) and open-end (revolving) retail loans past due 90 cumulative days are charged off unless the loan is secured and in process of collection (within the next 90 days).The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

	June 30, 2014		December 31, 2013		June 30, 2013	
		Allowance		Allowance		Allowan

	Unpaid Principal Balance	Recorded Investment	for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	for Loan Losses Allocate
With no related allowance recorded:									
Owner occupied commercial real estate	$14,445	$12,985	$—	$17,717	$14,458	$—	$14,394	$10,906	$—
Income producing commercial real estate	12,755	11,808		12,644	9,747	—	13,457	6,734	—
Commercial & industrial	1,736	1,710	—	2,252	2,252	—	3,809	3,809	—
Commercial construction	195	195	—	974	974	—	809	659	—
Total commercial	29,131	26,698	—	33,587	27,431	—	32,469	22,108	—
Residential mortgage	3,357	2,849	—	4,496	3,634	—	8,676	6,843	—
Home equity lines of credit	—	—	—	—	—	—	—	—	—
Residential construction	6,168	5,491	—	9,462	7,807	—	8,476	4,992	—
Consumer installment	—	—	—	—	—	—	203	102	—
Indirect auto	—	—	—	—	—	—	—	—	—
Total with no related allowance recorded	38,656	35,038	—	47,545	38,872	—	49,824	34,045	—
With an allowance recorded:									
Owner occupied commercial real estate	20,287	18,967	2,483	18,595	18,513	1,023	20,067	19,983	1,364
Income producing commercial real estate	14,706	14,237	1,404	17,490	17,490	990	14,674	14,674	1,498
Commercial & industrial	1,931	1,931	399	2,248	1,965	66	2,091	1,929	129
Commercial construction	11,194	11,019	412	12,821	12,741	112	12,376	12,296	440
Total commercial	48,118	46,154	4,698	51,154	50,709	2,191	49,208	48,882	3,431
Residential mortgage	18,077	17,606	3,117	17,119	16,533	2,914	11,794	11,550	1,197
Home equity lines of credit	540	540	115	505	505	5	—	—	—
Residential construction	9,255	7,829	1,054	8,469	7,001	688	9,411	9,103	417
Consumer installment	329	329	33	999	999	224	244	235	12
Indirect auto	—	—	—	—	—	—	—	—	—
Total with an allowance recorded	76,319	72,458	9,017	78,246	75,747	6,022	70,657	69,770	5,057
Total	$114,975	$107,496	$9,017	$125,791	$114,619	$6,022	$120,481	$103,815	$5,057

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There were no loans more than 90 days past due and still accruing interest at June 30, 2014, December 31, 2013 or June 30, 2013. Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans. United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

The gross additional interest revenue that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $96,000, and $556,000 for the three months ended June 30, 2014 and 2013, respectively, and $60,000 and $1.19 million for the six months ended June 30, 2014 and 2013, respectively. The gross additional interest revenue that would have been earned in for the three and six months ended June 30, 2014 and 2013 had performing TDRs performed in accordance with the original terms is immaterial.

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired are presented below for the three and six months ended June 30, 2014 and 2013 (in thousands).

	2014			2013		
Three Months Ended June 30,	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Owner occupied commercial real estate	$31,558	$403	$391	$30,553	$373	$410
Income producing commercial real estate	26,415	316	317	21,638	258	255
Commercial & industrial	3,683	40	50	5,804	63	70
Commercial construction	11,340	104	107	13,034	114	115
Total commercial	72,996	863	865	71,029	808	850
Residential mortgage	20,598	228	217	18,426	199	188
Home equity lines of credit	550	5	6	524	6	5
Residential construction	13,762	177	175	14,058	178	147
Consumer installment	335	6	5	246	4	4
Indirect auto	—	—	—	—	—	—
Total	$108,241	$1,279	$1,268	$104,283	$1,195	$1,194
Six Months Ended June 30,						
Owner occupied commercial real estate	$30,334	$761	$771	$56,372	$1,099	$1,188
Income producing commercial real estate	26,138	628	650	17,861	478	477
Commercial & industrial	4,122	92	101	27,277	219	699
Commercial construction	12,027	216	242	27,983	265	347

Total commercial	72,621	1,697	1,764	129,493	2,061	2,711
Residential mortgage	20,960	457	455	19,654	435	406
Home equity lines of credit	528	10	12	525	11	10
Residential construction	13,400	322	325	29,374	504	575
Consumer installment	392	12	14	263	10	10
Indirect auto	—	—	—	—	—	—
Total	$107,901	$2,498	$2,570	$179,309	$3,021	$3,712

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The following table presents the aging of the recorded investment in past due loans as of June 30, 2014, December 31, 2013 and June 30, 2013 by class of loans (in thousands).

