UNITED COMMUNITY BANKS INC
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2015**

**OR**

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

**For the Transition Period from ___________ to ___________**

**Commission file number 001-35095**

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

| | |
|---|---|
| **Georgia** | **58-1807304** |
| **(State of Incorporation)** | **(I.R.S. Employer Identification No.)** |

| | |
|---|---|
| **125 Highway 515 East**<br>**Blairsville, Georgia** | **30512** |
| **Address of Principal Executive Offices** | **(Zip Code)** |

**(706) 781-2265**
**(Telephone Number)**

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

**YES NO**

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive 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 NO**

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

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

**YES NO**

**Common stock, par value $1 per share 54,416,549 shares voting and 8,285,516 shares non-voting outstanding as of July 31, 2015.**

**INDEX**

**Part I – Financial Information**

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

| *(in thousands, except per share data)* | **Three Months Ended June 30, 2015** | **2014** | **Six Months Ended June 30, 2015** | **2014** |
|---|---|---|---|---|
| **Interest revenue:** | | | | |
| Loans, including fees | $52,976 | $48,261 | $102,640 | $95,949 |
| Investment securities, including tax exempt of $181, $193, $339 and $381 | 12,037 | 12,165 | 24,095 | 23,772 |
| Deposits in banks and short-term investments | 795 | 980 | 1,607 | 1,823 |
| Total interest revenue | 65,808 | 61,406 | 128,342 | 121,544 |
| | | | | |
| **Interest expense:** | | | | |
| Deposits: | | | | |
| NOW | 348 | 411 | 742 | 851 |
| Money market | 806 | 757 | 1,479 | 1,320 |
| Savings | 26 | 21 | 46 | 41 |
| Time | 895 | 2,018 | 2,004 | 3,789 |
| Total deposit interest expense | 2,075 | 3,207 | 4,271 | 6,001 |
| Short-term borrowings | 82 | 908 | 180 | 1,748 |
| Federal Home Loan Bank advances | 454 | 80 | 846 | 138 |
| Long-term debt | 2,206 | 2,638 | 4,812 | 5,272 |
| Total interest expense | 4,817 | 6,833 | 10,109 | 13,159 |
| Net interest revenue | 60,991 | 54,573 | 118,233 | 108,385 |
| Provision for credit losses | 900 | 2,200 | 2,700 | 4,700 |
| Net interest revenue after provision for credit losses | 60,091 | 52,373 | 115,533 | 103,685 |
| | | | | |
| **Fee revenue:** | | | | |
| Service charges and fees | 8,375 | 8,527 | 15,990 | 16,425 |
| Mortgage loan and other related fees | 3,707 | 1,877 | 6,462 | 3,231 |
| Brokerage fees | 1,232 | 1,245 | 2,783 | 2,422 |
| Gains from sales of government guaranteed loans | 1,494 | 744 | 2,635 | 744 |
| Securities gains, net | 13 | 4,435 | 1,552 | 4,652 |
| Loss from prepayment of debt | - | (4,446) | (1,038) | (4,446) |
| Other | 2,445 | 1,761 | 4,564 | 3,291 |
| Total fee revenue | 17,266 | 14,143 | 32,948 | 26,319 |
| **Total revenue** | 77,357 | 66,516 | 148,481 | 130,004 |
| | | | | |
| **Operating expenses:** | | | | |
| Salaries and employee benefits | 27,961 | 24,287 | 54,407 | 48,683 |
| Communications and equipment | 3,304 | 3,037 | 6,575 | 6,276 |
| Occupancy | 3,415 | 3,262 | 6,693 | 6,640 |
| Advertising and public relations | 1,127 | 1,139 | 1,877 | 1,765 |
| Postage, printing and supplies | 993 | 804 | 1,931 | 1,580 |
| Professional fees | 2,257 | 2,172 | 4,176 | 3,599 |

| | | | | |
|---|---|---|---|---|
| FDIC assessments and other regulatory charges | 1,298 | 1,425 | 2,507 | 2,778 |
| Merger-related charges | 3,173 | - | 3,173 | - |
| Other | 4,892 | 4,406 | 10,142 | 8,261 |
| Total operating expenses | 48,420 | 40,532 | 91,481 | 79,582 |
| Net income before income taxes | 28,937 | 25,984 | 57,000 | 50,422 |
| Income tax expense | 11,124 | 9,627 | 21,517 | 18,665 |
| **Net income** | 17,813 | 16,357 | 35,483 | 31,757 |
| Preferred stock dividends and discount accretion | 17 | - | 17 | 439 |
| **Net income available to common shareholders** | $17,796 | $16,357 | $35,466 | $31,318 |
| | | | | |
| Earnings per common share: | | | | |
| Basic | $.28 | $.27 | $.57 | $.52 |
| Diluted | .28 | .27 | .57 | .52 |
| Weighted average common shares outstanding: | | | | |
| Basic | 62,549 | 60,712 | 61,730 | 60,386 |
| Diluted | 62,553 | 60,714 | 61,734 | 60,388 |

See accompanying notes to consolidated financial statements.

3

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

| *(in thousands)* | **Three Months Ended June 30,** | | | **Six Months Ended June 30,** | | |
|---|---|---|---|---|---|---|
| **2015** | **Before-tax Amount** | **Tax (Expense) Benefit** | **Net of Tax Amount** | **Before-tax Amount** | **Tax (Expense) Benefit** | **Net of Tax Amount** |
| Net income | $28,937 | $(11,124) | $17,813 | $57,000 | $(21,517) | $35,483 |
| Other comprehensive income: | | | | | | |
| Unrealized gains (losses) on available-for-sale securities: | | | | | | |
| Unrealized holding gains (losses) arising during period | (10,875) | 4,032 | (6,843) | 3,114 | (1,273) | 1,841 |
| Reclassification adjustment for gains included in net income | (13) | 5 | (8) | (1,552) | 603 | (949) |
| Net unrealized gains (losses) | (10,888) | 4,037 | (6,851) | 1,562 | (670) | 892 |
| Amortization of losses included in net income on available- for-sale securities transferred to held-to-maturity | 289 | (105) | 184 | 773 | (287) | 486 |
| Net unrealized gains | 289 | (105) | 184 | 773 | (287) | 486 |
| Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges | 455 | (177) | 278 | 880 | (342) | 538 |
| Unrealized losses on derivative financial instruments accounted for as cash flow hedges | - | - | - | (471) | 183 | (288) |
| Net unrealized losses | 455 | (177) | 278 | 409 | (159) | 250 |
| Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan | 159 | (62) | 97 | 318 | (124) | 194 |
| Net defined benefit pension plan activity | 159 | (62) | 97 | 318 | (124) | 194 |
| Total other comprehensive income | (9,985) | 3,693 | (6,292) | 3,062 | (1,240) | 1,822 |
| Comprehensive income | $18,952 | $(7,431) | $11,521 | $60,062 | $(22,757) | $37,305 |
| **2014** | | | | | | |
| Net income | $25,984 | $(9,627) | $16,357 | $50,422 | $(18,665) | $31,757 |
| Other comprehensive income: | | | | | | |
| Unrealized gains on available-for-sale securities: | | | | | | |
| Unrealized holding gains 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 | 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 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as 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 |

See accompanying notes to consolidated financial statements.

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

| *(in thousands, except share and per share data)* | **June 30, 2015** | **December 31, 2014** | **June 30, 2014** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from banks | $80,865 | $77,180 | $91,791 |
| Interest-bearing deposits in banks | 94,032 | 89,074 | 100,270 |
| Short-term investments | 30,000 | 26,401 | 47,999 |
| Cash and cash equivalents | 204,897 | 192,655 | 240,060 |
| Securities available-for-sale | 1,942,319 | 1,782,734 | 1,741,268 |
| Securities held-to-maturity (fair value $388,066, $425,233 and $458,864) | 379,757 | 415,267 | 448,752 |
| Mortgage loans held for sale | 22,003 | 13,737 | 14,918 |
| Loans, net of unearned income | 5,173,517 | 4,672,119 | 4,410,285 |
| Less allowance for loan losses | (70,129) | (71,619) | (73,248) |
| Loans, net | 5,103,388 | 4,600,500 | 4,337,037 |
| Premises and equipment, net | 173,313 | 159,390 | 161,614 |
| Bank owned life insurance | 92,952 | 81,294 | 80,922 |
| Accrued interest receivable | 21,030 | 20,103 | 19,141 |
| Net deferred tax asset | 195,746 | 215,503 | 233,149 |
| Derivative financial instruments | 21,728 | 20,599 | 22,024 |
| Goodwill and other intangible assets | 20,190 | 3,641 | 2,731 |
| Other assets | 68,980 | 61,563 | 50,450 |
| **Total assets** | $8,246,303 | $7,566,986 | $7,352,066 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Liabilities: | | | |
| Deposits: | | | |
| Demand | $1,847,696 | $1,574,317 | $1,519,635 |
| NOW | 1,416,279 | 1,504,887 | 1,334,883 |
| Money market | 1,406,352 | 1,273,283 | 1,245,912 |
| Savings | 350,049 | 292,308 | 279,203 |
| Time: | | | |
| Less than $100,000 | 792,300 | 748,478 | 805,289 |
| Greater than $100,000 | 465,347 | 508,228 | 554,310 |
| Brokered | 529,920 | 425,011 | 424,313 |
| Total deposits | 6,807,943 | 6,326,512 | 6,163,545 |
| Short-term borrowings | 25,000 | 6,000 | 76,256 |
| Federal Home Loan Bank advances | 385,125 | 270,125 | 175,125 |
| Long-term debt | 113,901 | 129,865 | 129,865 |
| Derivative financial instruments | 32,374 | 31,997 | 36,545 |
| Unsettled securities purchases | - | 5,425 | 7,264 |
| Accrued expenses and other liabilities | 54,728 | 57,485 | 41,497 |
| **Total liabilities** | 7,419,071 | 6,827,409 | 6,630,097 |
| Shareholders' equity: | | | |
| Preferred stock, $1 par value; 10,000,000 shares authorized; | | | |
| Series H; $1,000 stated value; 9,992 shares issued and outstanding | 9,992 | - | - |

| | | | |
|---|---|---|---|
| Common stock, $1 par value; 100,000,000 shares authorized; | | | |
| 54,414,863, 50,178,605 and 50,058,295 shares issued and outstanding | 54,415 | 50,178 | 50,058 |
| Common stock, non-voting, $1 par value; 26,000,000 shares authorized; | | | |
| 8,285,516, 10,080,787 and 10,080,787 shares issued and outstanding | 8,286 | 10,081 | 10,081 |
| Common stock issuable; 413,014, 357,983 and 314,039 shares | 6,071 | 5,168 | 4,649 |
| Capital surplus | 1,123,730 | 1,080,508 | 1,091,780 |
| Accumulated deficit | (358,294 ) | (387,568 ) | (418,583 ) |
| Accumulated other comprehensive loss | (16,968 ) | (18,790 ) | (16,016 ) |
| **Total shareholders' equity** | 827,232 | 739,577 | 721,969 |
| **Total liabilities and shareholders' equity** | $8,246,303 | $7,566,986 | $7,352,066 |

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)* | Series B | Series D | Series H | Common Stock | Non-Voting Common Stock | Common Stock Issuable | Capital Surplus | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2013** | $105,000 | $16,613 | $- | $46,243 | $13,188 | $3,930 | $1,078,676 | $(448,091) | $(19,844) | $795,715 |
| Net income | | | | | | | | 31,757 | | 31,757 |
| Other comprehensive income | | | | | | | | | 3,828 | 3,828 |
| Redemption of Series B preferred stock (105,000 shares) | (105,000) | | | | | | | | | (105,000) |
| Redemption of Series D preferred stock (16,613 shares) | | (16,613) | | | | | | | | (16,613 ) |
| Common stock issued at market (640,000 shares) | | | | 640 | | | 11,566 | | | 12,206 |
| Common stock issued to dividend reinvestment plan and employee benefit plans(19,299 shares) | | | | 19 | | | 309 | | | 328 |
| Conversion of non-voting common stock to voting (3,107,419 shares) | | | | 3,107 | (3,107 ) | | | | | - |
| Amortization of stock option | | | | | | | 2,228 | | | 2,228 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| and restricted stock awards | | | | | | | | | | |
| Vesting of restricted stock, net of shares surrendered to cover payroll taxes (40,751 shares issued, 72,797 shares deferred) | | | | 41 | | 749 | (1,140 ) | | | (350 ) |
| Deferred compensation plan, net, including dividend equivalents | | | | | | 119 | | | | 119 |
| Shares issued from deferred compensation plan (7,481 shares) | | | | 8 | | (149 ) | 141 | | | - |
| Common stock dividends ($.03 per share) | | | | | | | | (1,810 ) | | (1,810 ) |
| Preferred stock dividends: | | | | | | | | | | |
| Series B | | | | | | | | (159 ) | | (159 ) |
| Series D | | | | | | | | (280 ) | | (280 ) |
| **Balance, June 30, 2014** | $- | $- | $- | $50,058 | $10,081 | $4,649 | $1,091,780 | $(418,583) | $(16,016) | $721,969 |
| **Balance, December 31, 2014** | $- | $- | $- | $50,178 | $10,081 | $5,168 | $1,080,508 | $(387,568) | $(18,790) | $739,577 |
| Net income | | | | | | | | 35,483 | | 35,483 |
| Other comprehensive income | | | | | | | | | 1,822 | 1,822 |
| Common stock issued to dividend reinvestment plan and to employee benefit plans (7,661 shares) | | | | 8 | | | 122 | | | 130 |
| Conversion of non-voting common stock to voting common stock | | | | 1,795 | (1,795 ) | | | | | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1,795,271 shares) | | | | | | | | | | |
| Common and preferred stock issued for acquisition (2,358,503 common shares and 9,992 preferred shares) | | | 9,992 | 2,359 | | | 41,533 | | | 53,884 |
| Amortization of stock option and restricted stock awards | | | | | | | 2,178 | | | 2,178 |
| Vesting of restricted stock, net of shares surrendered to cover payroll taxes (60,698 shares issued, 59,685 shares deferred) | | | | 61 | | 852 | (1,294) | | | (381) |
| Deferred compensation plan, net, including dividend equivalents | | | | | | 190 | (1) | | | 189 |
| Shares issued from deferred compensation plan (14,125 shares) | | | | 14 | | (139) | 125 | | | - |
| Common stock dividends ($.10 per share) | | | | | | | | (6,192) | | (6,192) |
| Tax on option exercise and restricted stock vesting | | | | | | | 559 | | | 559 |
| Preferred stock dividends: | | | | | | | | | | |
| Series H | | | | | | | | (17) | | (17) |
| **Balance, June 30, 2015** | $- | $- | $9,992 | $54,415 | $8,286 | $6,071 | $1,123,730 | $(358,294) | $(16,968) | $827,232 |

See accompanying notes to consolidated financial statements.

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

| | Six Months Ended June 30, | |
|---|---|---|
| *(in thousands)* | **2015** | **2014** |
| **Operating activities:** | | |
| Net income | $35,483 | $31,757 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 10,896 | 9,966 |
| Provision for credit losses | 2,700 | 4,700 |
| Stock based compensation | 2,178 | 2,228 |
| Deferred income tax benefit | 18,519 | 18,716 |
| Securities gains, net | (1,552) | (4,652) |
| Gains from sales of government guaranteed loans | (2,635) | - |
| Net gains on sale of other assets | (83) | - |
| Net gains and write downs on sales of other real estate owned | (143) | (362) |
| Loss on prepayment of borrowings | 1,038 | 4,446 |
| Changes in assets and liabilities: | | |
| Other assets and accrued interest receivable | 12 | (2,567) |
| Accrued expenses and other liabilities | (2,997) | (19,691) |
| Mortgage loans held for sale | (6,924) | (4,599) |
| **Net cash provided by operating activities** | 56,492 | 39,942 |
| | | |
| **Investing activities:** | | |
| Investment securities held to maturity: | | |
| Proceeds from maturities and calls of securities held to maturity: | 35,538 | 31,159 |
| Purchases of securities held to maturity | - | (173) |
| Investment securities available for sale: | | |
| Proceeds from sales of securities available for sale | 136,817 | 390,227 |
| Proceeds from maturities and calls of securities available for sale | 134,521 | 111,378 |
| Purchases of securities available for sale | (312,357) | (411,443) |
| Net increase in loans | (264,702) | (55,199) |
| Funds (paid to) collected from FDIC under loss sharing agreements | (1,198) | 2,112 |
| Proceeds from sales of premises and equipment | 147 | 2,392 |
| Purchases of premises and equipment | (5,055) | (1,934) |
| Net cash received (paid) for acquisition | 44,594 | (31,243) |
| Proceeds from sale of notes | - | 4,561 |
| Proceeds from sale of other real estate | 1,434 | 5,877 |
| **Net cash (used in) provided by investing activities** | (230,261) | 47,714 |
| | | |
| **Financing activities:** | | |
| Net change in deposits | 111,681 | (37,960) |
| Net change in short-term borrowings | 3,460 | 18,569 |
| Repayments of trust preferred securities | (15,998) | - |
| Proceeds from FHLB advances | 1,060,000 | 560,000 |
| Repayments of FHLB advances | (967,070) | (505,000) |

| | | |
|---|---|---|
| Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans | 130 | 328 |
| Proceeds from issuance of common stock, net of issuance costs | - | 12,206 |
| Retirement of preferred stock | - | (121,613) |
| Cash dividends on common stock | (6,192) | (1,810) |
| Cash dividends on preferred stock | - | (1,214) |
| **Net cash provided by (used in) financing activities** | 186,011 | (76,494) |
| | | |
| **Net change in cash and cash equivalents** | 12,242 | 11,162 |
| | | |
| Cash and cash equivalents at beginning of period | 192,655 | 228,898 |
| **Cash and cash equivalents at end of period** | $204,897 | $240,060 |
| | | |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the period for: | | |
| Interest | $10,993 | $13,558 |
| Income taxes | 2,791 | 2,044 |
| Unsettled securities purchases | - | 7,264 |
| Unsettled government guaranteed loan sales | 6,013 | - |
| Transfers of loans to foreclosed properties | 1,528 | 6,054 |
| | | |
| Acquisitions: | | |
| Assets acquired | 474,009 | 31,243 |
| Liabilities assumed | 409,426 | - |
| Net assets acquired | 64,583 | 31,243 |
| Common stock issued in acquisition | 43,892 | - |
| Preferred stock issued in acquisition | 9,992 | - |

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, 2014.

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.

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

**Note 2 – Accounting Standards Updates and Recently Adopted Standards**

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, effective for fiscal years beginning after December 15, 2015 and interim periods within those years with early adoption permitted. The new standard is intended to improve targeted areas of the consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. The amendments in the ASU affect the consolidation evaluation for reporting organizations. In addition, the amendments in this ASU simplify and improve current GAAP by reducing the number of consolidation models. United is currently evaluating the impact of this guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability consistent with debt discounts. The standard will be effective for the United's fiscal year beginning after December 15, 2015 and subsequent interim periods. The adoption of ASU 2015-03 is not expected to have a material effect on the United's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent).* ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for fiscal years beginning after December 15, 2015, with retrospective application to all periods presented. Early application is permitted. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10: *Technical Corrections and Improvements*. The amendments in this Update cover a wide range of topics in the Codification including guidance clarification and reference corrections, simplification and minor improvements. Transition guidance varies based on the amendments. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon issuance. United retrospectively applied the provisions of ASU 2015-10 during the second quarter of 2015, with no material impact on United's financial position or results of operations. The adoption of ASU 2015-10 did affect certain disclosures related to nonrecurring fair value measurements as presented in Note 14.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)*. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was originally effective for interim and annual periods beginning after December 15, 2016. In July 2015, the FASB voted to delay the effective date of this ASU by one year. United is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on United's consolidated financial statements.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Note 3 – Acquisitions**

**Acquisition of MoneyTree Corporation**

On May 1, 2015, United completed the acquisition of MoneyTree Corporation ("MoneyTree") and its wholly-owned bank subsidiary, First National Bank ("FNB"). FNB operated ten branches in east Tennessee. In connection with the acquisition, United acquired $461 million of assets and assumed $409 million of liabilities and $9.99 million of preferred stock. Total consideration transferred was $54.6 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $13.0 million, which consisted largely of the intangible value of FNB's business and reputation within the market it serves. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of $4.22 million using the sum-of-the-years-digits method over 6.67 years, which represents the expected useful life of the asset. The deposit premium of $917,000 will be amortized using the effective yield method over 5 years, which represents the weighted average maturity of the underlying deposits.

The fair value of the 2,358,503 common shares issued as part of the consideration paid for MoneyTree was determined on the basis of the closing market price of United's common shares on the acquisition date. Acquisition-related costs totaled $3.17 million for the three and six months ending June 30, 2015 and were included in operating expenses in the consolidated income statement.