	Loans Past Due				Loans Not	
As of June 30, 2014	30 - 59 Days	60 - 89 Days	> 90 Days	Total	Past Due	Total
Owner occupied commercial real estate	$ 448	$ 1,239	$ 762	$ 2,449	$ 1,160,878	$ 1,163,327
Income producing commercial real estate	2,030	—	$ 242	2,272	596,046	598,318
Commercial & industrial	930	101	405	1,436	552,653	554,089
Commercial construction	116	—	50	166	159,589	159,755
Total commercial	3,524	1,340	1,459	6,323	2,469,166	2,475,489
Residential mortgage	7,372	1,404	3,150	11,926	848,599	860,525
Home equity lines of credit	1,609	193	79	1,881	449,554	451,435
Residential construction	1,246	584	1,331	3,161	298,576	301,737
Consumer installment	677	80	1	758	104,402	105,160
Indirect auto	258	99	193	550	215,389	215,939
Total loans	$ 14,686	$ 3,700	$ 6,213	$ 24,599	$ 4,385,686	$ 4,410,285
As of December 31, 2013						
Owner occupied commercial real estate	$ 1,845	$ 705	$ 2,017	$ 4,567	$ 1,128,976	$ 1,133,543
Income producing commercial real estate	3,879	2,092	530	6,501	616,666	623,167
Commercial & industrial	2,349	223	88	2,660	469,301	471,961
Commercial construction	94	190	235	519	148,384	148,903
Total commercial	8,167	3,210	2,870	14,247	2,363,327	2,377,574
Residential mortgage	9,011	2,832	4,140	15,983	859,094	875,077
Home equity lines of credit	2,056	430	941	3,427	437,460	440,887
Residential construction	1,335	588	1,375	3,298	325,281	328,579
Consumer installment	1,058	358	24	1,440	109,605	111,045
Indirect auto	185	65	42	292	195,812	196,104
Total loans	$ 21,812	$ 7,483	$ 9,392	$ 38,687	$ 4,290,579	$ 4,329,266
As of June 30, 2013						
	$ 2,502	$ 631	$ 1,655	$ 4,788	$ 1,114,228	$ 1,119,016

Owner occupied commercial real estate						
Income producing commercial real estate	1,039	65	481	1,585	627,544	629,129
Commercial & industrial	1,123	500	145	1,768	435,220	436,988
Commercial construction	1,128	235	196	1,559	131,003	132,562
Total commercial	5,792	1,431	2,477	9,700	2,307,995	2,317,695
Residential mortgage	8,856	3,953	4,782	17,591	859,017	876,608
Home equity lines of credit	1,687	40	857	2,584	399,367	401,951
Residential construction	2,037	335	1,261	3,633	328,048	331,681
Consumer installment	770	183	30	983	108,240	109,223
Indirect auto	123	—	—	123	152,087	152,210
Total loans	$ 19,265	$ 5,942	$ 9,407	$ 34,614	$ 4,154,754	$ 4,189,368

As of June 30, 2014, December 31, 2013, and June 30, 2013, $8.98 million, $5.64 million and $4.34 million, respectively, of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to $44,000, $6,000 and $35,000 as of June 30, 2014, December 31, 2013 and June 30, 2013, respectively, to customers with outstanding loans that are classified as TDRs.

The modification of the terms of the TDRs included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the amortization period that would not otherwise be considered in the current market for new debt with similar risk characteristics; a permanent reduction of the principal amount; a restructuring of the borrower’s debt into an A/B note structure where the A note would fall within the borrower’s ability to pay and the remainder would be included in the B note, or a mandated bankruptcy restructuring.

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The following table presents information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment (dollars in thousands).

	June 30, 2014			December 31, 2013			June 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Owner occupied commercial real estate	52	$ 28,233	$ 26,670	45	$ 24,064	$ 22,399	45	$ 23,496	$ 23,326
Income producing commercial real estate	33	19,427	18,957	32	20,900	18,268	32	22,378	19,040
Commercial & industrial	31	2,893	2,893	36	3,527	3,245	34	3,091	2,929
Commercial construction	15	11,390	11,213	13	13,122	13,042	14	13,185	12,956
Total commercial	131	61,943	59,733	126	61,613	56,954	125	62,150	58,251
Residential mortgage	154	21,008	20,030	133	20,117	18,852	105	17,250	15,859
Home equity lines of credit	4	540	540	3	505	505	5	522	522
Residential construction	54	12,463	10,361	57	12,459	10,452	51	11,895	9,908
Consumer installment	23	329	329	26	203	203	42	447	337
Indirect auto	—	—	—	—	—	—	—	—	—
Total loans	366	96,283	90,993	345	94,897	$ 86,966	328	92,264	84,877

Loans modified under the terms of a TDR during the three and six months ended June 30, 2014 and 2013 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that became 90 days or more delinquent during the three and six months ended June 30, 2014 and 2013, that were initially restructured within one year prior to becoming delinquent (dollars in thousands).