Upon completion of the acquisition, each share of preferred stock issued by MoneyTree as part of the Small Business Lending Fund ("SBLF") program of the United States Department of Treasury (9,992 shares in the aggregate with a liquidation preference amount of $1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. See Note 12 for further detail.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The purchased assets and assumed liabilities were recorded at their acquisition date fair values, and are summarized in the table below *(in thousands)*.

| | **As Recorded by Money Tree** | **Fair Value Adjustments** [1] | **As Recorded by United** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 55,293 | $ - | $ 55,293 |
| Securities | 127,123 | (52) | 127,071 |
| Loans held for sale | 1,342 | - | 1,342 |
| Loans, net | 246,816 | (2,464) | 244,352 |
| Premises and equipment, net | 9,497 | 3,759 | 13,256 |
| Bank owned life insurance | 11,194 | - | 11,194 |
| Core deposit intangible | - | 4,220 | 4,220 |
| Other assets | 5,462 | (1,199) | 4,263 |
| **Total assets acquired** | $ 456,727 | $ 4,264 | $ 460,991 |
| **Liabilities** | | | |
| Deposits | $ 368,833 | $ 917 | $ 369,750 |
| Short-term borrowings | 15,000 | - | 15,000 |
| Federal Home Loan Bank advances | 22,000 | 70 | 22,070 |
| Other liabilities | 864 | 1,742 | 2,606 |
| **Total liabilities assumed** | 406,697 | 2,729 | 409,426 |
| SBLF preferred stock assumed | 9,992 | - | 9,992 |
| Excess of assets acquired over liabilities and preferred stock assumed | $ 40,038 | | |
| Aggregate fair value adjustments | | $ 1,535 | |
| **Consideration transferred** | | | |
| Cash | | | 10,699 |
| Common stock issued (2,358,503 shares) | | | 43,892 |
| **Total fair value of consideration transferred** | | | 54,591 |
| Goodwill | | | $ 13,018 |

[1] Fair values are preliminary and are subject to refinement for a period not to exceed one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

Purchased loans that show evidence of credit deterioration since origination are accounted for pursuant to Accounting Standards Codification ("ASC") Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The following table presents additional information related to the acquired loan portfolio at acquisition date *(in thousands)*:

| | May 1, 2015 |
|---|---|
| **Accounted for pursuant to ASC 310-30:** | |
| Contractually required principal and interest | $15,152 |
| Non-accretable difference | 3,677 |
| Cash flows expected to be collected | 11,475 |
| Accretable yield | 1,029 |
| Fair value | $10,446 |
| | |
| **Excluded from ASC 310-30:** | |
| Fair value | $233,906 |
| Gross contractual amounts receivable | 258,931 |
| Estimate of contractual cash flows not expected to be collected | 1,231 |

United's operating results for the six months ended June 30, 2015 include the operating results of the acquired assets and assumed liabilities for the 61 days subsequent to the acquisition date of May 1, 2015. Merger-related charges of $3.17 million are recorded in the consolidated statement of income and include incremental costs related to closing the acquisition, including severance, conversion costs and legal and professional fees.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The following table discloses the impact of the merger with MoneyTree (excluding the impact of merger-related expenses) since the acquisition on May 1, 2015 through June 30, 2015. The table also presents certain pro forma information as if MoneyTree had been acquired on January 1, 2014. These results combine the historical results of MoneyTree in United's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisition taken place on January 1, 2014.

Merger-related costs of $3.17 million from the MoneyTree acquisition have been excluded from the 2015 pro forma information presented below and included in the 2014 pro forma information presented below. Furthermore, no adjustments have been made to the pro forma information to eliminate the pre-acquisition provision for loan losses for the six months ended June 30, 2015 or 2014 of MoneyTree in the amount of $7,000 and $96,000, respectively. No adjustments have been made to reduce the impact of any OREO write downs recognized by MoneyTree in either the six months ended June 30, 2015 or 2014. In addition, expenses related to systems conversions and other costs of integration are expected to be recorded during the second half of 2015. United expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below. The actual results and pro forma information were as follows *(in thousands)*:

| | Revenue | | Net Income | |
|---|---|---|---|---|
| Actual MoneyTree from May 1, 2015 - June 30, 2015 | $ | 2,284 | $ | 384 |
| 2015 supplemental consolidated pro forma from January 1, 2015 - June 30, 2015 | | 153,322 | | 38,294 |
| 2014 supplemental consolidated pro forma from January 1, 2014 - June 30, 2014 | | 137,809 | | 31,080 |

**Acquisition of Palmetto Bancshares, Inc.**

On April 22, 2015, United announced that it had reached a definitive agreement to acquire Palmetto Bancshares, Inc. ("Palmetto") and its wholly-owned bank subsidiary The Palmetto Bank. The Palmetto Bank is the third largest banking institution headquartered in South Carolina with total assets of $1.16 billion, loans of $824 million and deposits of $977 million as of June 30, 2015. It is a 108-year old community bank that serves Upstate South Carolina through 25 branch locations in nine counties along the Interstate 85 corridor. The Palmetto Bank will merge into and operate under the brand of United Community Bank.

Under the terms of the agreement, which has been unanimously approved by the Boards of Directors of both companies, Palmetto shareholders will have the right to receive $19.25 in cash or 0.97 shares of United common stock, or any combination thereof, for each share of Palmetto common stock. The cash and stock elections are subject to proration to ensure that 30% of the outstanding shares of Palmetto common stock will be exchanged for cash and 70% of the outstanding shares of Palmetto common stock will be exchanged for shares of United common stock in the merger. Based on United’s ten-day average closing price of $21.21 per share as of July 31, 2015 the aggregate deal value was approximately $262 million.

The merger is expected to close on September 1, 2015, subject to the approval of the shareholders of Palmetto at a special meeting to be held on August 12, 2015 and other customary conditions. All required regulatory approvals have been received.

**Acquisition of Business Carolina, Inc.**

On June 26, 2014, United completed the acquisition of substantially all of the assets of Business Carolina, Inc., a specialty Small Business Administration (“SBA”) / United States Department of Agriculture (“USDA”) lender headquartered in Columbia, South Carolina. On the closing date, United paid $31.3 million in cash for loans having a fair value on the purchase date of $24.8 million, accrued interest of $83,000, servicing rights with a fair value on the purchase date of $2.13 million, premises and equipment with a fair value on the purchase date of $2.60 million and goodwill in the amount of $1.51 million representing the premium paid over the fair value of the separately identifiable assets and liabilities acquired. The gross contractual amount of loans receivable was $28.0 million as of the acquisition date. United has not identified any material separately identifiable intangible assets resulting from the acquisition.

The loans and servicing assets that were acquired in this transaction were valued by a third party vendor that specializes in the valuations of these government guaranteed related assets. These assets are very illiquid and United does not have the same level of visibility into the inputs that the valuation vendor has. Therefore, United considers those inputs to be level 3 in the ASC 820 hierarchy. For the loans, the valuations were derived by estimating the expected cash flows using a combination of prepayment speed and default estimates. The cash flows are then discounted using the rates implied by observed transactions in the market place.

**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, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

| **June 30, 2015** | **Gross Amounts of Recognized Assets** | **Gross Amounts Offset on the Balance Sheet** | **Net Asset Balance** | **Gross Amounts not Offset in the Balance Sheet** | | **Net Amount** |
|---|---|---|---|---|---|---|
| | | | | **Financial Instruments** | **Collateral Received** | |
| Repurchase agreements / reverse repurchase agreements | $ 330,000 | $ (300,000) | $ 30,000 | $ - | $ (31,679) | $ - |
| Derivatives | 21,728 | - | 21,728 | (1,881) | (3,978) | 15,869 |
| Total | $ 351,728 | $ (300,000) | $ 51,728 | $ (1,881) | $ (35,657) | $ 15,869 |
| Weighted average interest rate of reverse repurchase agreements | 1.17 % | | | | | |

| | **Gross Amounts of Recognized Liabilities** | **Gross Amounts Offset on the Balance Sheet** | **Net Liability Balance** | **Gross Amounts not Offset in the Balance Sheet** | | **Net Amount** |
|---|---|---|---|---|---|---|
| | | | | **Financial Instruments** | **Collateral Pledged** | |
| Repurchase agreements / reverse repurchase agreements | $ 300,000 | $ (300,000) | $ - | $ - | $ - | $ - |
| Derivatives | 32,374 | - | 32,374 | (1,881) | (35,509) | - |
| Total | $ 332,374 | $ (300,000) | $ 32,374 | $ (1,881) | $ (35,509) | $ - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Weighted average interest rate of repurchase agreements | .31 % | | | | | |

| **December 31, 2014** | **Gross Amounts of Recognized Assets** | **Gross Amounts Offset on the Balance Sheet** | **Net Asset Balance** | **Gross Amounts not Offset in the Balance Sheet** | | **Net Amount** |
|---|---|---|---|---|---|---|
| | | | | **Financial Instruments** | **Collateral Received** | |
| Repurchase agreements / reverse repurchase agreements | $ 395,000 | $ (375,000 ) | $ 20,000 | $ - | $ (20,302 ) | $ - |
| Derivatives | 20,599 | - | 20,599 | (869 ) | (3,716 ) | 16,014 |
| Total | $ 415,599 | $ (375,000 ) | $ 40,599 | $ (869 ) | $ (24,018 ) | $ 16,014 |
| Weighted average interest rate of reverse repurchase agreements | 1.16 % | | | | | |

| | **Gross Amounts of Recognized Liabilities** | **Gross Amounts Offset on the Balance Sheet** | **Net Liability Balance** | **Gross Amounts not Offset in the Balance Sheet** | | **Net Amount** |
|---|---|---|---|---|---|---|
| | | | | **Financial Instruments** | **Collateral Pledged** | |
| Repurchase agreements / reverse repurchase agreements | $ 375,000 | $ (375,000 ) | $ - | $ - | $ - | $ - |
| Derivatives | 31,997 | - | 31,997 | (869 ) | (32,792 ) | - |
| Total | $ 406,997 | $ (375,000 ) | $ 31,997 | $ (869 ) | $ (32,792 ) | $ - |
| Weighted average interest rate of repurchase agreements | .29 % | | | | | |

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

| **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** | | **Net Amount** |
|---|---|---|---|---|---|---|
| | | | | **Financial Instruments** | **Collateral Received** | |
| 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** | | **Net Amount** |
|---|---|---|---|---|---|---|
| | | | | **Financial Instruments** | **Collateral Pledged** | |
| 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 % | | | | | |

**Note 5 – Securities**

The amortized cost basis, gross unrealized gains and losses and fair value of securities held-to-maturity at June 30, 2015, December 31, 2014 and June 30, 2014 are as follows *(in thousands)*.

| As of June 30, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| State and political subdivisions | $47,116 | $ 3,103 | $ - | $50,219 |
| Mortgage-backed securities [1] | 332,641 | 6,899 | 1,693 | 337,847 |
| Total | $379,757 | $ 10,002 | $ 1,693 | $388,066 |
| As of December 31, 2014 | | | | |
| State and political subdivisions | $48,157 | $ 3,504 | $ - | $51,661 |
| Mortgage-backed securities [1] | 367,110 | 7,716 | 1,254 | 373,572 |
| Total | $415,267 | $ 11,220 | $ 1,254 | $425,233 |
| As of June 30, 2014 | | | | |
| 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 |

(1) All are residential type mortgage-backed securities or U.S.government agency commercial mortgage backed securities.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The following table summarizes held-to-maturity securities in an unrealized loss position as of June 30, 2015, December 31, 2014 and June 30, 2014 (*in thousands)*.

| | **Less than 12 Months** | | **12 Months or More** | | **Total** | |
|---|---|---|---|---|---|---|
| As of June 30, 2015 | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Mortgage-backed securities | $130,980 | $ 1,268 | $19,359 | $ 425 | $150,339 | $ 1,693 |
| Total unrealized loss position | $130,980 | $ 1,268 | $19,359 | $ 425 | $150,339 | $ 1,693 |
| | | | | | | |
| As of December 31, 2014 | | | | | | |
| Mortgage-backed securities | $126,514 | $ 917 | $17,053 | $ 337 | $143,567 | $ 1,254 |
| Total unrealized loss position | $126,514 | $ 917 | $17,053 | $ 337 | $143,567 | $ 1,254 |
| | | | | | | |
| As of June 30, 2014 | | | | | | |
| 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 |

Management evaluates securities for other-than-temporary impairment 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, 2015 or 2014.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The cost basis, unrealized gains and losses, and fair value of securities available-for-sale at June 30, 2015, December 31, 2014 and June 30, 2014 are presented below *(in thousands)*.

| As of June 30, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasuries | $127,962 | $ 360 | $ 421 | $127,901 |
| U.S. Government agencies | 110,710 | 126 | 525 | 110,311 |
| State and political subdivisions | 30,489 | 416 | 141 | 30,764 |
| Mortgage-backed securities (1) | 989,636 | 14,852 | 6,372 | 998,116 |
| Corporate bonds | 208,114 | 1,611 | 2,701 | 207,024 |
| Asset-backed securities | 462,702 | 3,938 | 308 | 466,332 |
| Other | 1,871 | - | - | 1,871 |
| Total | $1,931,484 | $ 21,303 | $ 10,468 | $1,942,319 |
| As of December 31, 2014 | | | | |
| U.S. Treasuries | $105,540 | $ 235 | $ 66 | $105,709 |
| U.S. Government agencies | 36,474 | - | 175 | 36,299 |
| State and political subdivisions | 19,748 | 504 | 19 | 20,233 |
| Mortgage-backed securities (1) | 988,012 | 16,273 | 7,465 | 996,820 |
| Corporate bonds | 165,018 | 1,686 | 1,076 | 165,628 |
| Asset-backed securities | 455,626 | 2,257 | 1,955 | 455,928 |
| Other | 2,117 | - | - | 2,117 |
| Total | $1,772,535 | $ 20,955 | $ 10,756 | $1,782,734 |
| As of June 30, 2014 | | | | |
| U.S. Treasuries | $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 |

[1] All are residential type mortgage-backed securities or U.S. government agency commercial mortgage backed securities.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The following table summarizes available-for-sale securities in an unrealized loss position as of June 30, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

| | **Less than 12 Months** | | **12 Months or More** | | **Total** | |
|---|---|---|---|---|---|---|
| As of June 30, 2015 | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| U.S. Treasuries | $49,830 | $ 421 | $- | $ - | $49,830 | $ 421 |
| U.S. Government agencies | 85,769 | 525 | - | - | 85,769 | 525 |
| State and political subdivisions | 13,441 | 141 | - | - | 13,441 | 141 |
| Mortgage-backed securities | 145,477 | 1,283 | 198,067 | 5,089 | 343,544 | 6,372 |
| Corporate bonds | 119,690 | 2,701 | - | - | 119,690 | 2,701 |
| Asset-backed securities | 49,294 | 261 | 14,899 | 47 | 64,193 | 308 |
| Total unrealized loss position | $463,501 | $ 5,332 | $212,966 | $ 5,136 | $676,467 | $ 10,468 |
| As of December 31, 2014 | | | | | | |
| U.S. Treasuries | $34,180 | $ 66 | $- | $ - | $34,180 | $ 66 |
| U.S. Government agencies | 36,299 | 175 | - | - | 36,299 | 175 |
| State and political subdivisions | 2,481 | 19 | - | - | 2,481 | 19 |
| Mortgage-backed securities | 88,741 | 446 | 251,977 | 7,019 | 340,718 | 7,465 |
| Corporate bonds | 37,891 | 371 | 20,275 | 705 | 58,166 | 1,076 |
| Asset-backed securities | 221,359 | 1,592 | 40,952 | 363 | 262,311 | 1,955 |
| Total unrealized loss position | $420,951 | $ 2,669 | $313,204 | $ 8,087 | $734,155 | $ 10,756 |
| As of June 30, 2014 | | | | | | |
| U.S. Treasuries | $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 |

At June 30, 2015, there were 142 available-for-sale securities and 23 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, 2015, December 31, 2014 and June 30, 2014 were primarily attributable to changes in interest rates and therefore, United does not consider them to be impaired.

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, 2015 and 2014 *(in thousands)*.

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Proceeds from sales | $67,350 | $236,911 | $136,817 | $390,227 |
| Gross gains on sales | $13 | $5,374 | $1,552 | $5,784 |
| Gross losses on sales | - | (939 ) | - | (1,132 ) |
| Net gains on sales of securities | $13 | $4,435 | $1,552 | $4,652 |
| Income tax expense attributable to sales | $5 | $1,725 | $603 | $1,817 |

Securities with a carrying value of $1.25 billion, $1.51 billion and $1.37 billion were pledged to secure public deposits and other secured borrowings at June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The amortized cost and fair value of held-to-maturity and available-for-sale securities at June 30, 2015, by contractual maturity, are presented in the following table *(in thousands)*.

| | Available-for-Sale | | Held-to-Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| US Treasuries: | | | | |
| 1 to 5 years | $77,711 | $78,071 | $ - | $ - |
| 5 to 10 years | 50,251 | 49,830 | - | - |
| | 127,962 | 127,901 | - | |
| US Government agencies: | | | | |
| 1 to 5 years | 32,007 | 31,801 | - | - |
| 5 to 10 years | 78,703 | 78,510 | - | - |
| | 110,710 | 110,311 | - | |
| State and political subdivisions: | | | | |
| Within 1 year | 4,487 | 4,563 | 1,006 | 1,036 |
| 1 to 5 years | 9,709 | 9,969 | 17,670 | 18,756 |
| 5 to 10 years | 11,325 | 11,237 | 22,140 | 23,673 |
| More than 10 years | 4,968 | 4,995 | 6,300 | 6,754 |
| | 30,489 | 30,764 | 47,116 | 50,219 |
| Corporate bonds: | | | | |
| 1 to 5 years | 57,031 | 57,474 | - | - |
| 5 to 10 years | 118,603 | 118,841 | - | - |
| More than 10 years | 32,480 | 30,709 | - | - |
| | 208,114 | 207,024 | - | |
| Asset-backed securities: | | | | |
| 1 to 5 years | 237,660 | 239,903 | - | - |
| 5 to 10 years | 78,367 | 78,628 | - | - |
| More than 10 years | 146,675 | 147,801 | - | - |
| | 462,702 | 466,332 | - | |
| Other: | | | | |
| More than 10 years | 1,871 | 1,871 | - | - |
| | 1,871 | 1,871 | - | |

| | | | | |
|---|---|---|---|---|
| Total securities other than mortgage-backed securities: | | | | |
| Within 1 year | 4,487 | 4,563 | 1,006 | 1,036 |
| 1 to 5 years | 414,118 | 417,218 | 17,670 | 18,756 |
| 5 to 10 years | 337,249 | 337,046 | 22,140 | 23,673 |
| More than 10 years | 185,994 | 185,376 | 6,300 | 6,754 |
| Mortgage-backed securities | 989,636 | 998,116 | 332,641 | 337,847 |
| | $1,931,484 | $1,942,319 | $ 379,757 | $388,066 |

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

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Note 6 – Loans and Allowance for Credit Losses**

Major classifications of loans as of June 30, 2015, December 31, 2014 and June 30, 2014, are summarized as follows *(in thousands)*.

| | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|
| Owner occupied commercial real estate | $1,265,783 | $1,163,480 | $1,163,327 |
| Income producing commercial real estate | 688,768 | 598,537 | 598,318 |
| Commercial & industrial | 792,791 | 710,256 | 554,089 |
| Commercial construction | 237,820 | 196,030 | 159,755 |
| Total commercial | 2,985,162 | 2,668,303 | 2,475,489 |
| Residential mortgage | 935,646 | 865,789 | 860,525 |
| Home equity lines of credit | 490,753 | 465,872 | 451,435 |
| Residential construction | 298,920 | 298,627 | 301,737 |
| Consumer installment | 105,931 | 104,899 | 105,160 |
| Indirect auto | 357,105 | 268,629 | 215,939 |
| Total loans | 5,173,517 | 4,672,119 | 4,410,285 |
| Less allowance for loan losses | (70,129) | (71,619) | (73,248) |
| Loans, net | $5,103,388 | $4,600,500 | $4,337,037 |

At June 30, 2015, December 31, 2014 and June 30, 2014, loans totaling $2.42 billion, $2.35 billion and $2.09 billion, respectively, were pledged as collateral to secure FHLB advances and other contingent funding sources.

At June 30, 2015, the carrying value and unpaid principal balance of purchased credit impaired loans accounted for under ASC 310-30 was $10.1 million and $13.6 million, respectively. The following table presents changes in the value of the accretable yield for acquired loans accounted for under ASC Topic 310-30 for the three and six months ended June 30, 2015 *(in thousands)*:

| | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2015 |
|---|---|---|

| | | |
|---|---|---|
| Balance at beginning of period | $ - | $ - |
| Additions due to acquisitions | 1,029 | 1,029 |
| Accretion | (83 ) | (83 ) |
| Balance at end of period | $ 946 | $ 946 |

In addition to the accretable yield on loans accounted for under ASC Topic 310-30, the fair value adjustments on purchased loans outside the scope of ASC Topic 310-30 are also accreted to interest income over the life of the loans. At June 30, 2015, the remaining accretable fair value mark on loans not accounted for under ASC Topic 310-30 was $2.60 million.

The allowance for loan losses represents management's estimate of probable incurred losses in the loan portfolio as of the end of the period. 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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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, 2015 and 2014 *(in thousands)*.

| | 2015 | | | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Three Months Ended June 30, | Beginning Balance | Charge-Offs | Recoveries | Provision | Ending Balance | Beginning Balance | Charge-Offs | Recoveries | Allocation of Unallocated | Provision | Ending Balance |
| Owner occupied commercial real estate | $14,952 | $(363) | $78 | $1,672 | $16,339 | $20,292 | $(918) | $2,753 | $- | $(4,323) | $17,804 |
| Income producing commercial real estate | 9,655 | (74) | 350 | (1,731) | 8,200 | 10,926 | (632) | 197 | - | 1,270 | 11,761 |
| Commercial & industrial | 3,442 | (162) | 789 | 659 | 4,728 | 4,247 | (1,012) | 350 | - | 300 | 3,885 |
| Commercial construction | 5,335 | (147) | 51 | (344) | 4,895 | 3,977 | (131) | - | - | 221 | 4,067 |
| Residential mortgage | 20,138 | (1,109) | 322 | (299) | 19,052 | 15,967 | (2,800) | 292 | - | 3,304 | 16,763 |
| Home equity lines of credit | 4,321 | (348) | 26 | 1,480 | 5,479 | 6,120 | (624) | 158 | - | 684 | 6,338 |
| Residential construction | 10,210 | (499) | 392 | (766) | 9,337 | 12,181 | (1,946) | 275 | - | 698 | 11,208 |
| Consumer installment | 713 | (349) | 187 | 137 | 688 | 717 | (455) | 391 | - | (54) | 599 |
| Indirect auto | 1,241 | (130) | 8 | 292 | 1,411 | 796 | (89) | 16 | - | 100 | 823 |
| Total allowance for loan losses | 70,007 | (3,181) | 2,203 | 1,100 | 70,129 | 75,223 | (8,607) | 4,432 | - | 2,200 | 73,248 |
| Allowance for unfunded commitments | 2,780 | - | - | (200) | 2,580 | 2,165 | - | - | - | - | 2,165 |
| Total allowance for credit losses | $72,787 | $(3,181) | $2,203 | $900 | $72,709 | $77,388 | $(8,607) | $4,432 | $- | $2,200 | $75,413 |

Charge-Offs Recoveries Provision Charge-Offs Recoveries Provision

| Six Months Ended June 30, | Beginning Balance | | | | Ending Balance | Beginning Balance | | | Allocation of Unallocated | | Ending Balance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Owner occupied commercial real estate | $16,041 | $(731) | $89 | $940 | $16,339 | $17,164 | $(1,284) | $2,843 | $1,278 | $(2,197) | $17,804 |
| Income producing commercial real estate | 10,296 | (322) | 357 | (2,131) | 8,200 | 7,174 | (837) | 197 | 688 | 4,539 | 11,761 |
| Commercial & industrial | 3,255 | (631) | 917 | 1,187 | 4,728 | 6,527 | (1,975) | 891 | 318 | (1,876) | 3,885 |
| Commercial construction | 4,747 | (169) | 51 | 266 | 4,895 | 3,669 | (132) | - | 388 | 142 | 4,067 |
| Residential mortgage | 20,311 | (1,687) | 484 | (56) | 19,052 | 15,446 | (4,381) | 357 | 1,452 | 3,889 | 16,763 |
| Home equity lines of credit | 4,574 | (421) | 40 | 1,286 | 5,479 | 5,528 | (1,627) | 168 | 391 | 1,878 | 6,338 |
| Residential construction | 10,603 | (1,639) | 471 | (98) | 9,337 | 12,532 | (2,251) | 369 | 1,728 | (1,170) | 11,208 |
| Consumer installment | 731 | (675) | 563 | 69 | 688 | 1,353 | (1,131) | 718 | - | (341) | 599 |
| Indirect auto | 1,061 | (258) | 21 | 587 | 1,411 | 1,126 | (166) | 27 | - | (164) | 823 |
| Unallocated | - | - | - | - | - | 6,243 | - | - | (6,243) | - | - |
| Total allowance for loan losses | 71,619 | (6,533) | 2,993 | 2,050 | 70,129 | 76,762 | (13,784) | 5,570 | - | 4,700 | 73,248 |
| Allowance for unfunded commitments | 1,930 | - | - | 650 | 2,580 | 2,165 | - | - | - | - | 2,165 |
| Total allowance for credit losses | $73,549 | $(6,533) | $2,993 | $2,700 | $72,709 | $78,927 | $(13,784) | $5,570 | $- | $4,700 | $75,413 |

In the first quarter of 2014, United modified its allowance for loan losses methodology to incorporate a loss emergence period. The increase in precision resulting from the use of the loss emergence period led to the full allocation of the portion of the allowance that had previously been unallocated.

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, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

| | June 30, 2015 | | | | December 31, 2014 | | | June 30, 2014 | |
|---|---|---|---|---|---|---|---|---|---|
| Allowance for Loan Losses | Individually evaluated for impairment | Collectively evaluated for impairment | Purchased with deteriorated credit quality | Ending Balance | Individually evaluated for impairment | Collectively evaluated for impairment | Ending Balance | Individually evaluated for impairment | Collectively evaluated for impairment |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Owner occupied commercial real estate | $1,592 | $14,747 | $- | $16,339 | $2,737 | $13,304 | $16,041 | $2,483 | $15,321 |
| Income producing commercial real estate | 782 | 7,418 | - | 8,200 | 1,917 | 8,379 | 10,296 | 1,404 | 10,357 |
| Commercial & industrial | 137 | 4,591 | - | 4,728 | 15 | 3,240 | 3,255 | 399 | 3,486 |
| Commercial construction | 530 | 4,365 | - | 4,895 | 729 | 4,018 | 4,747 | 412 | 3,655 |
| Residential mortgage | 3,107 | 15,945 | - | 19,052 | 3,227 | 17,084 | 20,311 | 3,117 | 13,646 |
| Home equity lines of credit | 26 | 5,453 | - | 5,479 | 47 | 4,527 | 4,574 | 115 | 6,223 |
| Residential construction | 506 | 8,831 | - | 9,337 | 1,192 | 9,411 | 10,603 | 1,054 | 10,154 |
| Consumer installment | 6 | 682 | - | 688 | 18 | 713 | 731 | 33 | 566 |
| Indirect auto | - | 1,411 | - | 1,411 | - | 1,061 | 1,061 | - | 823 |
| Total allowance for loan losses | 6,686 | 63,443 | - | 70,129 | 9,882 | 61,737 | 71,619 | 9,017 | 64,231 |
| Allowance for unfunded commitments | - | 2,580 | - | 2,580 | - | 1,930 | 1,930 | - | 2,165 |
| Total allowance for credit losses | $6,686 | $66,023 | $- | $72,709 | $9,882 | $63,667 | $73,549 | $9,017 | $66,396 |
| | | | | | | | | | |
| Loans Outstanding | | | | | | | | | |
| | | | | | | | | | |
| Owner occupied commercial real estate | $37,547 | $1,225,779 | $2,457 | $1,265,783 | $34,654 | $1,128,826 | $1,163,480 | $31,952 | $1,131,375 |
| Income producing commercial real estate | 21,926 | 661,988 | 4,854 | 688,768 | 24,484 | 574,053 | 598,537 | 26,045 | 572,273 |
| Commercial & industrial | 5,023 | 787,247 | 521 | 792,791 | 3,977 | 706,279 | 710,256 | 3,641 | 550,448 |
| Commercial construction | 12,123 | 223,631 | 2,066 | 237,820 | 12,321 | 183,709 | 196,030 | 11,214 | 148,541 |
| Residential mortgage | 20,538 | 914,981 | 127 | 935,646 | 18,775 | 847,014 | 865,789 | 20,455 | 840,070 |
| Home equity lines of credit | 551 | 490,132 | 70 | 490,753 | 478 | 465,394 | 465,872 | 540 | 450,895 |
| | 8,631 | 290,289 | - | 298,920 | 11,604 | 287,023 | 298,627 | 13,320 | 288,417 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Residential construction | | | | | | | | | |
| Consumer installment | 141 | 105,790 | - | 105,931 | 179 | 104,720 | 104,899 | 329 | 104,831 |
| Indirect auto | - | 357,105 | - | 357,105 | - | 268,629 | 268,629 | - | 215,939 |
| Total loans | $106,480 | $5,056,942 | $10,095 | $5,173,517 | $106,472 | $4,565,647 | $4,672,119 | $107,496 | $4,302,789 |

19

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Excluding loans accounted for under ASC Topic 310-30, management considers all loans that are on nonaccrual with a balance of $500,000 or greater and all troubled debt restructurings ("TDRs") to be impaired. In addition, management reviews all accruing substandard loans greater than $2 million to determine if the loan is impaired. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due according to the original contractual terms of the loan will not be collected. All TDRs are considered 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. For TDRs less than $500,000, impairment is estimated based on the average impairment of TDRs greater than $500,000 by loan category. For loan types that do not have TDRs greater than $500,000, the average impairment for all TDR loans is used to quantify the amount of required specific reserve. A specific reserve is established for impaired loans for the amount of calculated impairment. Interest payments received on 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 impairment quarterly and specific reserves are established in the allowance for loan losses for any measured impairment.

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 losses in the loan portfolio and unfunded loan commitments. 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. Management uses eight quarters of historical loss experience 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 years, the loss rates were weighted toward more recent quarters 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. Management adopted this method of weighting quarterly loss rates to capture the rapidly deteriorating credit conditions in its loss factors during the financial crisis. In the first quarter of 2014, in light of stabilizing credit conditions, management concluded that it was appropriate to apply a more level weighting to capture the full range and impacts of credit losses experienced during the most recent economic and credit cycle. For the four quarters of 2014, management applied a weighting factor of 1.75 to the most recent four quarters and a weighting of 1.00 for the four oldest quarters. Beginning with the first quarter of 2015, management began applying equal weight to all eight quarters to capture the full range of the loss cycle. Management believes the current weightings are more appropriate to measure the probable losses incurred within the loan portfolio.

Also, beginning in the first quarter of 2014, management updated its method for measuring 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. Management 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, however, the revised loss emergence period resulted in the full allocation of the previously unallocated portion of the allowance for loan losses.

On junior lien home equity loans, management has limited ability to monitor the delinquency status of the first lien unless the first lien is also held by United. As a result, management 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, and other macro environmental factors such as changes in unemployment rates, lease vacancy rates and trends in property values and absorption rates.

Management believes that its method of determining the balance of the allowance for credit losses provides a reasonable and reliable basis for measuring and reporting losses that are incurred 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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Commercial and consumer asset quality committees consisting of the Chief Credit Officer, a Senior Risk Officer and the Senior Credit Officers meet monthly to review charge-offs that have occurred during the previous month.

Generally, closed-end retail loans (installment and residential mortgage loans) past due 90 cumulative days are written down to their collateral value less estimated selling costs unless the loan is well secured and in process of collection (within the next 90 days). Open-end (revolving) unsecured retail loans which are past due 90 cumulative days from their contractual due date are generally charged-off.

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

| | **June 30, 2015** | | | **December 31, 2014** | | | **June 30, 2014** | |
|---|---|---|---|---|---|---|---|---|
| | **Unpaid Principal Balance** | **Recorded Investment** | **Allowance for Loan Losses Allocated** | **Unpaid Principal Balance** | **Recorded Investment** | **Allowance for Loan Losses Allocated** | **Unpaid Principal Balance** | **Record Investm** |
| With no related allowance recorded: | | | | | | | | |
| Owner occupied commercial real estate | $14,138 | $12,939 | $- | $12,025 | $11,325 | $- | $14,445 | $12,985 |
| Income producing commercial real estate | 9,696 | 9,553 | - | 8,311 | 8,311 | - | 12,755 | 11,808 |
| Commercial & industrial | 2,785 | 1,977 | - | 1,679 | 1,042 | - | 1,736 | 1,710 |
| Commercial construction | - | - | - | - | - | - | 195 | 195 |
| Total commercial | 26,619 | 24,469 | - | 22,015 | 20,678 | - | 29,131 | 26,698 |
| Residential mortgage | 2,395 | 1,930 | - | 2,569 | 1,472 | - | 3,357 | 2,849 |
| Home equity lines of credit | - | - | - | - | - | - | - | - |
| Residential construction | 2,347 | 2,347 | - | 4,338 | 3,338 | - | 6,168 | 5,491 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Consumer installment | - | - | - | - | - | - | - | - |
| Indirect auto | - | - | - | - | - | - | - | - |
| Total with no related allowance recorded | 31,361 | 28,746 | - | 28,922 | 25,488 | - | 38,656 | 35,038 |
| With an allowance recorded: | | | | | | | | |
| Owner occupied commercial real estate | 26,301 | 24,608 | 1,592 | 24,728 | 23,329 | 2,737 | 20,287 | 18,967 |
| Income producing commercial real estate | 12,460 | 12,373 | 782 | 16,352 | 16,173 | 1,917 | 14,706 | 14,237 |
| Commercial & industrial | 3,055 | 3,046 | 137 | 2,936 | 2,935 | 15 | 1,931 | 1,931 |
| Commercial construction | 12,203 | 12,123 | 530 | 12,401 | 12,321 | 729 | 11,194 | 11,019 |
| Total commercial | 54,019 | 52,150 | 3,041 | 56,417 | 54,758 | 5,398 | 48,118 | 46,154 |
| Residential mortgage | 19,045 | 18,608 | 3,107 | 17,732 | 17,303 | 3,227 | 18,077 | 17,606 |
| Home equity lines of credit | 563 | 551 | 26 | 478 | 478 | 47 | 540 | 540 |
| Residential construction | 7,291 | 6,284 | 506 | 8,962 | 8,266 | 1,192 | 9,255 | 7,829 |
| Consumer installment | 163 | 141 | 6 | 179 | 179 | 18 | 329 | 329 |
| Indirect auto | - | - | - | - | - | - | - | - |
| Total with an allowance recorded | 81,081 | 77,734 | 6,686 | 83,768 | 80,984 | 9,882 | 76,319 | 72,458 |
| Total | $112,442 | $106,480 | $6,686 | $112,690 | $106,472 | $9,882 | $114,975 | $107,496 |

Excluding loans accounted for under ASC Topic 310-30, there were no loans more than 90 days past due and still accruing interest at June 30, 2015, December 31, 2014 or June 30, 2014. 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.

Loans accounted for under ASC Topic 310-30 are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered as performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or future period yield adjustments. Loans accounted for under ASC Topic 310-30 were not classified as nonaccrual at June 30, 2015 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all acquired loans being accounted for under ASC Topic 310-30.

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 $165,000 and $96,000 for the three months ended June 30, 2015 and 2014, respectively and $424,000 and $556,000 for the six months ended June 30, 2015 and 2014, respectively. The gross additional interest revenue that would have been earned for the three and six months ended June 30, 2015 and 2014 had performing TDRs performed in accordance with the original terms is immaterial.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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, 2015 and 2014 *(in thousands)*.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| 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 | $37,985 | $ 469 | $ 509 | $31,558 | $ 403 | $ 391 |
| Income producing commercial real estate | 22,055 | 273 | 253 | 26,415 | 316 | 317 |
| Commercial & industrial | 5,221 | 45 | 89 | 3,683 | 40 | 50 |
| Commercial construction | 12,164 | 117 | 116 | 11,340 | 104 | 107 |
| Total commercial | 77,425 | 904 | 967 | 72,996 | 863 | 865 |
| Residential mortgage | 20,604 | 200 | 203 | 20,598 | 228 | 217 |
| Home equity lines of credit | 558 | 5 | 5 | 550 | 5 | 6 |
| Residential construction | 8,748 | 128 | 132 | 13,762 | 177 | 175 |
| Consumer installment | 161 | 3 | 3 | 335 | 6 | 5 |
| Indirect auto | - | - | - | - | - | - |
| Total | $107,496 | $ 1,240 | $ 1,310 | $108,241 | $ 1,279 | $ 1,268 |
| | | | | | | |
| Six Months Ended June 30, | | | | | | |
| Owner occupied commercial real estate | $37,487 | $ 929 | $ 968 | $30,334 | $ 761 | $ 771 |
| Income producing commercial real estate | 21,740 | 540 | 529 | 26,138 | 628 | 650 |
| Commercial & industrial | 4,622 | 83 | 125 | 4,122 | 92 | 101 |
| Commercial construction | 12,219 | 233 | 237 | 12,027 | 216 | 242 |
| Total commercial | 76,068 | 1,785 | 1,859 | 72,621 | 1,697 | 1,764 |
| Residential mortgage | 21,345 | 425 | 436 | 20,960 | 457 | 455 |
| Home equity lines of credit | 518 | 10 | 10 | 528 | 10 | 12 |
| Residential construction | 9,662 | 248 | 258 | 13,400 | 322 | 325 |
| Consumer installment | 157 | 6 | 6 | 392 | 12 | 14 |
| Indirect auto | - | - | - | - | - | - |
| Total | $107,750 | $ 2,474 | $ 2,569 | $107,901 | $ 2,498 | $ 2,570 |

The following table presents the recorded investment in nonaccrual loans by loan class as of June 30, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

| | **Nonaccrual Loans** | | |
|---|---|---|---|
| | **June 30, 2015** | **December 31, 2014** | **June 30, 2014** |
| Owner occupied commercial real estate | $4,878 | $4,133 | $2,975 |

| | | | |
|---|---|---|---|
| Income producing commercial real estate | 883 | 717 | 1,032 |
| Commercial & industrial | 1,389 | 1,571 | 1,102 |
| Commercial construction | 59 | 83 | 95 |
| Total commercial | 7,209 | 6,504 | 5,204 |
| Residential mortgage | 8,599 | 8,196 | 10,201 |
| Home equity lines of credit | 940 | 695 | 510 |
| Residential construction | 1,358 | 2,006 | 4,248 |
| Consumer installment | 131 | 134 | 171 |
| Indirect auto | 568 | 346 | 390 |
| Total | $18,805 | $17,881 | $20,724 |

22

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The following table presents the aging of the recorded investment in past due loans as of June 30, 2015, December 31, 2014 and June 30, 2014 by class of loans *(in thousands)*.

| | **Loans Past Due** | | | | **Loans Not** | |
|---|---|---|---|---|---|---|
| **As of June 30, 2015** | **30 - 59 Days** | **60 - 89 Days** | **>90 Days** | **Total** | **Past Due** | **Total** |
| Owner occupied commercial real estate | $2,789 | $337 | $1,646 | $4,772 | $1,261,011 | $1,265,783 |
| Income producing commercial real estate | 726 | 313 | 440 | 1,479 | 687,289 | 688,768 |
| Commercial & industrial | 810 | 87 | 1,278 | 2,175 | 790,616 | 792,791 |
| Commercial construction | 626 | - | 44 | 670 | 237,150 | 237,820 |
| Total commercial | 4,951 | 737 | 3,408 | 9,096 | 2,976,066 | 2,985,162 |
| Residential mortgage | 4,888 | 1,568 | 1,615 | 8,071 | 927,575 | 935,646 |
| Home equity lines of credit | 1,268 | 528 | 279 | 2,075 | 488,678 | 490,753 |
| Residential construction | 2,110 | 269 | 429 | 2,808 | 296,112 | 298,920 |
| Consumer installment | 444 | 188 | 23 | 655 | 105,276 | 105,931 |
| Indirect auto | 276 | 132 | 402 | 810 | 356,295 | 357,105 |
| Total loans | $13,937 | $3,422 | $6,156 | $23,515 | $5,150,002 | $5,173,517 |
| | | | | | | |
| **As of December 31, 2014** | | | | | | |
| Owner occupied commercial real estate | $1,444 | $1,929 | $1,141 | $4,514 | $1,158,966 | $1,163,480 |
| Income producing commercial real estate | 2,322 | 1,172 | - | 3,494 | 595,043 | 598,537 |
| Commercial & industrial | 302 | 40 | 1,425 | 1,767 | 708,489 | 710,256 |
| Commercial construction | - | - | 66 | 66 | 195,964 | 196,030 |
| Total commercial | 4,068 | 3,141 | 2,632 | 9,841 | 2,658,462 | 2,668,303 |
| Residential mortgage | 5,234 | 2,931 | 3,278 | 11,443 | 854,346 | 865,789 |
| Home equity lines of credit | 961 | 303 | 167 | 1,431 | 464,441 | 465,872 |
| Residential construction | 1,172 | 268 | 1,395 | 2,835 | 295,792 | 298,627 |
| Consumer installment | 607 | 136 | 33 | 776 | 104,123 | 104,899 |
| Indirect auto | 200 | 146 | 141 | 487 | 268,142 | 268,629 |
| Total loans | $12,242 | $6,925 | $7,646 | $26,813 | $4,645,306 | $4,672,119 |
| | | | | | | |
| As of June 30, 2014 | | | | | | |
| 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 June 30, 2015, December 31, 2014, and June 30, 2014, $6.24 million, $9.72 million and $8.98 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 $75,000, $51,000 and $44,000 as of June 30, 2015, December 31, 2014 and June 30, 2014, 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 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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The following table presents information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment as of June 30, 2015, December 31, 2014 and June 30, 2014 *(dollars in thousands)*.