New Troubled Debt Restructurings for the Three Months Ended June 30,			New Troubled Debt Restructurings for the Six Months Ended June 30,		
Pre-Modification	Post-Modification	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months	Pre-Modification	Post-Modification	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Six Months Ended

2014	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	Ended June 30, 2014 Number of Contracts	Recorded Investment	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	June 30, 2014 Number of Contracts	Recorded Investment
Owner occupied commercial real estate	5	$ 2,787	$ 2,787	—	$ —	7	$ 3,392	$ 3,392	$ 1	$ 104
Income producing commercial real estate	3	1,459	1,459	—	—	5	1,992	1,992	—	—
Commercial & industrial	3	106	106	—	—	4	330	330	2	54
Commercial construction	1	240	240	—	—	2	471	471	—	—
Total commercial	12	4,592	4,592	—	—	18	6,185	6,185	3	158
Residential mortgage	9	1,014	973	2	280	23	2,146	2,105	6	732
Home equity lines of credit	1	36	36	—	—	1	36	36	—	—
Residential construction	3	1,124	1,124	—	—	3	1,124	1,124	—	—
Consumer installment	3	84	84	—	—	5	226	226	—	—
Indirect auto	—	—	—	—	—	—	—	—	—	—
Total loans	28	$ 6,850	$ 6,809	2	$ 280	50	$ 9,717	$ 9,676	9	$ 890

2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended June 30, 2013 Number of Contracts	Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Six Months Ended June 30, 2013 Number of Contracts	Recorded Investment
Owner occupied commercial real estate	3	$ 2,419	$ 2,419	—	$ —	10	$ 4,082	$ 4,082	$ 1	$ 432
Income producing commercial real estate	6	4,104	4,104	—	—	7	6,009	6,009	—	—
Commercial & industrial	—	—	—	—	—	9	815	709	1	35
Commercial construction	—	—	—	—	—	—	—	—	2	1,454
Total commercial	9	6,523	6,523	—	—	26	10,906	10,800	4	1,921
Residential mortgage	2	649	505	1	40	13	2,764	2,620	2	108
Home equity lines of credit	—	—	—	—	—	—	—	—	—	—
Residential construction	2	339	339	—	—	7	1,123	994	2	117
Consumer installment	—	—	—	—	—	4	21	21	3	20
Indirect auto	—	—	—	—	—	—	—	—	—	—
Total loans	13	$ 7,511	$ 7,367	1	$ 40	50	$ 14,814	$ 14,435	11	$ 2,166

Collateral dependent TDRs that subsequently default and are placed on nonaccrual are charged down to the fair value of the collateral consistent with United’s policy for nonaccrual loans. Impairment on TDRs that are not collateral dependent continues to be measured on discounted cash flows regardless of whether the loan has subsequently defaulted.

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As of June 30, 2014, December 31, 2013 and June 30, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands).

			Substandard		Doubtful /	
As of June 30, 2014	Pass	Watch	Performing	Nonaccrual	Loss	Total
Owner occupied commercial real estate	$ 1,079,629	$ 32,501	$ 48,222	$ 2,975	$ —	$ 1,163,327
Income producing commercial real estate	556,223	16,430	24,633	1,032	—	598,318
Commercial & industrial	542,836	4,504	5,647	1,102	—	554,089
Commercial construction	152,894	2,360	4,406	95	—	159,755
Total commercial	2,331,582	55,795	82,908	5,204	—	2,475,489
Residential mortgage	797,725	10,743	41,856	10,201	—	860,525
Home equity lines of credit	443,196	167	7,562	510	—	451,435
Residential construction	276,539	8,078	12,872	4,248	—	301,737
Consumer installment	103,203	10	1,776	171	—	105,160
Indirect auto	214,987	—	562	390	—	215,939
Total loans	$ 4,167,232	$ 74,793	$ 147,536	$ 20,724	$ —	$ 4,410,285
As of December 31, 2013						
Owner occupied commercial real estate	$ 1,054,924	$ 29,714	$ 43,083	$ 5,822	$ —	$ 1,133,543
Income producing commercial real estate	575,597	10,410	34,642	2,518		623,167
Commercial & industrial	456,563	5,382	9,589	427	—	471,961
Commercial construction	120,852	10,932	16,758	361	—	148,903
Total commercial	2,207,936	56,438	104,072	9,128	—	2,377,574
Residential mortgage	793,381	25,944	44,022	11,730	—	875,077
Home equity lines of credit	426,052	5,420	7,967	1,448		440,887
Residential construction	298,685	11,526	14,104	4,264	—	328,579
Consumer installment	107,029	1,229	2,538	249	—	111,045
Indirect auto	196,104	—	—	—	—	196,104
Total loans	$ 4,029,187	$ 100,557	$ 172,703	$ 26,819	$ —	$ 4,329,266
As of June 30, 2013						
Owner occupied commercial real estate	$ 1,031,293	$ 35,316	$ 47,124	$ 5,283	$ —	$ 1,119,016
Income producing commercial real estate	563,848	31,701	31,626	1,954	—	629,129
Commercial & industrial	419,266	5,716	11,458	548	—	436,988
	104,185	12,107	15,766	504	—	132,562

Commercial construction						
Total commercial	2,118,592	84,840	105,974	8,289	—	2,317,695
Residential mortgage	796,599	23,288	43,874	12,847	—	876,608
Home equity lines of credit	389,059	4,053	7,348	1,491	—	401,951
Residential construction	292,116	18,096	16,631	4,838	—	331,681
Consumer installment	105,353	966	2,505	399	—	109,223
Indirect auto	152,210	—	—	—	—	152,210
Total loans	$ 3,853,929	$ 131,243	$ 176,332	$ 27,864	$ —	$ 4,189,368

Risk Ratings

United categorizes commercial 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, and current industry and economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continual basis. United uses the following definitions for its risk ratings:

Watch. Loans in this category are presently protected from apparent loss; however, weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Substandard. These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. There is the distinct possibility that United will sustain some loss if deficiencies are not corrected. If possible, immediate corrective action is taken.