| | **June 30, 2015** | | | **December 31, 2014** | | | **June 30, 2014** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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 | 57 | $ 34,845 | $ 33,401 | 54 | $ 27,695 | $ 26,296 | 52 | $ 28,233 | $ 26,670 |
| Income producing commercial real estate | 29 | 15,756 | 15,681 | 31 | 18,094 | 17,915 | 33 | 19,427 | 18,957 |
| Commercial & industrial | 32 | 3,583 | 3,583 | 32 | 2,848 | 2,847 | 31 | 2,893 | 2,893 |
| Commercial construction | 14 | 11,174 | 11,094 | 14 | 11,360 | 11,280 | 15 | 11,390 | 11,213 |
| Total commercial | 132 | 65,358 | 63,759 | 131 | 59,997 | 58,338 | 131 | 61,943 | 59,733 |
| Residential mortgage | 165 | 19,742 | 19,141 | 154 | 18,630 | 17,836 | 154 | 21,008 | 20,030 |
| Home equity lines of credit | 3 | 560 | 551 | 2 | 478 | 478 | 4 | 540 | 540 |
| Residential construction | 45 | 6,925 | 6,284 | 48 | 8,962 | 8,265 | 54 | 12,463 | 10,361 |
| Consumer installment | 16 | 159 | 141 | 17 | 179 | 179 | 23 | 329 | 329 |
| Indirect auto | - | - | - | - | - | - | - | - | - |
| Total loans | 361 | $ 92,744 | $ 89,876 | 352 | $ 88,246 | $ 85,096 | 366 | $ 96,283 | $ 90,993 |

Loans modified under the terms of a TDR during the three and six months ended June 30, 2015 and 2014 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, 2015 and 2014, 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 Outstanding** | **Post-Modification Outstanding** | **Modified Within the Previous Twelve Months that Have** | **Pre-Modification Outstanding** | **Post-Modification Outstanding** | **Modified Within the Previous Twelve Months that Have** |

| | | | | Subsequently Defaulted During the Three Months Ended June 30, 2015 | | | | | Subsequently Defaulted During the Six Months Ended June 30, 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | Number of Contracts | Recorded Investment | Recorded Investment | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment | Recorded Investment | Number of Contracts | Recorded Investment |
| Owner occupied commercial real estate | 6 | $ 8,040 | $ 7,996 | - | $ - | 8 | $ 12,537 | $ 12,493 | - | $ - |
| Income producing commercial real estate | 1 | 55 | 54 | - | - | 3 | 310 | 310 | - | - |
| Commercial & industrial | 4 | 992 | 992 | - | - | 6 | 1,180 | 1,180 | - | - |
| Commercial construction | 1 | 233 | 233 | - | - | 1 | 233 | 233 | - | - |
| Total commercial | 12 | 9,320 | 9,275 | - | - | 18 | 14,260 | 14,216 | - | - |
| Residential mortgage | 8 | 523 | 523 | - | - | 23 | 2,121 | 2,121 | - | - |
| Home equity lines of credit | 1 | 83 | 74 | - | - | 1 | 83 | 74 | - | - |
| Residential construction | 2 | 163 | 139 | - | - | 2 | 163 | 139 | - | - |
| Consumer installment | 1 | 25 | 25 | - | - | 2 | 28 | 28 | 1 | 30 |
| Indirect auto | - | - | - | - | - | - | - | - | - | - |
| Total loans | 24 | $ 10,114 | $ 10,036 | - | $ - | 46 | $ 16,655 | $ 16,578 | 1 | $ 30 |

| | | Pre-Modification Outstanding | Post-Modification Outstanding | Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended June 30, 2014 | | | Pre-Modification Outstanding | Post-Modification Outstanding | Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Six Months Ended June 30, 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2014 | Number of Contracts | Recorded Investment | Recorded Investment | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment | Recorded Investment | 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 |

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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

As of June 30, 2015, December 31, 2014 and June 30, 2014, 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, 2015** | **Pass** | **Watch** | **Performing** | **Nonaccrual** | **Loss** | **Total** |
| Owner occupied commercial real estate | $1,195,986 | $25,301 | $39,618 | $ 4,878 | $ - | $1,265,783 |
| Income producing commercial real estate | 664,137 | 4,973 | 18,775 | 883 | - | 688,768 |
| Commercial & industrial | 781,820 | 3,188 | 6,394 | 1,389 | - | 792,791 |
| Commercial construction | 232,080 | 2,426 | 3,255 | 59 | - | 237,820 |
| Total commercial | 2,874,023 | 35,888 | 68,042 | 7,209 | - | 2,985,162 |
| Residential mortgage | 886,863 | 9,605 | 30,579 | 8,599 | - | 935,646 |
| Home equity lines of credit | 484,222 | - | 5,591 | 940 | - | 490,753 |
| Residential construction | 284,395 | 3,481 | 9,686 | 1,358 | - | 298,920 |
| Consumer installment | 104,958 | - | 842 | 131 | - | 105,931 |
| Indirect auto | 355,576 | - | 961 | 568 | - | 357,105 |
| Total loans | $4,990,037 | $48,974 | $115,701 | $ 18,805 | $ - | $5,173,517 |
| **As of December 31, 2014** | | | | | | |
| Owner occupied commercial real estate | $1,094,057 | $18,889 | $46,401 | $ 4,133 | $ - | $1,163,480 |
| Income producing commercial real estate | 560,559 | 16,701 | 20,560 | 717 | - | 598,537 |
| Commercial & industrial | 696,805 | 4,017 | 7,863 | 1,571 | - | 710,256 |
| Commercial construction | 190,070 | 2,311 | 3,566 | 83 | - | 196,030 |
| Total commercial | 2,541,491 | 41,918 | 78,390 | 6,504 | - | 2,668,303 |
| Residential mortgage | 814,168 | 11,594 | 31,831 | 8,196 | - | 865,789 |
| Home equity lines of credit | 459,881 | - | 5,296 | 695 | - | 465,872 |
| Residential construction | 280,166 | 5,535 | 10,920 | 2,006 | - | 298,627 |
| Consumer installment | 103,383 | - | 1,382 | 134 | - | 104,899 |
| Indirect auto | 267,709 | - | 574 | 346 | - | 268,629 |
| Total loans | $4,466,798 | $59,047 | $128,393 | $ 17,881 | $ - | $4,672,119 |
| **As of June 30, 2014** | | | | | | |
| 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 |

**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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**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.

**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.** United applies 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. Loan balances reported in the “watch” column for residential mortgage 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.

**Note 7 – Servicing Rights for Government Guaranteed Loans**

United accounts for servicing rights for government guaranteed loans serviced for others at fair value and includes them in other assets. Changes in the balances of servicing assets and servicing liabilities subsequently measured using the fair value measurement method for the three and six months ended June 30, 2015 and 2014 are recorded as follows *(in thousands)*.

| | Three Months Ended | Six Months Ended |
|---|---|---|

| | June 30, | | June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Fair value at beginning of period | $2,717 | $- | $2,551 | $- |
| Additions: | | | | |
| Acquired servicing rights | - | 2,133 | - | 2,133 |
| Originated servicing rights capitalized upon sale on loans | 442 | 129 | 632 | 129 |
| Changes in fair value: | | | | |
| Due to change in valuation inputs or assumptions used in valuation model | (41 ) | - | (65 ) | - |
| Fair value at end of period | $3,118 | $2,262 | $3,118 | $2,262 |

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's government guaranteed servicing assets as of June 30, 2015 and December 31, 2014, and the sensitivity of the fair values to immediate adverse changes in those assumptions are shown in the table below *(in thousands)*.

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Fair value of retained servicing assets | $3,118 | $ 2,551 |
| Prepayment rate assumption | 6.98 % | 6.70 % |
| 10% adverse change | $(80 ) | $ (62 ) |
| 20% adverse change | $(156 ) | $ (122 ) |
| Discount rate | 11.0 % | 12.0 % |
| 100 bps adverse change | $(109 ) | $ (85 ) |
| 200bps adverse change | $(211 ) | $ (164 ) |
| Weighted-average life (months) | 6.9 | 6.5 |
| Weighted-average gross margin | 2.02 % | 2.00 % |

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**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, 2015 and 2014 *(in thousands)*.

| Details about Accumulated Other Comprehensive Income Components | Amounts Reclassified from Accumulated Other Comprehensive Income For the Three Months Ended June 30, | | For the Six Months Ended June 30, | | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | |
| Realized gains on sales of available-for-sale securities: | | | | | |
| | $13 | $4,435 | $1,552 | $4,652 | Securities gains, net |
| | (5) | (1,725) | (603) | (1,817) | Tax expense |
| | $8 | $2,710 | $949 | $2,835 | Net of tax |
| Amortization of (losses) gains included in net income on available-for-sale securities transferred to held to maturity: | | | | | |
| | $(289) | $(409) | $(773) | $(739) | Investment securities interest revenue |
| | 105 | 154 | 287 | 277 | Tax benefit (expense) |
| | $(184) | $(255) | $(486) | $(462) | Net of tax |
| Gains included in net income on derivative financial instruments accounted for as cash flow hedges: | | | | | |
| Effective portion of interest rate contracts | $- | $(350) | $- | $(447) | Time deposit interest expense |
| Amortization of losses on de-designated positions | (30) | - | (78) | - | Deposits in banks and short-term investmens in interest revenue |
| Amortization of losses on de-designated positions | (146) | (24) | (265) | (24) | Money market deposit interest expense |
| Amortization of losses on de-designated positions | (279) | - | (537) | - | Federal Home Loan Bank advances interest expense |
| Amortization of losses on de-designated positions | - | (199) | - | (199) | Time deposit interest expense |
| | (455) | (573) | (880) | (670) | Total before tax |
| | 177 | 223 | 342 | 261 | Tax or benefit (expense) |
| | $(278) | $(350) | $(538) | $(409) | 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 | $(91) | $(92) | $(182) | $(183) | Salaries and employee benefits expense |
| Actuarial losses | (68) | - | (136) | - | Salaries and employee benefits expense |
| | (159) | (92) | (318) | (183) | Total before tax |
| | 62 | 36 | 124 | 71 | Tax benefit |
| | $(97) | $(56) | $(194) | $(112) | Net of tax |
| Total reclassifications for the period | $(551) | $2,049 | $(269) | $1,852 | Net of tax |

Amounts shown above in parentheses reduce earnings

**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, 2015 and 2014, United accrued dividends on preferred stock as shown in the following table *(in thousands)*.

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Series H - 1% until March 15, 2016, subject to change based on Qualified Small Business Lending, 9% thereafter | $ 17 | $ - | $ 17 | $ - |
| Series B - 5% fixed until December 6, 2013, 9% thereafter | - | - | - | 159 |
| Series D - LIBOR plus 9.6875%, resets quarterly | - | - | - | 280 |
| Total preferred stock dividends | $ 17 | $ - | $ 17 | $ 439 |

All preferred stock dividends are payable quarterly.

The preferred stock dividends were subtracted from net income in order to arrive at net income available to common shareholders.

27

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2015 and 2014 *(in thousands, except per share data)*.

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net income available to common shareholders | $17,796 | $16,357 | $35,466 | $31,318 |
| **Weighted average shares outstanding:** | | | | |
| Basic | 62,549 | 60,712 | 61,730 | 60,386 |
| Effect of dilutive securities | | | | |
| Stock options | 4 | 2 | 4 | 2 |
| Diluted | 62,553 | 60,714 | 61,734 | 60,388 |
| **Net income per common share:** | | | | |
| Basic | $.28 | $.27 | $.57 | $.52 |
| Diluted | $.28 | $.27 | $.57 | $.52 |

At June 30, 2015, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at $61.40 per share; 256,102 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $90.25; and 765,061 shares of common stock issuable upon completion of vesting of restricted stock unit awards.

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. United repurchased the warrant from Fletcher in the fourth quarter of 2014.

**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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

***Derivatives designated as hedging instruments under ASC 815***

| **Interest Rate Products** | **Balance Sheet Location** | **Fair Value** June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|---|
| Cash flow hedge of money market deposits | Derivative assets | $- | $ - | $1,109 |
| Fair value hedge of corporate bonds | Derivative assets | 970 | - | - |
| | | $970 | $ - | $1,109 |
| Cash flow hedge of money market deposits | Derivative liabilities | $- | $ 350 | $523 |
| Fair value hedge of brokered CD's | Derivative liabilities | 4,855 | 5,817 | 9,857 |
| | | $4,855 | $ 6,167 | $10,380 |

***Derivatives not designated as hedging instruments under ASC 815***

| **Interest Rate Products** | **Balance Sheet Location** | **Fair Value** June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|---|
| Customer swap positions | Derivative assets | $3,456 | $3,433 | $2,572 |
| Dealer offsets to customer swap positions | Derivative assets | - | 128 | 333 |
| Bifurcated embedded derivatives | Derivative assets | 11,531 | 12,262 | 12,369 |
| Offsetting positions for de-designated cash flow hedges | Derivative assets | 5,771 | 4,776 | 5,641 |
| | | $20,758 | $20,599 | $20,915 |
| Customer swap positions | Derivative liabilities | $3,485 | $129 | $333 |
| Dealer offsets to customer swap positions | Derivative liabilities | - | 3,456 | 2,592 |
| Dealer offsets to bifurcated embedded derivatives | Derivative liabilities | 18,261 | 17,467 | 17,599 |
| De-designated cash flow hedges | Derivative liabilities | 5,773 | 4,778 | 5,641 |
| | | $27,519 | $25,830 | $26,165 |

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.

**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. 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 cash flow hedges were for the purpose of converting variable rate deposits and wholesale borrowings to the economic equivalent of a fixed rate to protect United in a rising rate environment. At June 30, 2015 United did not have any active cash flow hedges. At December 31, 2014, United had one swap contract outstanding with a total notional amount of $175 million that was designated as a cash flow hedge of indexed money market accounts. 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. During the second and fourth quarters of 2014, United de-designated swaps with a notional of $500 million and put on offsetting positions which had a similar effect to terminating the positions. In addition, in the first quarter of 2015, United terminated its one remaining cash flow hedge with a notional of $175 million. 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.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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 did not recognize any hedge ineffectiveness on active cash flow hedges during the three months ended June 30, 2015 but did recognize $7,000 in hedge ineffectiveness gains in interest expense during the six months ended June 30, 2015. United recognized $50,000 and $85,000, respectively, in hedge ineffectiveness losses in interest expense on active cash flow hedges during the three and six months ended June 30, 2014. United expects that $1.83 million will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

**Fair Value Hedges of Interest Rate Risk**

United is exposed to changes in the fair value of certain of its fixed rate obligations due to changes in 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 payments 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, 2015, United had 15 interest rate swaps with an aggregate notional amount of $184 million that were designated as fair value hedges of interest rate risk and were pay-variable / receive-fixed swaps hedging the changes in the fair value of fixed rate brokered time deposits resulting from changes in interest rates. Also at June 30, 2015, United had 1 interest rate swap with a notional of $30 million that was designated as a pay-fixed / receive variable fair value hedge of changes in the fair value of a fixed rate corporate bond. 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.

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, 2015, United recognized net gains of $207,000 and $170,000, respectively, and during the three and six months ended June 30, 2014, United recognized net losses of $236,000 and $625,000, respectively, related to ineffectiveness in the fair value hedging relationships. United also recognized net reductions of interest expense of $1.13 million and $2.26 million, respectively, for the three and six months ended June 30, 2015 and net reductions of interest expense of $1.22 million and $2.43 million, respectively, for the three and six months ended June 30, 2014 related to United's fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized reductions of interest revenue on securities during the three and six months ended June 30, 2015 of $146,000 and $220,000, respectively, and reductions of interest revenue on securities during the three and six months ended June 30, 2014 of $425,000 and $955,000 related to United's fair value hedges of corporate bonds.

**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, 2015 and 2014.

**Derivatives in Fair Value Hedging Relationships** *(in thousands)*.

| | Location of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative | | Amount of Gain (Loss) Recognized in Income on Hedged Item | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| **Three Months Ended June 30,** | | | | | |
| Fair value hedges of brokered CD's | Interest expense | $ (3,145 ) | $ 4,262 | $ 3,287 | $ (4,382 ) |
| Fair value hedges of corporate bonds | Interest revenue | 1,315 | (783 ) | (1,250 ) | 667 |
| | | $ (1,830 ) | $ 3,479 | $ 2,037 | $ (3,715 ) |
| **Six Months Ended June 30,** | | | | | |
| Fair value hedges of brokered CD's | Interest expense | $ (775 ) | $ 10,115 | $ 882 | $ (10,416 ) |
| Fair value hedges of corporate bonds | Interest revenue | 970 | (2,487 ) | (907 ) | 2,163 |
| | | $ 195 | $ 7,628 | $ (25 ) | $ (8,253 ) |

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 estate 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 estate puts and such gains and losses are included in the amount of reported ineffectiveness gains or losses.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**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) | | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **Location** | **2015** | **2014** | **Location** | **2015** | **2014** |
| **Three Months Ended June 30,** | | | | | | | | |
| Interest rate swaps | $- | $(3,547) | Interest expense | $(455) | $(573) | Interest expense | $- | $(50) |
| **Six Months Ended June 30,** | | | | | | | | |
| Interest rate swaps | $(471) | $(6,379) | Interest expense | $(880) | $(670) | Interest expense | $(7) | $(85) |

**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, 2015, collateral totaling $35.5 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, 2015, 404,000 additional awards could be granted under the plan. Through June 30, 2015, 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 2015.

| **Options** | **Shares** | **Weighted-Average Exercise Price** | **Weighted-Average Remaining Contractual Term (Years)** | **Aggregate Intrinisic Value ($000)** |
|---|---|---|---|---|
| Outstanding at December 31, 2014 | 313,555 | $ 93.40 | | |
| Expired | (45,242 ) | 108.61 | | |
| Forfeited | (12,211 ) | 103.12 | | |
| Outstanding at June 30, 2015 | 256,102 | 90.25 | 2.9 | $ 168 |
| Exercisable at June 30, 2015 | 239,852 | 95.32 | 2.5 | 81 |

31

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The fair value of each option is estimated on the date of grant using the Black-Scholes model. No stock options were granted during the six months ended June 30, 2015 and 2014.

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 ASC Topic 718-10-S99 to determine the expected life of options.

United recognized $19,000 and $2,000, respectively, in compensation expense related to stock options during the six months ended June 30, 2015 and 2014. 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 2015 or 2014.

The table below presents restricted stock units activity for the first six months of 2015.

| Restricted Stock Unit Awards | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2014 | 829,201 | $14.76 |
| Granted | 129,507 | 18.23 |
| Vested | (140,102) | 14.36 |
| Cancelled | (53,545) | 15.26 |
| Outstanding at June 30, 2015 | 765,061 | 15.39 |
| Vested at June 30, 2015 | 1,170 | 10.69 |

Compensation expense for restricted stock units is based on the fair value of restricted stock unit 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 unit awards that are expected to vest is amortized into expense over the vesting period. For the six months ended June 30, 2015 and 2014, compensation expense of $2.11 million and $2.18 million, respectively, was recognized related to restricted stock unit awards. In addition, for the six months ended June 30, 2015 and 2014, $47,000 and $50,000, respectively, was recognized in other operating expense for restricted stock unit awards granted to members of United's board of directors. The total intrinsic value of outstanding restricted stock unit awards was $16.0 million at June 30, 2015.

As of June 30, 2015, there was $8.95 million of unrecognized compensation cost related to non-vested stock options and restricted stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.51 years. The aggregate grant date fair value of options and restricted stock unit awards that vested during the six months ended June 30, 2015, was $1.95 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 the first six months of 2014 as the DRIP was suspended during that time. The DRIP was re-activated following United's reinstatement of its quarterly dividend in the second quarter of 2014. In the six months ended June 30, 2015, 997 shares were issued through the DRIP.

United's 401(k) Plan has routinely purchased shares of United's common stock directly from United. Effective January 1, 2015, the 401(k) Plan discontinued offering shares of United's common stock as an investment option. During the six months ended June 30, 2014, United's 401(k) Plan purchased 14,171 shares directly from United at the average of the high and low stock prices on the transaction dates which increased capital by $245,000.

In addition, United has an Employee Stock Purchase Program ("ESPP") that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. Effective January 1, 2015, the discount was increased to 10% on purchases made through the ESPP. During the first six months of 2015 and 2014, United issued 6,664 shares and 5,128 shares, respectively, through the ESPP.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

United offers its common stock as an investment option in its deferred compensation plan. United also allows for the deferral of restricted stock unit 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, 2015 and 2014, 413,014 and 314,039 shares of common stock, respectively, were issuable under the deferred compensation plan.

As discussed in Note 3, on May 1, 2015, the Company completed its previously announced acquisition of Moneytree. Upon completion of the acquisition, each share of preferred stock issued by MoneyTree as part of the SBLF program of the United States Department of Treasury (9,992 shares in the aggregate with a liquidation preference amount of $1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company with a liquidation preference amount of $1,000 per share, designated as the Company's Non-Cumulative Perpetual Preferred Stock, Series H. The SBLF Preferred Shares have terms and conditions identical to those shares of preferred stock issued by MoneyTree to the Treasury. United will pay noncumulative dividends quarterly. The current dividend rate is 1.00% per annum through March 15, 2016. Following this date, the dividend rate will increase to 9% per annum thereafter.

The SBLF Preferred Shares may be redeemed at any time at the option of United, subject to the approval of the appropriate federal banking agency. All redemptions must be made at a per share redemption price equal to 100% of the liquidation preference, plus accrued and unpaid dividends as of the date of the redemption ("Redemption Date") for the quarter that includes the Redemption Date, and a pro rata portion of any lending incentive fee. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then outstanding shares, if less than 25% of the number of originally issued shares.

In the first quarter of 2014, United redeemed all of its outstanding Series B and D 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 and cash on hand.

**Note 13 – Income Taxes**

The income tax provision for the three and six months ended June 30, 2015 was $11.1 million and $21.5 million, respectively, which represents effective tax rates of 38.4% and 37.7%, respectively, for each period. 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 effective tax rates of 37.0% for each period. At June 30, 2015, December 31, 2014 and June 30, 2014, United maintained a valuation allowance on its net deferred tax asset of $4.43 million, $4.12 million and $4.10 million, respectively. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

United evaluated the need for a valuation allowance at June 30, 2015. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of its net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of $4.43 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at June 30, 2015 that it was more likely than not that United's net deferred tax asset of $196 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 its net deferred tax asset. Such an increase to the net 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 2011. Although United is unable to determine the ultimate outcome of future examinations, United believes that the liability recorded for uncertain tax positions is appropriate.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

At June 30, 2015, December 31, 2014 and June 30, 2014, unrecognized income tax benefits totaled $4.38 million, $4.20 million and $4.69 million, respectively.

**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). United has processes in place to review the significant valuation inputs and to reassess how the instruments are classified in the valuation framework.

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 include: quoted market prices for similar assets, quoted market prices that are not in an active market, or other 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 include asset-backed securities in less liquid markets. Securities classified as Level 3 are valued based on estimates obtained from broker-dealers and are not directly observable.

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 fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for mortgage loans with similar characteristics.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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. In accordance with ASC 820, 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.

Derivative Financial Instruments

United uses interest rate swaps and interest rate floors to manage its interest rate risk. The valuation of these instruments is typically 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.

To comply with the provisions of ASC 820, United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although management has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2015, management had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. Additionally, in the review of the structured derivative inputs, it was determined that the broker quotes, used as a key valuation input, were not observable consistent with a level 2 disclosure. This resulted in United transferring those derivatives to Level 3 in the ASC 820 leveling disclosures as of December 31, 2014.

Servicing Rights for Government Guaranteed Loans

As United expanded its government guaranteed lending and subsequent loan sales activities, a servicing asset has been recognized (per ASC 860). This asset is recorded at fair value on recognition, and management has elected to carry this asset at fair value for subsequent reporting. Given the nature of the asset, the key valuation inputs are unobservable and management classifies this asset as Level 3.

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

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, December 31, 2014 and June 30, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall *(in thousands)*.

| **June 30, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasuries | $127,901 | $- | $- | $127,901 |
| U.S. Government agencies | - | 110,311 | - | 110,311 |
| State and political subdivisions | - | 30,764 | - | 30,764 |
| Mortgage-backed securities | - | 998,116 | - | 998,116 |
| Corporate bonds | - | 206,274 | 750 | 207,024 |
| Asset-backed securities | - | 466,332 | - | 466,332 |
| Other | - | 1,871 | - | 1,871 |
| Deferred compensation plan assets | 3,429 | - | - | 3,429 |
| Servicing rights for government guaranteed loans | - | - | 3,118 | 3,118 |
| Derivative financial instruments | - | 10,197 | 11,531 | 21,728 |
| Total assets | $131,330 | $1,823,865 | $15,399 | $1,970,594 |
| | | | | |
| **Liabilities:** | | | | |
| Deferred compensation plan liability | $3,429 | $- | $- | $3,429 |
| Derivative financial instruments | - | 14,113 | 18,261 | 32,374 |
| Total liabilities | $3,429 | $14,113 | $18,261 | $35,803 |

| **December 31, 2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasuries | $105,709 | $- | $- | $105,709 |
| U.S. Government agencies | - | 36,299 | - | 36,299 |
| State and political subdivisions | - | 20,233 | - | 20,233 |
| Mortgage-backed securities | - | 996,820 | - | 996,820 |
| Corporate bonds | - | 164,878 | 750 | 165,628 |
| Asset-backed securities | - | 455,928 | - | 455,928 |
| Other | - | 2,117 | - | 2,117 |
| Deferred compensation plan assets | 3,864 | - | - | 3,864 |
| Servicing rights for government guaranteed loans | | - | 2,551 | 2,551 |
| Derivative financial instruments | - | 8,337 | 12,262 | 20,599 |
| Total assets | $109,573 | $1,684,612 | $15,563 | $1,809,748 |

| | | | | |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| Deferred compensation plan liability | $3,864 | $- | $- | $3,864 |
| Derivative financial instruments | - | 13,018 | 18,979 | 31,997 |
| Total liabilities | $3,864 | $13,018 | $18,979 | $35,861 |

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

| **June 30, 2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasuries | $- | $15,508 | $- | $15,508 |
| State and political subdivisions | - | 21,815 | - | 21,815 |
| Mortgage-backed securities | - | 1,077,440 | - | 1,077,440 |
| Corporate bonds | - | 175,671 | 300 | 175,971 |
| Asset-backed securities | - | 448,323 | - | 448,323 |
| Other | - | 2,211 | - | 2,211 |
| Deferred compensation plan assets | 3,715 | - | - | 3,715 |
| Derivative financial instruments | - | 22,024 | - | 22,024 |
| Total assets | $3,715 | $1,762,992 | $300 | $1,767,007 |
| **Liabilities:** | | | | |
| Deferred compensation plan liability | $3,715 | $- | $- | $3,715 |
| Brokered certificates of deposit | - | 179,215 | - | 179,215 |
| Derivative financial instruments | - | 36,545 | - | 36,545 |
| Total liabilities | $3,715 | $215,760 | $- | $219,475 |

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

| | **2015** | | | | **2014** |
|---|---|---|---|---|---|
| | **Derivative Asset** | **Derivative Liability** | **Servicing rights for government guaranteed loans** | **Securities Available-for-Sale** | **Securities Available-for-Sale** |
| **Three Months Ended June 30,** | | | | | |
| Balance at beginning of period | $8,117 | $14,529 | $2,717 | $750 | $350 |
| Additions | - | - | 442 | - | - |
| Sales and settlements | - | - | - | - | (50) |
| Amounts included in earnings - fair value adjustments | 3,414 | 3,732 | (41) | - | - |
| Balance at end of period | $11,531 | $18,261 | $3,118 | $750 | $300 |
| | | | | | |
| **Six Months Ended June 30,** | | | | | |
| Balance at beginning of period | $12,262 | $18,979 | $2,551 | $750 | $350 |
| Additions | - | - | 632 | - | - |
| Sales and settlements | - | - | - | - | (50) |
| Amounts included in earnings - fair value adjustments | (731) | (718) | (65) | - | - |

| | | | | | |
|---|---|---|---|---|---|
| Balance at end of period | $11,531 | $18,261 | $3,118 | $750 | $300 |

37

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

The following table presents quantitative information about Level 3 fair value measurements for fair value on a recurring basis at June 30, 2015, December 31, 2014 and June 30, 2014 *(in thousands)*.

| | **Fair Value** | | | | | **Weighted Average** | |
|---|---|---|---|---|---|---|---|
| **Level 3 Assets** | **June 30, 2015** | **December 31, 2014** | **June 30, 2014** | **Valuation Technique** | **Unobservable Inputs** | **June 30, 2015** | **December 31, 2014** |
| Servicing Rights for Government Guaranteed Loans | $3,118 | $ 2,551 | $ - | Discounted cash flow | Discount rate<br>Prepayment Rate | 11.0 %<br>6.98 % | 12.0 %<br>6.70 % |
| Corporate Bonds | 750 | 750 | 300 | Indicative bid provided by a broker | Multiple factors, including but not limited to, current operations, financial condition, cash flows, and recently executed financing transactions related to the company | N/A | N/A |
| Derivative assets | 11,531 | 12,262 | - | Dealer Priced | Dealer Priced | N/A | N/A |
| Derivative liabilities | 18,261 | 18,979 | - | Dealer Priced | Dealer Priced | N/A | N/A |

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These assets are not measured at fair value on a recurring basis, but are subject to fair value adjustments in certain circumstances. These adjustments to fair value usually result from the application of lower of amortized cost or fair value accounting or write-downs of individual assets due to impairment. The following table presents the fair value hierarchy and carrying value of all assets that were still held as of June 30, 2015, December 31, 2014 and June 30, 2014, for which a nonrecurring fair value adjustment was recorded during the periods presented *(in thousands)*.

| **June 30, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Loans | $ - | $ - | $3,907 | $3,907 |
| | | | | |
| **December 31, 2014** | | | | |
| Loans | $ - | $ - | $7,317 | $7,317 |
| | | | | |
| **June 30, 2014** | | | | |
| Loans | $ - | $ - | $8,641 | $8,641 |

Loans that are reported above as being measured at fair value on a nonrecurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows, although only those specific reserves based on the fair value of collateral are considered nonrecurring fair value adjustments. As discussed in Note 2, United retrospectively adopted ASU 2015-10 *Technical Corrections and Improvements* during second quarter 2015, which clarified the guidance for disclosure of nonrecurring fair value measurements and has been reflected in the disclosures presented in the table above.

**Assets and Liabilities Not Measured at Fair Value**

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

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

United's cash and cash equivalents and repurchase agreements have short maturities and therefore the carrying value approximates fair value. The fair value of securities available-for-sale equals the balance sheet value. Due to the short-term settlement of accrued interest receivable and payable, the carrying amount closely approximates fair value.

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

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

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

The carrying amount and fair values for other financial instruments that are not measured at fair value on a recurring basis in United's balance sheet at June 30, 2015, December 31, 2014, and June 30, 2014 are as follows *(in thousands)*.

| | **Carrying** | **Fair Value Level** | | | |
|---|---|---|---|---|---|
| **June 30, 2015** | **Amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets: | | | | | |
| Securities held to maturity | $379,757 | $- | $388,066 | $- | $388,066 |
| Loans, net | 5,103,388 | - | - | 5,083,619 | 5,083,619 |
| Mortgage loans held for sale | 22,003 | - | 22,312 | - | 22,312 |
| | | | | | |
| Liabilities: | | | | | |
| Deposits | 6,807,943 | - | 6,808,029 | - | 6,808,029 |

| | | | | | |
|---|---|---|---|---|---|
| Federal Home Loan Bank advances | 385,125 | - | 385,121 | - | 385,121 |
| Long-term debt | 113,901 | - | - | 116,307 | 116,307 |
| | | | | | |
| **December 31, 2014** | | | | | |
| Assets: | | | | | |
| Securities held to maturity | 415,267 | - | 425,233 | - | 425,233 |
| Loans, net | 4,600,500 | - | - | 4,549,027 | 4,549,027 |
| Mortgage loans held for sale | 13,737 | - | 14,139 | - | 14,139 |
| | | | | | |
| Liabilities: | | | | | |
| Deposits | 6,326,513 | - | 6,328,264 | - | 6,328,264 |
| Federal Home Loan Bank advances | 270,125 | - | 270,125 | - | 270,125 |
| Long-term debt | 129,865 | - | - | 132,814 | 132,814 |
| | | | | | |
| **June 30, 2014** | | | | | |
| Assets: | | | | | |
| Securities held to maturity | 448,752 | - | 458,864 | - | 458,864 |
| Loans, net | 4,337,037 | - | - | 4,275,708 | 4,275,708 |
| Mortgage loans held for sale | 14,918 | - | 15,157 | - | 15,157 |
| | | | | | |
| Liabilities: | | | | | |
| Deposits | 6,163,545 | - | 6,152,839 | - | 6,152,839 |
| Federal Home Loan Bank advances | 175,125 | - | 175,125 | - | 175,125 |
| Long-term debt | 129,865 | - | - | 132,145 | 132,145 |

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

**Note 15 – Commitments and Contingencies**

United is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement United has in particular classes of financial instruments. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written is represented by the contractual amount of these instruments. United uses the same credit policies in making commitments and conditional obligations as it uses for underwriting on-balance sheet instruments. In most cases, collateral or other security is required to support financial instruments with credit risk.

The following table summarizes, as of June 30, 2015, December 31, 2014 and June 30, 2014, the contractual amount of off-balance sheet instruments *(in thousands)*.

| | **June 30, 2015** | **December 31, 2014** | **June 30, 2014** |
|---|---|---|---|
| Financial instruments whose contract amounts represent credit risk: | | | |
| Commitments to extend credit | $1,047,970 | $878,160 | $797,068 |
| Letters of credit | 21,726 | 19,861 | 20,682 |

United, in the normal course of business, is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. Although it is not possible to predict the outcome of these lawsuits, or the range of any possible loss, management, after consultation with legal counsel, does not anticipate that the ultimate aggregate liability, if any, arising from these lawsuits will have a material adverse effect on United's financial position or results of operations.

**Note 16 – Goodwill and Other Intangible Assets**

The carrying amount of goodwill and other intangible assets is summarized below *(in thousands)*:

| | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|
| Core deposit intangible | $36,872 | $ 32,652 | $32,652 |
| Less: accumulated amortization | (31,209) | (30,520) | (29,921) |
| Total intangibles subject to amortization, net | 5,663 | 2,132 | 2,731 |
| Goodwill | 14,527 | 1,509 | - |
| Total goodwill and other intangible assets, net | $20,190 | $ 3,641 | $2,731 |

The following is a summary of changes in the carrying amounts of goodwill *(in thousands)*:

| | For the three months ended June 30, | | | For the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| **2015** | **Goodwill** | **Accumulated Impairment Losses** | **Goodwill, net of Accumulated Impairment Losses** | **Goodwill** | **Accumulated Impairment Losses** | **Goodwill, net of Accumulated Impairment Losses** |
| Balance, beginning of period | $307,099 | $ (305,590) | $ 1,509 | $307,099 | $ (305,590) | $ 1,509 |
| Acquisition of MoneyTree | 13,018 | - | 13,018 | 13,018 | - | 13,018 |
| Balance, end of period | $320,117 | $ (305,590) | $ 14,527 | $320,117 | $ (305,590) | $ 14,527 |

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

The amortization expense for intangibles subject to amortization for the three and six months ended June 30, 2015 was $447,000 and $689,000, respectively, which was recognized in operating expenses. The amortization expense for intangibles subject to amortization for the three and six months ended June 30, 2014 was $362,000 and $749,000, respectively. The estimated aggregate amortization expense for future periods is as follows *(in thousands)*:

| **Year** | |
|---|---|
| Remainder of 2015 | $1,063 |
| 2016 | 1,919 |
| 2017 | 1,115 |
| 2018 | 695 |
| 2019 | 479 |
| Thereafter | 392 |
| Total | $5,663 |

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

### Forward-looking Statements

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

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experiences may differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experiences to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2014 as well as the following factors:

- the condition of the general business and economic environment;
- the results of our internal credit stress tests may not accurately predict the impact on our financial condition if the economy were to deteriorate;
- our ability to maintain profitability;
- our ability to fully realize the balance of our net deferred tax asset, including net operating loss carryforwards;
- the risk that we may be required to increase the valuation allowance on our net deferred tax asset in future periods;
- the condition of the banking system and financial markets;
- our ability to raise capital;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our lack of geographic diversification;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets and other interest rate risks;
- our accounting and reporting policies;
- if our allowance for loan losses is not sufficient to cover actual loan losses;

- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- risks related to our communications and information systems, including risks with respect to cybersecurity breaches;
- our reliance on third parties to provide key components of our business infrastructure and services required to operate our business;
- competition from financial institutions and other financial service providers;
- risks with respect to our ability to successfully expand and complete acquisitions and integrate businesses and operations that are acquired;
- if the conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related regulations;
- changes in laws and regulations or failures to comply with such laws and regulations;
- changes in regulatory capital and other requirements;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur;
- changes in tax laws, regulations and interpretations or challenges to our income tax provision; and
- our ability to maintain effective internal controls over financial reporting and disclosure controls and procedures.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission (the “SEC”). United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

**Overview**

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

United is a bank holding company registered with the Board of Governors of the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. At June 30, 2015, United had total consolidated assets of $8.25 billion, total loans of $5.17 billion, total deposits of $6.81 billion, and shareholders' equity of $827 million.

United conducts substantially all of its operations through its wholly-owned Georgia bank subsidiary, United Community Bank (the "Bank"), which as of June 30, 2015, operated at 114 locations throughout the Atlanta-Sandy Springs-Roswell, Georgia, Gainesville, Georgia and Greenville-Anderson-Mauldin, South Carolina metropolitan statistical areas, north and coastal Georgia, western North Carolina, and east Tennessee. Also, United has commercial loan offices in Nashville, Tennessee and Charlotte, North Carolina.

On May 1, 2015, United completed the acquisition of MoneyTree Corporation ("MoneyTree") and its wholly-owned bank subsidiary First National Bank ("FNB"). MoneyTree's results are included in United's consolidated results beginning on the acquisition date. Also included in management's discussion and analysis are certain non-GAAP (accounting principles generally accepted in the United States of America ("GAAP")) performance measures. United's management believes that non-GAAP performance measures are useful in analyzing United's financial performance trends and therefore this section will refer to non-GAAP performance measures. A reconciliation of these non-GAAP performance measures to GAAP performance measures is included in the table on page 47.

United reported net income of $17.8 million for the second quarter of 2015. This compared to net income of $16.4 million for the second quarter of 2014. Diluted earnings per common share were $.28 for the second quarter of 2015, compared to diluted earnings per common share of $.27 for the second quarter of 2014.

For the six months ended June 30, 2015, United reported net income of $35.5 million. This compared to net income of $31.8 million for the first six months of 2014. Diluted earnings per common share were $.57 for the six months ended June 30, 2015, compared to diluted earnings per common share of $.52 for the six months ended June 30, 2014.

Taxable equivalent net interest revenue increased to $61.3 million for the second quarter of 2015, compared to $55.0 million for the same period of 2014, primarily due to loan growth combined with an increase in the net interest margin. Net interest margin increased to 3.30% for the three months ended June 30, 2015 from 3.21% for the same period in 2015. For the six months ended June 30, 2015, taxable equivalent net interest revenue was $119 million compared to $109 million for the same period of 2014, primarily due to the same reasons mentioned above. Net interest margin increased to 3.30% for the six months ended June 30, 2015 from 3.21% for the same period in 2015. In the second quarter of 2014, United executed a number of balance sheet management activities, including restructuring interest rate swaps, selling investment securities and repaying high cost wholesale borrowings with the intent of improving the net interest margin and increasing net interest revenue. These balance sheet management activities, along with strong loan growth over the last four quarters, had the desired effect of increasing net interest revenue and net interest margin which has held steady in the low 3.30% range since the second quarter 2014 restructuring activities.

United's provision for credit losses was $900,000 for the second quarter of 2015, compared to $2.20 million for the same period in 2014. Net charge-offs for the second quarter of 2015 were $978,000, compared to $4.18 million for the second quarter of 2014. Strong recoveries of previously charged-off loans drove net charge-offs down in the second quarter of 2015. For the six months ended June 30, 2015, United's provision for loan losses was $2.70 million, compared to $4.70 million for the same period of 2014. United's credit quality indicators have shown improvement over the last four quarters leading to lower net charge offs and provisions for credit losses.

As of June 30, 2015, United's allowance for loan losses was $70.1 million, or 1.36% of loans, compared to $71.6 million, or 1.53% of loans, at December 31, 2014 and $73.2 million, or 1.66% of loans, at June 30, 2014. In accordance with the accounting guidance for business combinations, there was no allowance for loan losses brought forward on loans acquired from MoneyTree, as credit deterioration was included in the determination of fair value at acquisition date. At June 30, 2015, United recorded no allowance for loan losses on loans acquired from FNB as there was no evidence of credit deterioration beyond that which was incorporated into the determination of fair value at acquisition date. Nonperforming assets of $21.2 million were .26% of total assets at June 30, 2015, the same level as December 31, 2014 and down from .32% as of June 30, 2014, due to ongoing improving credit conditions. During the second quarter of 2015, $6.55 million in loans were placed on nonaccrual compared with $9.53 million in the second quarter of 2014.

Fee revenue of $17.3 million for the second quarter of 2015 was up $3.12 million, or 22%, from the second quarter of 2014. The increase was partly due to $1.49 million in gains from the sales of government guaranteed loans in the second quarter of 2015, compared to $744,000 in the second quarter of 2014. United began selling the guaranteed portion of Small Business Administration ("SBA") / United States Department of Agriculture ("USDA") loans in the second quarter of 2014 as part of its emphasis on growing the government guaranteed lending business. Mortgage fees of $3.71 million for the second quarter of 2015 increased from $1.88 million in the second quarter of 2014. The increase was due to United's emphasis on growing its mortgage business by recruiting lenders in metropolitan markets and a wave of refinancing activity in the second quarter of 2015. For the first six months of 2015, fee revenue of $32.9 million increased $6.63 million, or 25%, from the same period in 2014, primarily due to the same factors resulting in the quarterly increase.