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

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

Consumer Purpose Loans. Beginning in the first quarter of 2014, United began to apply a pass / fail grading system to all consumer purpose loans. Under the pass / fail grading system, consumer purpose loans meeting the criteria of substandard are classified as “fail” and all other loans are classified as “pass”. For reporting purposes, consumer purpose loans classified as “fail” are reported in the performing substandard or nonaccrual columns and all other consumer purpose loans are reported in the “pass” column. The first quarter grading change resulted in decreases in loans categorized as “watch” for the consumer installment, residential mortgage and home equity lines of credit loan classifications. Loan balances reported in the “watch” column for residential mortgage in the first quarter are generally commercial purpose loans secured by the borrower’s residence.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

The following table presents the recorded investment (unpaid principal less amounts charged off) in nonaccrual loans by loan class as of June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

	Nonaccrual Loans		
	June 30, 2014	December 31, 2013	June 30, 2013
Owner occupied commercial real estate	$ 2,975	$ 5,822	$ 5,283
Income producing commercial real estate	1,032	2,518	1,954
Commercial & industrial	1,102	427	548
Commercial construction	95	361	504
Total commercial	5,204	9,128	8,289
Residential mortgage	10,201	11,730	12,847
Home equity lines of credit	510	1,448	1,491
Residential construction	4,248	4,264	4,838
Consumer installment	171	249	399
Indirect auto	390	—	—
Total	$ 20,724	$ 26,819	$ 27,864
Balance as a percentage of unpaid principal	66.5%	65.3%	62.6%

Note 7 – Foreclosed Property

Major classifications of foreclosed properties at June 30, 2014, December 31, 2013 and June 30, 2013 are summarized as follows (in thousands).

	June 30,	December 31,	June 30,

	2014	2013	2013
Commercial real estate	$ 1,210	$ 1,287	$ 847
Commercial construction	—	—	376
Total commercial	1,210	1,287	1,223
Residential mortgage	1,616	3,380	1,931
Residential construction	884	736	4,384
Total foreclosed property	3,710	5,403	7,538
Less valuation allowance	(741)	(1,182)	(3,602)
Foreclosed property, net	$ 2,969	$ 4,221	$ 3,936
Balance as a percentage of original loan unpaid principal	50.4%	44.5%	31.6%

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Activity in the valuation allowance for foreclosed property for the three and six months ended June 30, 2014 and 2013 is presented in the following table (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$ 1,041	$ 4,979	$ 1,182	$ 6,954
Additions charged to expense	305	1,369	582	2,410
Disposals	(605)	(2,746)	(1,023)	(5,762)
Balance at end of period	$ 741	$ 3,602	$ 741	$ 3,602

Expenses related to foreclosed property for the three and six months ended June 30, 2014 and 2013 is presented in the following table (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net (gain)/loss on sales	$ (423)	$ 2,945	$ (944)	$ 3,050
Provision for unrealized losses	305	1,369	582	2,410
Operating expenses	220	837	580	2,024
Total foreclosed property expense	$ 102	$ 5,151	$ 218	$ 7,484

Note 8 – Reclassifications Out of Accumulated Other Comprehensive Income

The following table presents the details regarding amounts reclassified out of accumulated other comprehensive income for the three and six months ended June 30, 2014 and 2013 (in thousands).

Details about Accumulated Other Comprehensive Income Components	**Amounts Reclassified from Accumulated Other Comprehensive Income For the three months ended June 30, 2014**	**2013**	**For the six months ended June 30, 2014**	**2013**	**Affected Line Item in the Statement Where Net Income is Presented**
Realized gains on sales of available-for-sale securities:					
	$4,435	$—	$4,652	$116	Securities gains, net
	(1,725)	—	(1,817)	(45)	Tax expense
	$2,710	$—	$2,835	$71	Net of tax
Amortization of (losses) gains included in net income on available-for-sale securities transferred to held to maturity:					
	$(409)	$271	$(739)	$590	Investment securities interest revenue
	154	(103)	277	(227)	Tax benefit (expense)
	$(255)	$168	$(462)	$363	Net of tax