For the second quarter of 2015, operating expenses of $48.4 million were up $7.89 million from the second quarter of 2014, partially due to the addition of FNB's operating expenses since acquisition. Salaries and benefits expense increased $3.67 million from a year ago mostly due to the investment in additional staff and new teams to expand the specialized lending area as well as higher incentive compensation in connection with increased lending activities and improvement in earnings performance. In addition, merger-related charges of $3.17 million were expensed in second quarter 2015. For the six months ended June 30, 2015, operating expenses of $91.5 million were up $11.9 million from the same period, mainly due to the same factors that caused the quarterly increase. The increase also reflects first quarter 2015 charges of $690,000 to terminate and settle the loss sharing agreements with the Federal Deposit Insurance Corporation (the "FDIC") related to United's 2009 acquisition of Southern Community Bank and a $420,000 loss on a fraudulent home equity line of credit transaction that are reflected in other operating expense.

**Recent Developments**

***Pending Acquisition of Palmetto Bancshares, Inc.***

On April 22, 2015, United announced that it had reached a definitive agreement to acquire Palmetto Bancshares, Inc. ("Palmetto") and its wholly-owned bank subsidiary The Palmetto Bank (the "Merger"). The Palmetto Bank is the third largest banking institution headquartered in South Carolina, with total assets of $1.2 billion, loans of $832 million and deposits of $967 million. It is a 108-year old community bank that serves Upstate South Carolina through 25 branch locations in nine counties along the Interstate 85 corridor. The Palmetto Bank will merge into, and operate under the brand of, United Community Bank.

Under the terms of the agreement, which has been unanimously approved by the Boards of Directors of both companies, Palmetto shareholders will have the right to receive $19.25 in cash or 0.97 shares of United common stock, or any combination thereof, for each share of Palmetto common stock. The cash and stock elections are subject to proration to ensure that 30% of the outstanding shares of Palmetto common stock will be exchanged for cash and 70% of the outstanding shares of Palmetto common stock will be exchanged for shares of United common stock in the Merger. Based on United's ten-day average closing price of $21.21 per share as of July 31, 2015, the aggregate deal value of the Merger is approximately $262 million.

The Merger, which has received all regulatory approvals, is subject to the approval of the shareholders of Palmetto and other customary conditions. A special meeting of the shareholders of Palmetto will be held on August 12, 2015. The Merger is expected to close on September 1, 2015.

***Senior Note Offering***

On July 30, 2015, United announced a public offering of senior fixed to floating rate notes. Pursuant to such offering, United expects to issue $50 million aggregate principal amount of 5.00% Senior Fixed to Floating Rate Notes due February 14, 2022 (the “2022 Notes”) and $35 million aggregate principal amount of 5.50% Senior Fixed to Floating Rate Notes due February 14, 2027 (the “2027 Notes” and, together with the 2022 Notes, the “Notes”). We will pay interest on the 2022 Notes semi-annually on February 14 and August 14 of each year, with interest accruing from and including August 14, 2015 to but excluding August 14, 2020, at a fixed rate of 5.00% per year. From and including August 14, 2020 through the maturity date, we will pay interest on the 2022 Notes quarterly on February 14, May 14, August 14 and November 14 of each year at a floating rate equal to three-month LIBOR plus 381.4 basis points. We will pay interest on the 2027 Notes semi-annually on February 14 and August 14 of each year, with interest accruing from and including August 14, 2015 to but excluding August 14, 2025, at a fixed rate of 5.50% per year. From and including August 14, 2025 through the maturity date, we will pay interest on the 2027 Notes quarterly on February 14, May 14, August 14 and November 14 of each year at a floating rate equal to three-month LIBOR plus 371 basis points. We may elect to redeem the 2022 Notes, in whole or in part, on any interest payment date on or after August 14, 2020 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. We may elect to redeem the 2027 Notes, in whole or in part, on any interest payment date on or after August 14, 2025 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. We intend to use the net proceeds from the issuance of the Notes for the financing of the cash consideration payable by United in connection with the Merger and for general corporate purposes, which may include the potential repayment or redemption of trust preferred securities and other indebtedness and other acquisitions.

**Critical Accounting Policies**

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

**GAAP Reconciliation and Explanation**

This Form 10-Q contains non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: taxable equivalent interest revenue, taxable equivalent net interest revenue, tangible book value per share, tangible equity to assets, tangible common equity to assets and tangible common equity to risk-weighted assets. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in on the table on page 47.

**Results of Operations**

United reported net income of $17.8 million for the second quarter of 2015. This compared to net income of $16.4 million for the same period in 2014. For the second quarter of 2015, diluted earnings per common share were $.28 compared to $.27 for the second quarter of 2014. For the six months ended June 30, 2015, United reported net income of $35.5 million compared to net income of $31.8 million for the same period in 2014.

United reported net operating income of $20.0 million and $37.7 million, respectively, for the second quarter of 2015 and the first half of 2015, compared to $16.4 million and $31.3 million, respectively, for the same periods in 2014. Operating earnings exclude the effects of merger-related charges, which totaled $2.18 million net of tax.

**Table 1 - Financial Highlights**

**Selected Financial Information**

| *(in thousands, except per share data; taxable equivalent)* | **2015** Second Quarter | First Quarter | **2014** Fourth Quarter | Third Quarter | Second Quarter | **Second Quarter 2015-2014 Change** | **For the Six Months Ended June 30,** 2015 | 2014 | **Y' 20 Cl** |
|---|---|---|---|---|---|---|---|---|---|
| **INCOME SUMMARY** | | | | | | | | | |
| Interest revenue | $66,134 | $62,909 | $64,353 | $63,338 | $61,783 | | $129,043 | $122,278 | |
| Interest expense | 4,817 | 5,292 | 6,021 | 6,371 | 6,833 | | 10,109 | 13,159 | |
| Net interest revenue | 61,317 | 57,617 | 58,332 | 56,967 | 54,950 | 12 % | 118,934 | 109,119 | 9 |
| Provision for credit losses | 900 | 1,800 | 1,800 | 2,000 | 2,200 | | 2,700 | 4,700 | |
| Fee revenue | 17,266 | 15,682 | 14,823 | 14,412 | 14,143 | 22 | 32,948 | 26,319 | 2 |
| **Total revenue** | 77,683 | 71,499 | 71,355 | 69,379 | 66,893 | 16 | 149,182 | 130,738 | 1 |
| Expenses - operating (1) | 45,247 | 43,061 | 41,919 | 41,364 | 40,532 | 12 | 88,308 | 79,582 | 1 |
| Income before income tax expense - operating (1) | 32,436 | 28,438 | 29,436 | 28,015 | 26,361 | 23 | 60,874 | 51,156 | 1 |
| Income tax expense - operating (1) | 12,447 | 10,768 | 11,189 | 10,399 | 10,004 | 24 | 23,215 | 19,399 | 2 |
| **Net income - operating** (1) | 19,989 | 17,670 | 18,247 | 17,616 | 16,357 | 22 | 37,659 | 31,757 | 1 |
| Preferred dividends and discount accretion | 17 | - | - | - | - | | 17 | 439 | |
| **Net income available to common shareholders - operating** (1) | 19,972 | 17,670 | 18,247 | 17,616 | 16,357 | 22 | 37,642 | 31,318 | 2 |
| Merger-related charges, net of income tax benefit | 2,176 | - | - | - | - | | 2,176 | - | |
| **Net income available to common shareholders - GAAP** | $17,796 | $17,670 | $18,247 | $17,616 | $16,357 | 9 | $35,466 | $31,318 | 1 |
| | | | | | | | | | |
| **PERFORMANCE MEASURES** | | | | | | | | | |
| Per common share: | | | | | | | | | |
| Diluted income - operating(1) | $.32 | $.29 | $.30 | $.29 | $.27 | 19 | $.61 | $.52 | 1 |
| Diluted income - GAAP | .28 | .29 | .30 | .29 | .27 | 4 | .57 | .52 | 1 |
| Cash dividends declared | .05 | .05 | .05 | .03 | .03 | | .10 | .03 | |
| Book value | 12.95 | 12.58 | 12.20 | 12.15 | 11.94 | 8 | 12.95 | 11.94 | 8 |
| Tangible book value (3) | 12.66 | 12.53 | 12.15 | 12.10 | 11.91 | 6 | 12.66 | 11.91 | 6 |
| Key performance ratios: | | | | | | | | | |
| Return on common equity - operating (1)(2)(4) | 9.90 % | 9.34 % | 9.60 % | 9.41 % | 8.99 % | | 9.63 % | 8.82 % | |
| Return on common equity - GAAP (2)(4) | 8.83 | 9.34 | 9.60 | 9.41 | 8.99 | | 9.08 | 8.82 | |
| Return on assets - operating (1)(4) | 1.00 | .94 | .96 | .95 | .88 | | .97 | .87 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Return on assets - GAAP (4) | .89 | .94 | .96 | .95 | .88 | | .92 | .87 | |
| Dividend payout ratio - operating (1) | 15.63 | 17.24 | 16.67 | 10.34 | 11.11 | | 16.39 | 5.77 | |
| Dividend payout ratio - GAAP | 17.86 | 17.24 | 16.67 | 10.34 | 11.11 | | 17.54 | 5.77 | |
| Net interest margin (4) | 3.30 | 3.31 | 3.31 | 3.32 | 3.21 | | 3.30 | 3.21 | |
| Efficiency ratio - operating(1) | 57.59 | 59.15 | 57.47 | 57.96 | 58.65 | | 58.34 | 58.85 | |
| Efficiency ratio - GAAP | 61.63 | 59.15 | 57.47 | 57.96 | 58.65 | | 60.44 | 58.85 | |
| Average equity to average assets | 10.05 | 9.86 | 9.76 | 9.85 | 9.61 | | 9.96 | 9.56 | |
| Average tangible equity to average assets (3) | 9.91 | 9.82 | 9.72 | 9.83 | 9.58 | | 9.87 | 9.54 | |
| Average tangible common equity to average assets (3) | 9.83 | 9.82 | 9.72 | 9.83 | 9.58 | | 9.83 | 9.40 | |
| Tangible common equity to risk-weighted assets (3)(5) | 13.24 | 13.53 | 13.82 | 14.10 | 13.92 | | 13.24 | 13.92 | |
| **ASSET QUALITY** | | | | | | | | | |
| Nonperforming loans | $18,805 | $19,015 | $17,881 | $18,745 | $20,724 | (9 ) | $18,805 | $20,724 | |
| Foreclosed properties | 2,356 | 1,158 | 1,726 | 3,146 | 2,969 | (21) | 2,356 | 2,969 | |
| Total nonperforming assets (NPAs) | 21,161 | 20,173 | 19,607 | 21,891 | 23,693 | (11) | 21,161 | 23,693 | |
| Allowance for loan losses | 70,129 | 70,007 | 71,619 | 71,928 | 73,248 | | 70,129 | 73,248 | |
| Net charge-offs | 978 | 2,562 | 2,509 | 3,155 | 4,175 | (77) | 3,540 | 8,214 | |
| Allowance for loan losses to loans | 1.36 % | 1.46 % | 1.53 % | 1.57 % | 1.66 % | | 1.36 % | 1.66 % | |
| Net charge-offs to average loans (4) | .08 | .22 | .22 | .28 | .38 | | .15 | .38 | |
| NPAs to loans and foreclosed properties | .41 | .42 | .42 | .48 | .54 | | .41 | .54 | |
| NPAs to total assets | .26 | .26 | .26 | .29 | .32 | | .26 | .32 | |
| **AVERAGE BALANCES** *($ in millions)* | | | | | | | | | |
| Loans | $5,017 | $4,725 | $4,621 | $4,446 | $4,376 | 15 | $4,872 | $4,366 | 1 |
| Investment securities | 2,261 | 2,203 | 2,222 | 2,231 | 2,326 | (3 ) | 2,232 | 2,323 | (4 |
| Earning assets | 7,444 | 7,070 | 7,013 | 6,820 | 6,861 | 8 | 7,258 | 6,844 | 6 |
| Total assets | 8,017 | 7,617 | 7,565 | 7,374 | 7,418 | 8 | 7,818 | 7,401 | 6 |
| Deposits | 6,669 | 6,369 | 6,383 | 6,143 | 6,187 | 8 | 6,520 | 6,192 | 5 |
| Shareholders’ equity | 806 | 751 | 738 | 726 | 713 | 13 | 778 | 708 | 1 |
| Common shares - basic *(thousands)* | 62,549 | 60,905 | 60,830 | 60,776 | 60,712 | | 61,730 | 60,386 | 2 |
| Common shares - diluted *(thousands)* | 62,553 | 60,909 | 60,833 | 60,779 | 60,714 | | 61,734 | 60,388 | 2 |
| **AT PERIOD END** *($ in millions)* | | | | | | | | | |
| Loans | $5,174 | $4,788 | $4,672 | $4,569 | $4,410 | 17 | $5,174 | $4,410 | 1 |
| Investment securities | 2,322 | 2,201 | 2,198 | 2,222 | 2,190 | 6 | 2,322 | 2,190 | 6 |
| Total assets | 8,246 | 7,664 | 7,567 | 7,526 | 7,352 | 12 | 8,246 | 7,352 | 1 |
| Deposits | 6,808 | 6,438 | 6,327 | 6,241 | 6,164 | 10 | 6,808 | 6,164 | 1 |
| Shareholders’ equity | 827 | 764 | 740 | 736 | 722 | 15 | 827 | 722 | 1 |
| Common shares outstanding *(thousands)* | 62,700 | 60,309 | 60,259 | 60,248 | 60,139 | | 62,700 | 60,139 | |

(1) Excludes merger-related charges. (2) Net income available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (3) Excludes effect of acquisition related intangibles and associated amortization. (4) Annualized. (5) June 30 and March 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.

46

**Table 1 - Non-GAAP Performance Measures Reconciliation**
**Selected Financial Information**

| | 2015 | | 2014 | | | For the Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| *(in thousands, except per share data; taxable equivalent)* | **Second Quarter** | **First Quarter** | **Fourth Quarter** | **Third Quarter** | **Second Quarter** | **2015** | **2014** |
| **Interest revenue reconciliation** | | | | | | | |
| Interest revenue - taxable equivalent | $66,134 | $62,909 | $64,353 | $63,338 | $61,783 | $129,043 | $122,278 |
| Taxable equivalent adjustment | (326) | (375) | (398) | (405) | (377) | (701) | (734) |
| Interest revenue (GAAP) | $65,808 | $62,534 | $63,955 | $62,933 | $61,406 | $128,342 | $121,544 |
| **Net interest revenue reconciliation** | | | | | | | |
| Net interest revenue - taxable equivalent | $61,317 | $57,617 | $58,332 | $56,967 | $54,950 | $118,934 | $109,119 |
| Taxable equivalent adjustment | (326) | (375) | (398) | (405) | (377) | (701) | (734) |
| Net interest revenue (GAAP) | $60,991 | $57,242 | $57,934 | $56,562 | $54,573 | $118,233 | $108,385 |
| **Total revenue reconciliation** | | | | | | | |
| Total operating revenue | $77,683 | $71,499 | $71,355 | $69,379 | $66,893 | $149,182 | $130,738 |
| Taxable equivalent adjustment | (326) | (375) | (398) | (405) | (377) | (701) | (734) |
| Total revenue (GAAP) | $77,357 | $71,124 | $70,957 | $68,974 | $66,516 | $148,481 | $130,004 |
| **Expense reconciliation** | | | | | | | |
| Expenses - operating | $45,247 | $43,061 | $41,919 | $41,364 | $40,532 | $88,308 | $79,582 |
| Merger-related charges | 3,173 | - | - | - | - | 3,173 | - |
| Expenses (GAAP) | $48,420 | $43,061 | $41,919 | $41,364 | $40,532 | $91,481 | $79,582 |
| **Income before taxes reconciliation** | | | | | | | |
| Income before taxes - operating | $32,436 | $28,438 | $29,436 | $28,015 | $26,361 | $60,874 | $51,156 |
| Taxable equivalent adjustment | (326) | (375) | (398) | (405) | (377) | (701) | (734) |
| Merger-related charges | (3,173) | - | - | - | - | (3,173) | - |
| Income before taxes (GAAP) | $28,937 | $28,063 | $29,038 | $27,610 | $25,984 | $57,000 | $50,422 |
| **Income tax expense reconciliation** | | | | | | | |
| Income tax expense - operating | $12,447 | $10,768 | $11,189 | $10,399 | $10,004 | $23,215 | $19,399 |
| Taxable equivalent adjustment | (326) | (375) | (398) | (405) | (377) | (701) | (734) |
| Merger-related charges, tax benefit | (997) | - | - | - | - | (997) | - |
| Income tax expense (GAAP) | $11,124 | $10,393 | $10,791 | $9,994 | $9,627 | $21,517 | $18,665 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net income reconciliation** | | | | | | | |
| Net income - operating | $19,989 | $17,670 | $18,247 | $17,616 | $16,357 | $37,659 | $31,757 |
| Merger-related charges, net of income tax benefit | (2,176 ) | - | - | - | - | (2,176 ) | - |
| Net income (GAAP) | $17,813 | $17,670 | $18,247 | $17,616 | $16,357 | $35,483 | $31,757 |
| **Net income available to common shareholders reconciliation** | | | | | | | |
| Net income available to common shareholders - operating | $19,972 | $17,670 | $18,247 | $17,616 | $16,357 | $37,642 | $31,318 |
| Merger-related charges, net of income tax benefit | (2,176 ) | - | - | - | - | (2,176 ) | - |
| Net income available to common shareholders (GAAP) | $17,796 | $17,670 | $18,247 | $17,616 | $16,357 | $35,466 | $31,318 |
| **Diluted income per common share reconciliation** | | | | | | | |
| Diluted income per common share - operating | $.32 | $.29 | $.30 | $.29 | $.27 | $.61 | $.52 |
| Merger-related charges | (.04 ) | - | - | - | - | (.04 ) | - |
| Diluted income per common share (GAAP) | $.28 | $.29 | $.30 | $.29 | $.27 | $.57 | $.52 |
| **Book value per common share reconciliation** | | | | | | | |
| Tangible book value per common share | $12.66 | $12.53 | $12.15 | $12.10 | $11.91 | $12.66 | $11.91 |
| Effect of goodwill and other intangibles | .29 | .05 | .05 | .05 | .03 | .29 | .03 |
| Book value per common share (GAAP) | $12.95 | $12.58 | $12.20 | $12.15 | $11.94 | $12.95 | $11.94 |
| **Return on common equity reconciliation** | | | | | | | |
| Return on common equity - operating | 9.90 % | 9.34 % | 9.60 % | 9.41 % | 8.99 % | 9.63 % | 8.82 % |
| Merger-related charges | (1.07 ) | - | - | - | - | (.55 ) | - |
| Return on common equity (GAAP) | 8.83 % | 9.34 % | 9.60 % | 9.41 % | 8.99 % | 9.08 % | 8.82 % |
| **Return on assets reconciliation** | | | | | | | |
| Return on assets - operating | 1.00 % | .94 % | .96 % | .95 % | .88 % | .97 % | .87 % |
| Merger-related charges | (.11 ) | - | - | - | - | (.05 ) | - |
| Return on assets (GAAP) | .89 % | .94 % | .96 % | .95 % | .88 % | .92 % | .87 % |
| **Dividend payout ratio reconciliation** | | | | | | | |
| Dividend payout ratio - operating | 15.63 % | 17.24 % | 16.67 % | 10.34 % | 11.11 % | 16.39 % | 5.77 % |
| Merger-related charges | 2.23 | - | - | - | - | 1.15 | - |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividend payout ratio (GAAP) | 17.86 | % | 17.24 | % | 16.67 | % | 10.34 | % | 11.11 | % | 17.54 | % | 5.77 | % |
| | | | | | | | | | | | | | | |
| **Efficiency ratio reconciliation** | | | | | | | | | | | | | | |
| Efficiency ratio - operating | 57.59 | % | 59.15 | % | 57.47 | % | 57.96 | % | 58.65 | % | 58.34 | % | 58.85 | % |
| Merger-related charges | 4.04 | | - | | - | | - | | - | | 2.10 | | - | |
| Efficiency ratio (GAAP) | 61.63 | % | 59.15 | % | 57.47 | % | 57.96 | % | 58.65 | % | 60.44 | % | 58.85 | % |
| | | | | | | | | | | | | | | |
| **Average equity to assets reconciliation** | | | | | | | | | | | | | | |
| Tangible common equity to assets | 9.83 | % | 9.82 | % | 9.72 | % | 9.83 | % | 9.58 | % | 9.83 | % | 9.40 | % |
| Effect of preferred equity | .08 | | - | | - | | - | | - | | .04 | | .14 | |
| Tangible equity to assets | 9.91 | | 9.82 | | 9.72 | | 9.83 | | 9.58 | | 9.87 | | 9.54 | |
| Effect of goodwill and other intangibles | .14 | | .04 | | .04 | | .02 | | .03 | | .09 | | .02 | |
| Equity to assets (GAAP) | 10.05 | % | 9.86 | % | 9.76 | % | 9.85 | % | 9.61 | % | 9.96 | % | 9.56 | % |
| | | | | | | | | | | | | | | |
| **Tangible common equity to risk-weighted assets reconciliation** (1) | | | | | | | | | | | | | | |
| Tangible common equity to risk-weighted assets | 13.24 | % | 13.53 | % | 13.82 | % | 14.10 | % | 13.92 | % | 13.24 | % | 13.92 | % |
| Effect of other comprehensive income | .28 | | .19 | | .35 | | .34 | | .53 | | .28 | | .53 | |
| Effect of deferred tax limitation | (2.46 | ) | (2.86 | ) | (3.11 | ) | (3.39 | ) | (3.74 | ) | (2.46 | ) | (3.74 | ) |
| Effect of trust preferred | .63 | | .67 | | 1.00 | | 1.02 | | 1.04 | | .63 | | 1.04 | |
| Effect of preferred equity | .17 | | - | | - | | - | | - | | .17 | | - | |
| Tier I capital ratio (Regulatory) | 11.86 | % | 11.53 | % | 12.06 | % | 12.07 | % | 11.75 | % | 11.86 | % | 11.75 | % |

(1) June 30 and March 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.