Amounts included in net income on derivative financial instruments accounted for as cash flow hedges:					
Effective portion of interest rate contracts	$—	$303	$—	$840	Loan interest revenue
Effective portion of interest rate contracts	(350)	3	(447)	4	Brokered deposit interest expense
Amortization of losses on de-designated positions	(24)	—	(24)	—	Money market deposit interest expense
Amortization of losses on de-designated positions	(199)	—	(199)	—	Brokered deposit interest expense
	(573)	306	(670)	844	Total before tax
	223	(119)	261	(328)	Tax or benefit (expense)
	$(350)	$187	$(409)	$516	Net of tax
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan					
Prior service cost	$(92)	$(91)	$(183)	$(181)	Salaries and employee benefits expense
Actuarial losses	—	(42)	—	(84)	Salaries and employee benefits expense
	(92)	(133)	(183)	(265)	Total before tax
	36	52	71	103	Tax benefit
	$(56)	$(81)	$(112)	$(162)	Net of tax
Total reclassifications for the period	$2,049	$274	$1,852	$788	Net of tax

Amounts shown above in parentheses reduce earnings

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Note 9 – Earnings Per Share

United is required to report on the face of the consolidated statement of income, earnings 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 and six months ended June 30, 2014 and 2013, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (in thousands).

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Series A - 6% fixed	$ —	$ 3	$ —	$ 6
Series B - 5% fixed until December 6, 2013, 9% thereafter	—	2,636	159	5,266
Series D - LIBOR plus 9.6875%, resets quarterly	—	416	280	835
Total preferred stock dividends	$ —	$ 3,055	$ 439	$ 6,107

All preferred stock dividends are payable quarterly.

Series B preferred stock was issued at a discount. Dividend amounts shown include discount accretion for each period.

The preferred stock dividends were subtracted from net income in order to arrive at net income available to common shareholders. There were no dilutive securities outstanding for the three and six months ended June 30, 2013. All of United's preferred stock was redeemed during the fourth quarter of 2013 and the first quarter of 2014.

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013 (in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income available to common shareholders	$ 16,357	$ 226,909	$ 31,318	$ 235,622
Weighted average shares outstanding:				
Basic	60,712	58,141	60,386	58,111
Effect of dilutive securities				
Stock options	2	—	2	—

Warrants	—	—	—	—
Diluted	60,714	58,141	60,388	58,111
Income per common share:				
Basic	$ .27	$ 3.90	$ .52	$ 4.05
Diluted	$ .27	$ 3.90	$ .52	$ 4.05

At June 30, 2014, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at $61.40 per share originally issued to the U.S. Treasury; 316,343 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $96.22; 973,467 shares issuable upon completion of vesting of restricted stock awards; and warrants to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at $21.25 per share granted to Fletcher International Ltd. ("Fletcher") in connection with a 2010 asset purchase and sale agreement. On March 5, 2014, United announced that it and the Chapter 11 Trustee for Fletcher had agreed to settle all potential claims and counterclaims between them relating to or arising out of, among other things, their respective rights and obligations under the Warrant. Pursuant to the settlement agreement with Fletcher, United has agreed to repurchase the warrant and resolve all claims between the parties. The settlement agreement and the transactions contemplated thereby have been approved by the bankruptcy court but remain subject to an appeal.

At June 30, 2013, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at $61.40 per share originally issued to the U.S. Treasury; 129,670 common shares issuable upon exercise of warrants attached to trust preferred securities with an exercise price of $100 per share; 407,372 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $100.90; 393,785 shares issuable upon completion of vesting of restricted stock awards; warrants to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at $21.25 per share granted to Fletcher in connection with a 2010 asset purchase and sale agreement; and 1,551,126 common shares issuable upon exercise of warrants granted in connection with United's tax benefits preservation plan, exercisable at $12.50 per share.

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Note 10 – 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 wholesale 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, investment securities, wholesale borrowings and deposits.

In conjunction with the FASB's fair value measurement guidance, United made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a gross basis.

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 June 30, 2014, December 31, 2013 and June 30, 2013 (in thousands).

Derivatives designated as hedging instruments under ASC 815

		Fair Value		
Interest Rate Products	Balance Sheet Location	June 30, 2014	December 31, 2013	June 30, 2013
Cash flow hedge of money market deposits	Other assets	$ 1,109	$ 4,782	$ 5,345
Fair value hedge of corporate bonds	Other assets	—	3,939	2,672
		$ 1,109	$ 8,721	$ 8,017
Cash flow hedge of short-term debt	Other liabilities	$ —	$ 3,368	$ 1,905
Cash flow hedge of money market deposits	Other liabilities	523	—	—
Fair value hedge of brokered CD's	Other liabilities	9,857	19,970	23,325
Fair value hedge of corporate bonds	Other liabilities	—	2,308	3,095
		$ 10,380	$ 25,646	$ 28,325

Derivatives not designated as hedging instruments under ASC 815

Fair Value

Interest Rate Products	Balance Sheet Location	June 30, 2014	December 31, 2013	June 30, 2013
Customer swap positions	Other assets	$ 2,572	$ 898	$ 196
Dealer offsets to customer swap positions	Other assets	333	1,347	804
Bifurcated embedded derivatives	Other assets	12,369	12,867	—
Offsetting positions for de-designated cash flow hedges	Other assets	5,641	—	—
		$ 20,915	$ 15,112	$ 1,000
Customer swap positions	Other liabilities	$ 333	$ 1,347	$ 804
Dealer offsets to customer swap positions	Other liabilities	2,592	915	201
Dealer offsets to bifurcated embedded derivatives	Other liabilities	17,599	18,324	—
Cash flow hedge of brokered CDs	Other liabilities	1,728	—	—
Cash flow hedge of money market deposits	Other liabilities	3,913	—	—
		$ 26,165	$ 20,586	$ 1,005

Derivative contracts that are not accounted for as hedging instruments under ASC 815, Derivatives and Hedging, and are described as “customer derivatives,” are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap program. United also has three interest rate swap contracts that are not designated as hedging instruments but are economic hedges of market linked brokered certificates of deposit. The market linked brokered certificates of deposit contain embedded derivatives that are bifurcated from the host instruments and marked to market through earnings. The marks on the market linked swaps and the bifurcated embedded derivatives tend to move in opposite directions with changes in 90-day LIBOR and therefore provide an effective economic hedge.

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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 uses interest rate swaps as part of its interest rate risk management strategy. At June 30, 2014, United's interest rate swaps designated as cash flow hedges involved the payment of fixed-rate amounts to a counterparty in exchange for United receiving variable-rate payments over the life of the agreements without exchange of the underlying notional amount. United's current cash flow hedges are for the purpose of converting variable rate deposits and wholesale borrowings to a fixed rate to protect United in a rising rate environment. At June 30, 2014, United had two swap contracts outstanding with a total notional amount of $275 million that were designated as cash flow hedges of indexed money market accounts. The swaps are forward starting with $100 million in notional becoming effective in the third quarter of 2014 and $175 million becoming effective later in 2015. At December 31, 2013 and June 30, 2013, United had three swap contracts outstanding with a total notional amount of $200 million that were designated as cash flow hedges of future issuances of three-month brokered deposits or other LIBOR based floating rate wholesale borrowings, and three swap contracts outstanding with a total notional amount of $375 million that were designated as cash flow hedges of indexed money market accounts. During the second quarter of 2014, United de-designated swaps with a notional of $400 million and put on offsetting positions which had a similar effect to terminating the positions. Changes in United's balance sheet composition and interest rate risk position made the hedges no longer necessary as protection against rising interest rates. The loss remaining in other comprehensive income on the de-designated swaps is being amortized into earnings over the original term of the swaps as the forecasted transactions that the swaps were originally designated to hedge are still expected to occur.

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. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense when the swaps become effective, as interest payments are made on United's LIBOR based, variable-rate wholesale borrowings and indexed deposit accounts. United's active forward starting cash flow hedges of floating rate liabilities began interest settlements in the first quarter of 2014. United recognized $50,000 and $85,000 in hedge ineffectiveness losses in interest expense on active cash flow hedges during the second quarter and first six months of 2014. No such hedge ineffectiveness gains or losses were recognized on active cash flow hedges during the second quarter or first six months of 2013. United expects that $3.34 million will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

During the three and six months ended June 30, 2013, United accelerated the reclassification of $3,000 and $4,000, respectively, in gains from terminated positions, as a result of the forecasted transactions becoming probable not to occur. These amounts are recognized in loan interest revenue as hedge ineffectiveness.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate investments and obligations due to changes in interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges of brokered deposits 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. Interest rate swaps designated as fair value hedges of fixed rate investments involve the receipt of variable-rate amounts from a counterparty in exchange for United making fixed rate payments over the life of the instrument without the exchange of the underlying notional amount. At June 30, 2014, United had 16 interest rate swaps with an aggregate notional amount of $199 million that were designated as fair value hedges of interest rate risk. These contracts were pay-variable / receive-fixed swaps hedging changes in the fair value of fixed rate brokered time deposits resulting from changes in interest rates. At June 30, 2013, United had 25 interest rate swaps with an aggregate notional amount of $335 million that were designated as fair value hedges. At June 30, 2013, eight of the interest rate swaps with an aggregate notional amount of $86 million were receive-variable / pay-fixed swaps that were used for the purpose of hedging changes in the fair value of corporate bonds resulting from changes in interest rates. These swaps were cancelled and the bonds were sold in the second quarter of 2014. The other 17 were pay-variable / receive-fixed swaps hedging changes in fair value of fixed rate brokered time deposits resulting from changes in interest rates.

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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 income statement line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2014 United recognized net losses of $236,000 and 625,000, respectively, and during the three and six months ended June 30, 2013, United recognized net losses of $223,000 and $189,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized net reductions of interest expense of $1.22 million and $2.43 million, respectively, for the three and six months ended June 30, 2014 and net reductions of interest expense of $1.20 million and $2.27 million, respectively, for the three and six months ended June 30, 2013 related to United's fair value hedges of brokered time deposits, which include net settlements on the derivatives. United recognized reductions of interest revenue on securities during the three and six months ended June 30, 2014 in the amounts of $425,000 and $955,000, respectively, related to United's fair value hedges of corporate bonds. For the three and six months ended June 30, 2013, United recognized reductions of interest revenue on securities in the amounts of $283,000 and $295,000, respectively.