47

**Net Interest Revenue (Taxable Equivalent)**

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages the balance sheet to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Taxable equivalent net interest revenue for the second quarter of 2015 was $61.3 million, up $6.37 million from the second quarter of 2014. The combination of growth in the loan portfolio, a higher yield on the securities portfolio and lower interest costs on deposits and borrowed funds were responsible for the increase in net interest revenue. United continues to focus on loan and deposit pricing in an effort to maintain a steady level of net interest revenue. The acquisition of MoneyTree on May 1, 2015 also contributed to the increase as MoneyTree's results are included in consolidated results beginning on the acquisition date.

While average loans increased $641 million, or 15%, from the second quarter of last year, the yield on loans decreased 20 basis points, reflecting the continuing effect of the low interest rate environment and pricing competition for a limited number of quality lending opportunities.

Average interest-earning assets for the second quarter of 2015 increased $584 million, or 9%, from the second quarter of 2014, which was due primarily to the increase in loans, including the acquisition of MoneyTree loans, offset by a decrease in the securities portfolio. Average investment securities for the second quarter of 2015 decreased $64.8 million from a year ago as United's earning asset mix shifted to loans. The average yield on the investment portfolio increased 4 basis points from a year ago, mostly due to changes in the asset mix resulting from portfolio restructuring activities executed in the second quarter of 2014.

During the second quarter of 2014, United sold approximately $237 million in securities which were mostly low-yielding variable-rate collateralized mortgage obligations ("CMOs") and fixed rate corporate bonds that had been swapped to a floating rate. Improvement in the credit spreads on corporate bonds allowed United to sell the securities at an attractive gain that was used to repay $44 million in structured repurchase agreements that were paying a 4% interest rate. About $120 million of the proceeds from the sales of securities were reinvested in fixed rate mortgage-backed securities and higher yielding floating rate collateralized loan obligations to offset the impact of the decrease in interest revenue on the sold securities. These actions in the second quarter of 2014, along with strong loan growth in the four quarters that followed, were primarily responsible for increasing net interest revenue and improving the net interest margin, which has held steady in the low 3.30% range since the time of the restructuring.

Also in the second quarter of 2014, as a result of improvement in the interest sensitivity position, United effectively terminated $300 million notional in pay fixed forward starting swaps that were serving as cash flow hedges of LIBOR based wholesale borrowings and indexed money market deposits. The swaps were entered into in 2012 in anticipation of rising interest rates and had forward start dates that took effect in the first and second quarters of 2014. Changes in United's balance sheet since that time made the hedges no longer necessary to achieve its desired interest sensitivity position. The termination of the cash flow hedges in the second quarter of 2014 lowered United's deposit and wholesale borrowings costs and also contributed to the increase in net interest revenue and improvement in the net interest margin. In the fourth quarter of 2014 and first quarter of 2015, United terminated the remaining $100 million and $175 million notional, respectively, in pay fixed cash flow hedges that were serving as cash flow hedges of LIBOR based money market deposits.

The above noted securities transactions increased the overall yield in the investment portfolio. The higher investment securities yields and the shift in composition of interest earning assets resulting from loan growth softened the impact of the 20 basis point decrease in the average loan yield on net interest revenue. Also, the decrease in the yield on interest-earning assets for the second quarter of 2015 compared with the second quarter of 2014 was held to only five basis points. The yield on other interest-earning assets decreased 50 basis points and the average balance increased $7.23 million from the second quarter of 2014. United utilizes reverse repurchase agreements, including collateral swap transactions, where the company enters into a repurchase agreement and reverse repurchase agreement simultaneously with the same counterparty subject to a master netting agreement. In these transactions, the offsetting balances are netted on the balance sheet.

Average interest-bearing liabilities of $5.34 billion for the second quarter of 2015 increased $236 million from the second quarter of 2014. Average noninterest bearing deposits increased $305 million from the second quarter of 2014 to $1.78 billion for the second quarter of 2015. The average cost of interest-bearing liabilities for the second quarter of 2015 was .36% compared to .54% for the same period of 2014, reflecting United's concerted efforts to reduce its cost of funds. During the second quarter of 2014, in conjunction with balance sheet restructuring activities, United prepaid approximately $44 million in other borrowings that were costing approximately 4%. In the first quarter of 2015, United repaid the remaining balance of $6 million. Late in the first quarter of 2015, United redeemed $15 million in trust preferred securities with an average rate exceeding 11%. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits.

The banking industry uses two ratios to measure relative profitability of net interest revenue. The net interest spread measures the difference between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's balance sheet, and is defined as net interest revenue as a percent of average total interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with customers' non-interest-bearing deposits and stockholders' equity.

For the second quarters of 2015 and 2014, the net interest spread was 3.20% and 3.07%, respectively, while the net interest margin was 3.30% and 3.21%, respectively. The increase in both ratios reflects the impact of the second quarter 2014 balance sheet management activities described above as well as growth in the loan portfolio.

For the first six months of 2015, net interest revenue was $119 million, an increase of $9.82 million, or 9%, from the first six months of 2014. Average earning assets increased $414 million, or 6%, during the first six months of 2015, compared to the same period a year ago. The yield on earning assets decreased 2 basis points from 3.60% for the six months ended June 30, 2014, to 3.58% for the six months ended June 30, 2015, due to declining loan yields. The lower loan portfolio yield reflects competitive pricing pressure on new and renewed loans. Investment yields increased 12 basis points for the first six months of 2015 compared to the first six months of 2014, which helped offset some of the decrease on loan yields. The rate on interest bearing liabilities over the same period decreased 13 basis points. The lower yield on interest earning assets was more than offset by the reduction in rates paid on interest bearing liabilities, resulting in the net interest margin increasing 9 basis points from the six months ended June 30, 2014 to the six months ended June 30, 2015.

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the three months ended June 30, 2015 and 2014.

**Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis**

For the Three Months Ended June 30,

| *(dollars in thousands, taxable equivalent)* | **2015 Average Balance** | **Interest** | **Avg. Rate** | **2014 Average Balance** | **Interest** | **Avg. Rate** |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income (1)(2) | $5,017,306 | $53,081 | 4.24% | $4,376,174 | $48,435 | 4.44% |
| Taxable securities (3) | 2,235,561 | 11,856 | 2.12 | 2,306,457 | 11,972 | 2.08 |
| Tax-exempt securities (1)(3) | 25,685 | 296 | 4.61 | 19,592 | 316 | 6.45 |
| Federal funds sold and other interest-earning assets | 165,643 | 901 | 2.18 | 158,418 | 1,060 | 2.68 |
| **Total interest-earning assets** | 7,444,195 | 66,134 | 3.56 | 6,860,641 | 61,783 | 3.61 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (71,006) | | | (76,843) | | |
| Cash and due from banks | 77,124 | | | 63,853 | | |
| Premises and equipment | 167,926 | | | 161,443 | | |
| Other assets (3) | 398,356 | | | 408,768 | | |
| **Total assets** | $8,016,595 | | | $7,417,862 | | |
| **Liabilities and Shareholders' Equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | $1,419,142 | 348 | .10 | $1,356,141 | 411 | .12 |
| Money market | 1,607,665 | 806 | .20 | 1,361,045 | 757 | .22 |
| Savings | 335,093 | 26 | .03 | 275,540 | 21 | .03 |
| Time less than $100,000 | 774,193 | 791 | .41 | 818,048 | 933 | .46 |
| Time greater than $100,000 | 474,905 | 482 | .41 | 563,489 | 865 | .62 |
| Brokered time deposits | 276,073 | (378) | (.55) | 334,919 | 220 | .26 |
| Total interest-bearing deposits | 4,887,071 | 2,075 | .17 | 4,709,182 | 3,207 | .27 |
| Federal funds purchased and other borrowings | 47,698 | 82 | .69 | 108,311 | 908 | 3.36 |
| Federal Home Loan Bank advances | 289,707 | 454 | .63 | 154,795 | 80 | .21 |
| Long-term debt | 113,901 | 2,206 | 7.77 | 129,865 | 2,638 | 8.15 |
| Total borrowed funds | 451,306 | 2,742 | 2.44 | 392,971 | 3,626 | 3.70 |
| **Total interest-bearing liabilities** | 5,338,377 | 4,817 | .36 | 5,102,153 | 6,833 | .54 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 1,782,405 | | | 1,477,849 | | |
| Other liabilities | 90,091 | | | 125,173 | | |
| Total liabilities | 7,210,873 | | | 6,705,175 | | |
| Shareholders' equity | 805,722 | | | 712,687 | | |
| **Total liabilities and shareholders' equity** | $8,016,595 | | | $7,417,862 | | |
| **Net interest revenue** | | $61,317 | | | $54,950 | |

| | | |
|---|---|---|
| Net interest-rate spread | 3.20 % | 3.07 % |
| **Net interest margin** (4) | 3.30 % | 3.21 % |

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $18.9 million in 2015 and pretax unrealized gains of $1.86 million in 2014 are included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2015 and 2014.

**Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis**

For the Six Months Ended June 30,

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands, taxable equivalent)* | **Average Balance** | **Interest** | **Avg. Rate** | **Average Balance** | **Interest** | **Avg. Rate** |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income [1][2] | $4,872,112 | $102,946 | 4.26% | $4,365,930 | $96,303 | 4.45% |
| Taxable securities [3] | 2,211,293 | 23,756 | 2.15 | 2,303,404 | 23,391 | 2.03 |
| Tax-exempt securities [1][3] | 20,987 | 555 | 5.29 | 19,881 | 624 | 6.28 |
| Federal funds sold and other interest-earning assets | 153,597 | 1,786 | 2.33 | 154,651 | 1,960 | 2.53 |
| **Total interest-earning assets** | 7,257,989 | 129,043 | 3.58 | 6,843,866 | 122,278 | 3.60 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (71,596) | | | (77,165) | | |
| Cash and due from banks | 78,069 | | | 62,958 | | |
| Premises and equipment | 163,737 | | | 162,112 | | |
| Other assets [3] | 389,874 | | | 409,466 | | |
| **Total assets** | $7,818,073 | | | $7,401,237 | | |
| | | | | | | |
| **Liabilities and Shareholders' Equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW | $1,447,370 | 742 | .10 | $1,385,964 | 851 | .12 |
| Money market | 1,537,678 | 1,479 | .19 | 1,368,975 | 1,320 | .19 |
| Savings | 317,814 | 46 | .03 | 267,588 | 41 | .03 |
| Time less than $100,000 | 755,826 | 1,515 | .40 | 847,707 | 1,946 | .46 |
| Time greater than $100,000 | 484,624 | 1,146 | .48 | 570,799 | 1,783 | .63 |
| Brokered time deposits | 274,708 | (657) | (.48) | 311,579 | 60 | .04 |
| Total interest-bearing deposits | 4,818,020 | 4,271 | .18 | 4,752,612 | 6,001 | .25 |
| | | | | | | |
| Federal funds purchased and other borrowings | 41,953 | 180 | .87 | 110,436 | 1,748 | 3.19 |
| Federal Home Loan Bank advances | 264,584 | 846 | .64 | 140,014 | 138 | .20 |
| Long-term debt | 120,782 | 4,812 | 8.03 | 129,865 | 5,272 | 8.19 |
| Total borrowed funds | 427,319 | 5,838 | 2.76 | 380,315 | 7,158 | 3.80 |
| | | | | | | |
| **Total interest-bearing liabilities** | 5,245,339 | 10,109 | .39 | 5,132,927 | 13,159 | .52 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 1,702,140 | | | 1,439,447 | | |
| Other liabilities | 92,138 | | | 120,943 | | |

| | | | | |
|---|---|---|---|---|
| Total liabilities | 7,039,617 | | 6,693,317 | |
| Shareholders' equity | 778,456 | | 707,920 | |
| **Total liabilities and shareholders' equity** | $7,818,073 | | $7,401,237 | |
| | | | | |
| **Net interest revenue** | | $118,934 | | $109,119 |
| Net interest-rate spread | | 3.19% | | 3.08% |
| | | | | |
| **Net interest margin** [4] | | 3.30% | | 3.21% |

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued and loans that are held for sale.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $14.8 million in 2015 and pretax unrealized losses of $1.37 million in 2014 are included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

51

The following table shows the relative effect on net interest revenue for changes in the average outstanding amounts (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

**Table 4 - Change in Interest Revenue and Expense on a Taxable Equivalent Basis**

*(in thousands)*

| | **Three Months Ended June 30, 2015 Compared to 2014 Increase (decrease) Due to Changes in** | | | **Six Months Ended June 30, 2015 Compared to 2014 Increase (decrease) Due to Changes in** | | |
|---|---|---|---|---|---|---|
| | **Volume** | **Rate** | **Total** | **Volume** | **Rate** | **Total** |
| **Interest-earning assets:** | | | | | | |
| Loans | $ 6,855 | $ (2,209) | $ 4,646 | $ 10,821 | $ (4,178) | $ 6,643 |
| Taxable securities | (373) | 257 | (116) | (958) | 1,323 | 365 |
| Tax-exempt securities | 84 | (104) | (20) | 33 | (102) | (69) |
| Federal funds sold and other interest-earning assets | 47 | (206) | (159) | (13) | (161) | (174) |
| **Total interest-earning assets** | 6,613 | (2,262) | 4,351 | 9,883 | (3,118) | 6,765 |
| | | | | | | |
| **Interest-bearing liabilities:** | | | | | | |
| NOW accounts | 18 | (81) | (63) | 36 | (145) | (109) |
| Money market accounts | 128 | (79) | 49 | 162 | (3) | 159 |
| Savings deposits | 5 | - | 5 | 7 | (2) | 5 |
| Time deposits less than $100,000 | (48) | (94) | (142) | (199) | (232) | (431) |
| Time deposits greater than $100,000 | (121) | (262) | (383) | (244) | (393) | (637) |
| Brokered deposits | (32) | (566) | (598) | (6) | (711) | (717) |
| Total interest-bearing deposits | (50) | (1,082) | (1,132) | (244) | (1,486) | (1,730) |
| Federal funds purchased & other borrowings | (341) | (485) | (826) | (721) | (847) | (1,568) |
| Federal Home Loan Bank advances | 112 | 262 | 374 | 201 | 507 | 708 |
| Long-term debt | (313) | (119) | (432) | (363) | (97) | (460) |
| Total borrowed funds | (542) | (342) | (884) | (883) | (437) | (1,320) |
| **Total interest-bearing liabilities** | (592) | (1,424) | (2,016) | (1,127) | (1,923) | (3,050) |
| | | | | | | |
| **Increase in net interest revenue** | $ 7,205 | $ (838) | $ 6,367 | $ 11,010 | $ (1,195) | $ 9,815 |

***Provision for Credit Losses***

The provision for credit losses is based on management's evaluation of probable incurred losses in the loan portfolio and corresponding analysis of the allowance for credit losses at quarter-end. The provision for credit losses was $900,000 and $2.70 million, respectively, for the second quarter and first six months of 2015, compared to $2.20 million and $4.70 million, respectively, for the same periods in 2014. The amount of provision recorded in each period was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, sufficient to cover incurred losses in the loan portfolio. The second quarter and first six months of 2015 loan loss provisions were lower than those for the comparable periods in 2014 due to overall improvement in the portfolio credit quality. For the three and six months ended June 30, 2015, net loan charge-offs as an annualized percentage of average outstanding loans were .08% and ..15%, respectively, compared to .38% and .38%, respectively, for the same periods in 2014.

The allowance for unfunded commitments represents probable incurred losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded loan commitments was established through the provision for credit losses.

Additional discussion on credit quality and the allowance for loan losses is included in the "Asset Quality and Risk Elements" section of this report on page 56.

***Fee Revenue***

Fee revenue for the three and six months ended June 30, 2015 was $17.3 million and $32.9 million, respectively, an increase of $3.12 million, or 22%, compared to the second quarter of 2014, and an increase of $6.63 million, or 25%, from the year-to-date period of 2014.  The following table presents the components of fee revenue for the second quarters and first six months of 2015 and 2014.

**Table 5 - Fee Revenue**

*(in thousands)*

| | **Three Months Ended June 30, 2015** | **2014** | **Change Amount** | **Percent** | **Six Months Ended June 30, 2015** | **2014** | **Change Amount** | **Percent** |
|---|---|---|---|---|---|---|---|---|
| Overdraft fees | $ 2,730 | $ 2,944 | $ (214 ) | (7 ) | $ 5,328 | $ 5,864 | $ (536 ) | (9 ) |
| ATM and debit card fees | 4,220 | 3,976 | 244 | 6 | 7,858 | 7,507 | 351 | 5 |
| Other service charges and fees | 1,425 | 1,607 | (182 ) | (11 ) | 2,804 | 3,054 | (250 ) | (8 ) |
| Service charges and fees | 8,375 | 8,527 | (152 ) | (2 ) | 15,990 | 16,425 | (435 ) | (3 ) |
| Mortgage loan and related fees | 3,707 | 1,877 | 1,830 | 97 | 6,462 | 3,231 | 3,231 | 100 |
| Brokerage fees | 1,232 | 1,245 | (13 ) | (1 ) | 2,783 | 2,422 | 361 | 15 |
| Gains on sales of government guaranteed loans | 1,494 | 744 | 750 | 101 | 2,635 | 744 | 1,891 | 254 |
| Customer derivatives | 533 | 414 | 119 | 29 | 896 | 471 | 425 | 90 |
| Securities gains, net | 13 | 4,435 | (4,422) | | 1,552 | 4,652 | (3,100) | (67 ) |
| Losses from prepayment of debt | - | (4,446 ) | 4,446 | | (1,038 ) | (4,446 ) | 3,408 | (77 ) |
| Other | 1,912 | 1,347 | 565 | 42 | 3,668 | 2,820 | 848 | 30 |
| Total fee revenue | $ 17,266 | $ 14,143 | $ 3,123 | 22 | $ 32,948 | $ 26,319 | $ 6,629 | 25 |

Overdraft fees of $2.73 million for the second quarter of 2015 were down $214,000, or 7%, from the second quarter of 2014.  For the first six months of 2015, overdraft fees of $5.33 million were down $536,000, or 9%, from the same period in 2014. Overdraft fees continue to decline as customer utilization of our courtesy overdraft services decreases. ATM and debit card fees of $4.22 million in second quarter of 2015 and $7.86 million in the first half of 2015 increased from the comparable periods in 2014 due to volume.

Mortgage loans and related fees for the second quarter and first six months of 2015 were up $1.83 million, or 97%, and $3.23 million, or 100%, respectively, from the same periods in 2014.  The increase reflects United's focus on growing the mortgage business by recruiting new mortgage lenders in key metropolitan markets and an increase in refinancing activity.  In the second quarter of 2015, United closed 665 loans totaling $128 million compared with 421 loans totaling $68.5 million in the second quarter of 2014. Year-to-date mortgage production in 2015 amounted to 1,138 loans totaling $216 million, compared to 710 loans totaling $115 million for the same period in 2014. United had $69 million and $111 million, respectively, in home purchase mortgage originations in the second quarter and first six months of 2015, compared with $45.7 million and $75.9 million, respectively, for the same periods a year ago. The volume of new purchase money mortgages in the second quarter was 54% compared with 68% in the second quarter of 2014.

Brokerage fees were approximately equal to the second quarter of 2014 and increased $361,000, or 15%, compared to the first six months of 2014. The year-to-date increase reflects United's continuing efforts to grow this line of business.

In the second quarter and first six months of 2015, United realized $1.49 million and $2.64 million, respectively, in gains from the sales of the guaranteed portion of SBA and USDA loans. United has been actively growing its government guaranteed lending business with the hiring of new leadership and lenders who specialize in government guaranteed loan programs such as SBA and USDA loans. United's SBA/USDA lending strategy includes selling a portion of the loan production each quarter. United began selling the guaranteed portion of loans in the second quarter of 2014. United retains the servicing rights on the sold loans and earns a fee for servicing the loans. In the second quarter and first six months of 2015, United sold the guaranteed portion of loans in the amount of $14.7 million and $27.7 million, respectively, at prices ranging from 105% to 119% of par.

Customer derivative fees were up $119,000 from the second quarter of 2014 and $425,000 from the first six months of 2014 due to an increase in customer demand for this product as commercial customers sought to lock in low fixed rates on their loans.

United realized net securities gains of $13,000 in the second quarter of 2015 compared with securities gains of $4.44 million in the second quarter of 2014. For the first six months of 2015 and 2014, net securities gains totaled $1.55 million and $4.65 million, respectively. In the first six months of 2015, United also incurred $1.04 million in charges from the prepayment of $6 million in structured repurchase agreements that paid interest at a rate of 4% and $15 million in trust preferred securities that paid interest at an average rate in excess of 11%. The securities gains and prepayment charges in 2015 were mostly offsetting and were part of the same overall balance sheet management activities that were intended to lower the overall cost of wholesale borrowings going forward. Management expects annual interest savings of approximately $1.9 million from the repayment of the borrowings.