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 and six months ended June 30, 2014 and 2013.

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 2014	2013	Amount of Gain (Loss) Recognized in Income on Hedged Item 2014	2013
Three Months Ended June 30,					
Fair value hedges of brokered CD's	Interest expense	$ 4,262	$ (15,441)	$ (4,382)	$ 15,337
Fair value hedges of corporate bonds	Interest revenue	(783)	4,461	667	(4,068)
		$ 3,479	$ (10,980)	$ (3,715)	$ 11,269
Six Months Ended June 30,					
Fair value hedges of brokered CD's	Interest expense	$ 10,115	$ (17,285)	$ (10,416)	$ 17,116
Fair value hedges of corporate bonds	Interest revenue	(2,487)	4,229	2,163	(3,857)
		$ 7,628	$ (13,056)	$ (8,253)	$ 13,259

In certain cases, the estate of deceased brokered certificate of deposit holders may put the certificate of deposit back to the issuing bank at par upon the death of the holder. When these death puts occur, a gain or loss is recognized for the difference between the fair value and the par amount of the deposits put back. The change in the fair value of brokered time deposits that are being hedged in fair value hedging relationships reported in the table above includes gains and losses from death puts and such gains and losses are included in the amount of reported ineffectiveness gains or losses.

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)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
	2014	2013	Location	2014	2013	Location	2014	2013
Three Months Ended June 30,								
			Interest revenue	$—	$303			
			Interest expense	(573)	3			
Interest rate swaps	$(3,547)	$11,672	Total	$(573)	$306	Interest expense	$(50)	$ —
Six Months Ended June 30,								
			Interest revenue	$—	$840			
			Interest expense	(670)	4			
Interest rate swaps	$(6,379)	$12,102	Total	$(670)	$844	Interest expense	$(85)	$ —

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Credit-Risk-Related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bilateral 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. As of June 30, 2014, collateral totaling $35.2 million was pledged toward derivatives in a liability position.

United's agreements with each of its derivative counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that contain a provision where if United fails to maintain its status as a well-capitalized institution or is subject to a prompt corrective action directive, the counterparty could terminate the derivative positions and United would be required to settle its obligations under the agreements.

Note 11 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock and restricted stock unit 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 options, restricted stock and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of June 30, 2014, 551,782 additional awards could be granted under the plan. Through June 30, 2014, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards have been granted under the plan.

The following table shows stock option activity for the first six months of 2014.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2013	350,772	$ 97.87		
Expired	(34,429)	112.97		
Outstanding at June 30, 2014	316,343	96.22	3.1	$ 58
Exercisable at June 30, 2014	306,268	98.96	2.9	26

No stock options were granted during the six months ended June 30, 2014 or 2013. Most of United's outstanding stock options were granted prior to the economic downturn during which time United's stock price decreased sharply. The lower stock price has rendered most of United's outstanding options severely out of the money and potentially worthless to the grantee. Therefore, historical exercise patterns do not provide a reasonable basis for determining the expected life of new option grants. United therefore uses the formula provided by the SEC in Staff Accounting Bulletin No. 107 to determine the expected life of options.

United recognized $2,000 in compensation expense related to stock options during the six months ended June 30, 2014. Compensation expense relating to stock options for the six months ended June 30, 2013 was a reduction of expense of $60,000 due to the reversal of previously recognized expense on grants that did not vest. The amount of compensation expense was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for new options issued is estimated to be approximately 3% per year. No options were exercised during the first six months of 2014 or 2013.

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The table below presents restricted stock activity for the first six months of 2014.

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2013	1,073,676	$ 13.73
Granted	36,496	18.03
Excercised	(134,905)	10.29
Cancelled	(1,800)	11.59
Outstanding at June 30, 2014	973,467	14.37
Vested at June 30, 2014	11,080	10.01

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 six months ended June 30, 2014 and 2013, compensation expense of $2.18 million and $1.23 million, respectively, was recognized related to restricted stock awards. In addition, for the six months ended June 30, 2014 and 2013, $50,000 and $93,000, respectively, was recognized in other operating expense for restricted stock units granted to members of United's board of directors. The total intrinsic value of restricted stock was $15.9 million at June 30, 2014.

As of June 30, 2014, there was $10.7 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 3.16 years. The aggregate grant date fair value of options and restricted stock awards that vested during the six months ended June 30, 2014, was $1.27 million.

Note 12 – 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 United. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. No shares were issued through the DRIP in 2013 or the first six months of 2014.

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 that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the six months ended June 30, 2014 and 2013, United issued 19,299 and 35,667 shares, respectively, and increased capital by $328,000 and $383,000, respectively, through these programs.

United offers its common stock as an investment option in its deferred compensation plan. United also allows for the deferral of restricted stock awards. 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. The deferred compensation plan does not allow for diversification once an election is made to invest in United's common stock and settlement must be accomplished in shares at the time the deferral period is completed. At June 30, 2014 and 2013, 314,039 and 271,215 shares of common stock, respectively, were issuable under the deferred compensation plan.

In the fourth quarter of 2013 and first quarter of 2014, United redeemed all of its outstanding preferred stock. The preferred stock was redeemed at par and did not result in any gain or loss. The redemptions were funded from a combination of dividends from United Community Bank, borrowings on United's holding company line of credit and cash on hand.

Pursuant to its settlement agreement with Fletcher, United agreed to deliver 640,000 shares of its common stock and cash that, together with the common stock, would have a combined fair value of $12 million. On March 25, 2014, to satisfy its obligations under the settlement agreement, United completed the sale of 640,000 shares of common stock and received approximately $12.2 million in net proceeds after discounts and expenses, $12 million of which is payable to Fletcher once the settlement is completed. The settlement agreement and the transactions contemplated thereby have been approved by the bankruptcy court but remain subject to an appeal.

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Note 13 – Income Taxes

The income tax provision for the three and six months ended June 30, 2014 was $9.63 million and $18.7 million, respectively, which represents an effective tax rate of 37% for both periods. The income tax benefit for the three and six months ended June 30, 2013 was $257 million and $256 million, respectively, primarily due to the reversal of the valuation allowance on United's deferred tax asset. At June 30, 2014, December 31, 2013 and June 30, 2013, the valuation allowance on deferred tax assets was $4.10 million, $4.10 million and $4.96 million, respectively. Management assesses the valuation allowance recorded against deferred tax assets at each reporting period. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

In the second quarter of 2013, United reversed $272 million of its valuation allowance on its net deferred tax asset. United established a full valuation allowance on its net deferred tax asset in 2010 due to the realization of significant losses and uncertainty about United's future earnings forecasts.

United evaluated the need for a valuation allowance again at June 30, 2014. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of the net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of $4.10 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused. The positive evidence considered by management in arriving at the conclusion that a full valuation allowance is not necessary included consecutive profitable quarters beginning with the fourth quarter of 2011, United's strong pre-crisis earnings history and growth in pre-tax, pre-credit earnings, which demonstrate demand for United's products and services, and United's significant improvement in credit measures, which improve both the sustainability of profitability and management's ability to forecast future credit losses. The negative evidence previously considered by management included a three-year cumulative loss position and informal memorandum of understanding ("MOU") with the banking regulatory agencies. The MOUs were terminated in the fourth quarter of 2013 and first quarter of 2014 and United was no longer in a three-year cumulative loss position effective with the first quarter of 2014, based on a rolling twelve quarters.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at June 30, 2014 that it was more likely than not that the net deferred tax assets of $233 million will be realized is based upon management's estimate of future taxable income. Management's estimate of future taxable income is based on internal forecasts that consider historical performance, various internal estimates and assumptions, as well as certain external data all of which management believes to be reasonable although inherently subject to significant judgment. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the valuation allowance may need to be increased for some or all of the deferred tax asset. Such an increase to the deferred tax asset valuation allowance could have a material adverse effect on United's financial condition and results of operations.

United is subject to income taxation in the United States and various state jurisdictions. United's federal and state income tax returns are filed on a consolidated basis. Currently, no years for which United filed a federal income tax return are under examination by the IRS, and there are no state tax examinations currently in progress. United is no longer subject to income tax examinations from state and local income tax authorities for years before 2010. Although United is unable to determine the ultimate outcome of future examinations, United believes that the liability recorded for uncertain tax positions is appropriate.

At June 30, 2014, December 31, 2013 and June 30, 2013, unrecognized income tax benefits totaled $4.69 million, $4.50 million and $5.18 million, respectively. In the first quarter of 2014, United adopted the provisions of ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires unrecognized tax benefits to be presented as a reduction of a deferred tax asset unless certain conditions are present. Prior to adoption, unrecognized tax benefits were presented as a component of the current tax liability payable. Upon adoption, United reclassified $4.59 million in unrecognized tax benefits from other liabilities to its net deferred tax asset. The reclassification resulted in decreases in United’s net deferred tax asset and other liabilities.

Note 14 – Assets and Liabilities Measured at Fair Value

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, United uses a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

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Fair Value Hierarchy

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that United has the ability to access.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. United's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds, corporate debt securities and asset-backed securities and are valued based on observable inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the securities. Securities classified as Level 3 are valued based on estimates obtained from broker-dealers.

Deferred Compensation Plan Assets and Liabilities

Included in other assets in the Consolidated Balance Sheet are assets related to employee deferred compensation plans. The assets associated with these plans are invested in mutual funds and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which mirrors the fair value of the invested assets and is included in other liabilities in the consolidated balance sheet.

Mortgage Loans Held for Sale
Mortgage loans held for sale are carried at the lower of cost or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics.

Loans

United does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the impaired loan as nonrecurring Level 3.

Foreclosed Assets

Foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the foreclosed asset as nonrecurring Level 3.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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Derivative Financial Instruments

United uses interest rate swaps and interest rate floors to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future e