Other fee revenue of $1.91 million for the second quarter of 2015 was up $565,000, or 42%, from the second quarter of 2014, partially due to volume driven increases in income from bank owned life insurance and merchant services. For the first six months of 2015, other fee revenue of $3.67 million was up $848,000, or 30%, from the same period in 2014, primarily due to an incentive payment from United's merchant services vendor, combined with the same factors mentioned for the quarterly increase.

***Operating Expenses***

The following table presents the components of operating expenses for the three and six months ended June 30, 2015 and 2014.

**Table 6 - Operating Expenses**

*(in thousands)*

| | **Three Months Ended June 30, 2015** | **2014** | **Change Amount** | **Percent** | **Six Months Ended June 30, 2015** | **2014** | **Change Amount** | **Percent** |
|---|---|---|---|---|---|---|---|---|
| Salaries and employee benefits | $ 27,961 | $ 24,287 | $ 3,674 | 15 | $ 54,407 | $ 48,683 | $ 5,724 | 12 |
| Communications and equipment | 3,304 | 3,037 | 267 | 9 | 6,575 | 6,276 | 299 | 5 |
| Occupancy | 3,415 | 3,262 | 153 | 5 | 6,693 | 6,640 | 53 | 1 |
| Advertising and public relations | 1,127 | 1,139 | (12) | (1) | 1,877 | 1,765 | 112 | 6 |
| Postage, printing and supplies | 993 | 804 | 189 | 24 | 1,931 | 1,580 | 351 | 22 |
| Professional fees | 2,257 | 2,172 | 85 | 4 | 4,176 | 3,599 | 577 | 16 |
| FDIC assessments and other regulatory charges | 1,298 | 1,425 | (127) | (9) | 2,507 | 2,778 | (271) | (10) |
| Amortization of intangibles | 447 | 361 | 86 | 24 | 689 | 748 | (59) | (8) |
| Merger-related changes | 3,173 | - | 3,173 | 100 | 3,173 | - | 3,173 | 100 |
| Other | 4,445 | 4,045 | 400 | 10 | 9,453 | 7,513 | 1,940 | 26 |
| Total operating expenses | $ 48,420 | $ 40,532 | $ 7,888 | 19 | $ 91,481 | $ 79,582 | $ 11,899 | 15 |

Operating expenses for the second quarter of 2015 totaled $48.4 million, up $7.89 million, or 19%, from the second quarter of 2014. The increase mostly reflects higher salaries and employee benefits expense resulting from investing in specialized lending areas and other strategic hiring and merger-related charges related to the acquisition of MoneyTree. For the six months ended June 30, 2015, operating expenses totaled $91.5 million, an increase of $11.9 million, or 15%, from the same period in 2014, primarily due to higher salaries and employee benefits expense resulting from investing in specialized lending areas and other strategic hiring, merger-related charges, charges to terminate and settle the loss sharing agreements with the FDIC related to United's 2009 acquisition of Southern Community Bank and a loss on a fraudulent home equity line of credit transaction.

Salaries and employee benefits for the second quarter of 2015 were $28.0 million, up $3.67 million, or 15%, from the second quarter of 2014. The increase was due to a number of factors including investments in additional staff and new teams to expand specialized lending and new talent in other key areas, additional staff resulting from the MoneyTree acquisition, higher incentives due to increased loan production and obtaining higher earnings performance targets. For the first six months of 2015, salaries and employee benefits of $54.4 million were up $5.72 million, or 12%, from the first six months of 2014. Headcount totaled 1,644 at June 30, 2015, up 141 from 1,503 at June 30, 2014, with 77 coming from the MoneyTree acquisition.

Professional fees for the second quarter of 2015 of $2.26 million were up $85,000, or 4%, from the second quarter of 2014. For the six months ended June 30, 2015, professional fees of $4.18 million, were up $577,000, or 16%. The increase was due primarily to higher legal and consulting fees relating to projects that are in process.

Merger-related charges of $3.17 million related to the MoneyTree acquisition and consisted primarily of severance, conversion costs, and legal and professional fees.

Other expense of $4.45 million for the second quarter of 2015 increased $400,000, or 10%, from the second quarter of 2014. Year-to-date, other expense of $9.45 million increased $1.94 million, or 26%, from the first six months of 2014. The increase from the second quarter of 2014 is due to higher lending support costs due to increased lending activity. The increase from the first six months of 2014 is mostly due to a $690,000 charge to terminate and settle the loss sharing agreements with the FDIC related to United's 2009 acquisition of Southern Community Bank and a $420,000 loss on a fraudulent home equity line of credit transaction. As a result of the termination of the loss sharing agreements with the FDIC, United will no longer be required to share 95% of recoveries of previously charged off loans with the FDIC. In addition to the unusual first quarter charges, other expense in the first six months of 2015 was elevated due to higher travel and entertainment costs and lending support costs associated with the increase in lending activity.

***Income Taxes***

The income tax provision for the second quarter and first six months of 2015 was $11.1 million and $21.5 million, respectively, as compared with $9.63 million and $18.7 million, respectively, for the same periods in 2014. The income tax provision represents an effective tax rate of 38.4% and 37.7%, respectively, for each period of 2015 and 37.0% for each period of 2014. At June 30, 2015, December 31, 2014 and June 30, 2014, United maintained a valuation allowance on its net deferred tax asset of $4.43 million, $4.12 million and $4.10 million, respectively. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

54

United evaluated the need for a valuation allowance at June 30, 2015. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of its net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of $4.43 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at June 30, 2015 that it was more likely than not that United's net deferred tax asset of $196 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, the valuation allowance may need to be increased for some or all of its net deferred tax asset. Such an increase to the net 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 2011. Although United is unable to determine the ultimate outcome of future examinations, United believes that the liability recorded for uncertain tax positions is appropriate.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 16 to the consolidated financial statements filed with United's Annual Report on Form 10-K for the year ended December 31, 2014.

**Balance Sheet Review**

Total assets at June 30, 2015, December 31, 2014 and June 30, 2014 were $8.25 billion, $7.57 billion and $7.35 billion, respectively. Average total assets for the second quarter of 2015 were $8.02 billion, up from $7.42 billion in the second quarter of 2014.

The following table presents a summary of the loan portfolio.

**Table 7 - Loans Outstanding**
*(in thousands)*

| | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|
| **By Loan Type** | | | |
| Owner occupied commercial real estate | $1,265,783 | $ 1,163,480 | $1,163,327 |
| Income producing commercial real estate | 688,768 | 598,537 | 598,318 |
| Commercial & industrial | 792,791 | 710,256 | 554,089 |
| Commercial construction | 237,820 | 196,030 | 159,755 |
| Total commercial | 2,985,162 | 2,668,303 | 2,475,489 |
| Residential mortgage | 935,646 | 865,789 | 860,525 |
| Home equity lines of credit | 490,753 | 465,872 | 451,435 |
| Residential construction | 298,920 | 298,627 | 301,737 |
| Consumer installment | 105,931 | 104,899 | 105,160 |
| Indirect auto | 357,105 | 268,629 | 215,939 |
| Total loans | $5,173,517 | $ 4,672,119 | $4,410,285 |
| | | | |
| As a percentage of total loans: | | | |
| Owner occupied commercial real estate | 24 % | 25 % | 26 % |
| Income producing commercial real estate | 13 | 13 | 14 |
| Commercial & industrial | 15 | 15 | 13 |
| Commercial construction | 5 | 4 | 4 |
| Total commercial | 57 | 57 | 57 |
| Residential mortgage | 18 | 19 | 19 |
| Home equity lines of credit | 10 | 10 | 10 |
| Residential construction | 6 | 6 | 7 |
| Consumer installment | 2 | 2 | 2 |
| Indirect auto | 7 | 6 | 5 |
| Total | 100 % | 100 % | 100 % |
| | | | |
| **By Geographic Location** | | | |
| North Georgia | $1,154,558 | $ 1,163,479 | $1,174,998 |
| Atlanta MSA | 1,316,832 | 1,281,753 | 1,305,401 |
| North Carolina | 533,384 | 552,766 | 555,273 |
| Coastal Georgia | 499,079 | 455,709 | 426,393 |
| Gainesville MSA | 257,274 | 257,449 | 257,021 |
| East Tennessee | 524,602 | 280,312 | 269,564 |
| South Carolina / Specialized Lending | 530,683 | 412,022 | 205,696 |
| Other (Indirect Auto) | 357,105 | 268,629 | 215,939 |
| Total loans | $5,173,517 | $ 4,672,119 | $4,410,285 |

Substantially all of United’s loans are to customers located in the immediate market areas of its community banks in Georgia, North Carolina, South Carolina and Tennessee, including customers who have a seasonal residence in

United's market areas.  More than 76% of the loans are secured by real estate.  In 2014, loan growth began to return to pre-crisis levels reflecting United's specialized lending initiatives which resulted in increases in commercial lending.  Consumer installment loans also increased due to purchases of indirect auto loans.  Total loans averaged $5.02 billion in the second quarter of 2015, compared with $4.38 billion in the second quarter of 2014, an increase of 15%.  At June 30, 2015, total loans were $5.17 billion, an increase of $763 million, or 17%, from June 30, 2014.

***Asset Quality and Risk Elements***

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices.  United's credit administration function is responsible for monitoring asset quality and Board of Directors approved portfolio limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banks.  Additional information on the credit administration function is included in Item 1 under the heading *Loan Review and Nonperforming Assets* in United's Annual Report on Form 10-K for the year ended December 31, 2014.

United classifies performing loans as “substandard” when there is a well-defined weakness or weaknesses that jeopardizes the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected.

United’s home equity lines generally require the payment of interest only for a set period after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both principal and interest. At June 30, 2015, December 31, 2014 and June 30, 2014, the funded portion of home equity lines totaled $491 million, $466 million and $451 million, respectively. Approximately 3% of the home equity lines at June 30, 2015 were amortizing. Of the $491 million in balances outstanding at June 30, 2015, $308 million, or 63%, were secured by first liens. At June 30, 2015, 61% of the total available home equity lines were drawn upon.

United monitors the performance of its home equity loans and lines secured by second liens similar to other consumer loans and utilizes assumptions specific to these loans in determining the necessary allowance. United also receives notification when the first lien holder is in the process of foreclosure and upon that notification, United obtains valuations to determine if any additional charge-offs or reserves are warranted.

The table below presents performing substandard loans for the last five quarters.

**Table 8 - Performing Substandard Loans**
*(in thousands)*

| | **June 30, 2015** | **March 31, 2015** | **December 31, 2014** | **September 30, 2014** | **June 30, 2014** |
|---|---|---|---|---|---|
| **By Category** | | | | | |
| Owner occupied commercial real estate | $39,618 | $43,887 | $ 46,401 | $ 49,857 | $48,222 |
| Income producing commercial real estate | 18,775 | 19,881 | 20,560 | 22,215 | 24,633 |
| Commercial & industrial | 6,394 | 6,704 | 7,863 | 7,498 | 5,647 |
| Commercial construction | 3,255 | 3,528 | 3,566 | 3,847 | 4,406 |
| Total commercial | 68,042 | 74,000 | 78,390 | 83,417 | 82,908 |
| Residential mortgage | 30,579 | 30,382 | 31,831 | 42,981 | 41,856 |
| Home equity | 5,591 | 5,734 | 5,296 | 8,073 | 7,562 |
| Residential construction | 9,686 | 9,504 | 10,920 | 11,755 | 12,872 |
| Consumer installment | 842 | 1,301 | 1,382 | 2,062 | 1,776 |
| Indirect auto | 961 | 796 | 574 | 684 | 562 |
| Total | $115,701 | $121,717 | $ 128,393 | $ 148,972 | $147,536 |
| | | | | | |
| **By Market** | | | | | |
| North Georgia | $51,938 | $52,652 | $ 55,821 | $ 66,780 | $66,709 |
| Atlanta MSA | 32,003 | 32,281 | 31,596 | 34,699 | 32,975 |
| North Carolina | 15,514 | 13,871 | 16,479 | 18,465 | 19,619 |

| | | | | | |
|---|---|---|---|---|---|
| Coastal Georgia | 5,886 | 14,355 | 15,642 | 17,368 | 17,427 |
| Gainesville MSA | 897 | 1,009 | 1,109 | 2,016 | 2,832 |
| East Tennessee | 7,688 | 5,936 | 5,933 | 7,643 | 7,412 |
| South Carolina / Specialized Lending | 814 | 817 | 1,239 | 1,317 | - |
| Indirect auto | 961 | 796 | 574 | 684 | 562 |
| Total loans | $115,701 | $121,717 | $ 128,393 | $ 148,972 | $147,536 |

At June 30, 2015, performing substandard loans totaled $116 million and decreased $6.02 million from the prior quarter-end, and decreased $31.8 million from a year ago.  Performing substandard loans have been on a downward trend as credit conditions have continued to improve and problem credits are resolved.

Reviews of substandard performing and non-performing loans, TDRs, past due loans and larger credits are conducted on a regular basis and are designed to identify risk migration and potential charges to the allowance for loan losses.  These reviews are presented by the responsible lending officers and specific action plans are discussed along with the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, the effect of prevailing economic conditions on the borrower and other factors specific to the borrower and its industry.  In addition to United’s internal loan review, United also uses external loan review to ensure the independence of the loan review process.

The following table presents a summary of the changes in the allowance for credit losses for the three and six months ended June 30, 2015 and 2014.

**Table 9 - Allowance for Credit Losses**
*(in thousands)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Allowance for loan losses at beginning of period | $ 70,007 | $ 75,223 | $ 71,619 | $ 76,762 |
| Charge-offs: | | | | |
| Owner occupied commercial real estate | 363 | 918 | 731 | 1,284 |
| Income producing commercial real estate | 74 | 632 | 322 | 837 |
| Commercial & industrial | 162 | 1,012 | 631 | 1,975 |
| Commercial construction | 147 | 131 | 169 | 132 |
| Residential mortgage | 1,109 | 2,800 | 1,687 | 4,381 |
| Home equity lines of credit | 348 | 624 | 421 | 1,627 |
| Residential construction | 499 | 1,946 | 1,639 | 2,251 |
| Consumer installment | 349 | 455 | 675 | 1,131 |
| Indirect auto | 130 | 89 | 258 | 166 |
| Total loans charged-off | 3,181 | 8,607 | 6,533 | 13,784 |
| Recoveries: | | | | |
| Owner occupied commercial real estate | 78 | 2,753 | 89 | 2,843 |
| Income producing commercial real estate | 350 | 197 | 357 | 197 |
| Commercial & industrial | 789 | 350 | 917 | 891 |
| Commercial construction | 51 | - | 51 | - |
| Residential mortgage | 322 | 292 | 484 | 357 |
| Home equity lines of credit | 26 | 158 | 40 | 168 |
| Residential construction | 392 | 275 | 471 | 369 |
| Consumer installment | 187 | 391 | 563 | 718 |
| Indirect auto | 8 | 16 | 21 | 27 |
| Total recoveries | 2,203 | 4,432 | 2,993 | 5,570 |
| Net charge-offs | 978 | 4,175 | 3,540 | 8,214 |
| Provision for loan losses | 1,100 | 2,200 | 2,050 | 4,700 |
| Allowance for loan losses at end of period | $ 70,129 | $ 73,248 | $ 70,129 | $ 73,248 |
| | | | | |
| Allowance for unfunded commitments at beginning of period | $ 2,780 | $ 2,165 | $ 1,930 | $ 2,165 |
| Provision for losses on unfunded commitments | (200) | - | 650 | - |
| Allowance for unfunded commitments at end of period | 2,580 | 2,165 | 2,580 | 2,165 |
| Allowance for credit losses | $ 72,709 | $ 75,413 | $ 72,709 | $ 75,413 |
| | | | | |
| Total loans: | | | | |
| At period-end | $ 5,173,517 | $ 4,410,285 | $ 5,173,517 | $ 4,410,285 |
| Average | 5,017,306 | 4,358,101 | 4,872,112 | 4,346,974 |

| | | | | |
|---|---|---|---|---|
| Allowance for loan losses as a percentage of period-end loans | 1.36 % | 1.66 % | 1.36 % | 1.66 % |
| As a percentage of average loans (annualized): | | | | |
| Net charge-offs | .08 | .38 | .15 | .38 |
| Provision for loan losses | .09 | .20 | .08 | .22 |

The provision for credit losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb probable incurred losses in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the provision and the declining level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard and nonperforming loans as well as charge-off levels. Further, the declining balance of the allowance for loan losses over the last several quarters reflects an overall improving trend in the credit quality of the loan portfolio. A general improvement in economic conditions in United's market also contributed to the lower level of provision and allowance for loan losses.

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled $72.7 million at June 30, 2015, compared with $73.5 million at December 31, 2014, and $75.4 million at June 30, 2014. At June 30, 2015, the allowance for loan losses was $70.1 million, or 1.36% of loans, compared with $71.6 million, or 1.53% of total loans, at December 31, 2014 and $73.2 million, or 1.66% of loans, at June 30, 2014.

In accordance with the accounting guidance for business combinations, there was no allowance for loan losses brought forward on loans acquired from MoneyTree, as credit deterioration was included in the determination of fair value at acquisition date. At June 30, 2015, United recorded no allowance for loan losses on loans acquired from FNB as there was no evidence of credit deterioration beyond that which was incorporated into the determination of fair value at acquisition date. At June 30, 2015, for acquired loans that had no evidence of credit deterioration at the time of acquisition, the remaining unaccreted fair value discount was $2.60 million.

Management believes that the allowance for credit losses at June 30, 2015 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for credit losses cannot be determined with certainty and may be subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for credit losses in future periods if, in their opinion, the results of their review warrant such additions. See the "Critical Accounting Policies" section for additional information on the allowance for loan losses.

***Nonperforming Assets***

The table below summarizes nonperforming assets.

**Table 10 - Nonperforming Assets**
*(in thousands)*

| | **June 30, 2015** | **December 31, 2014** | **June 30, 2014** |
|---|---|---|---|
| Nonperforming loans | $18,805 | $ 17,881 | $20,724 |
| Foreclosed properties (OREO) | 2,356 | 1,726 | 2,969 |
| Total nonperforming assets | $21,161 | $ 19,607 | $23,693 |
| Nonperforming loans as a percentage of total loans | .36 % | .38 % | .47 % |
| Nonperforming assets as a percentage of total loans and OREO | .41 | .42 | .54 |
| Nonperforming assets as a percentage of total assets | .26 | .26 | .32 |

At June 30, 2015, nonperforming loans were $18.8 million compared to $17.9 million at December 31, 2014 and $20.7 million at June 30, 2014.  Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled $21.2 million at June 30, 2015 compared with $19.6 million at December 31, 2014 and $23.7 million at June 30, 2014.  United sold $895,000 of foreclosed properties and added $1.07 million in new foreclosures during the second quarter of 2015.

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 following table summarizes nonperforming assets by category and market.

**Table 11 - Nonperforming Assets by Quarter**
*(in thousands)*

| | June 30, 2015 | | | December 31, 2014 | | | June 30, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs | Nonaccrual Loans | Foreclosed Properties | Total NPAs |
| **BY CATEGORY** | | | | | | | | | |
| Owner occupied commercial real estate | $4,878 | $360 | $5,238 | $4,133 | $355 | $4,488 | $2,975 | $653 | $3,628 |
| Income producing commercial real estate | 883 | - | 883 | 717 | - | 717 | 1,032 | 242 | 1,274 |
| Commercial & industrial | 1,389 | - | 1,389 | 1,571 | - | 1,571 | 1,102 | - | 1,102 |
| Commercial construction | 59 | 382 | 441 | 83 | 15 | 98 | 95 | - | 95 |
| Total commercial | 7,209 | 742 | 7,951 | 6,504 | 370 | 6,874 | 5,204 | 895 | 6,099 |
| Residential mortgage | 8,599 | 1,373 | 9,972 | 8,196 | 1,183 | 9,379 | 10,201 | 1,426 | 11,627 |
| Home equity | 940 | 54 | 994 | 695 | 40 | 735 | 510 | 128 | 638 |
| Residential construction | 1,358 | 187 | 1,545 | 2,006 | 133 | 2,139 | 4,248 | 520 | 4,768 |
| Consumer installment | 131 | - | 131 | 134 | - | 134 | 171 | - | 171 |
| Indirect auto | 568 | - | 568 | 346 | - | 346 | 390 | - | 390 |
| **Total NPAs** | $18,805 | $2,356 | $21,161 | $17,881 | $1,726 | $19,607 | $20,724 | $2,969 | $23,693 |
| **Balance as a % of Unpaid Principal** | 64.9 % | 46.6 % | 62.2 % | 69.9 % | 54.1 % | 68.1 % | 66.5 % | 50.4 % | 63.9 % |
| | | | | | | | | | |
| **BY MARKET** | | | | | | | | | |
| North Georgia | $6,157 | $657 | $6,814 | $5,669 | $711 | $6,380 | $8,216 | $1,392 | $9,608 |
| Atlanta MSA | 2,361 | 135 | 2,496 | 1,837 | 372 | 2,209 | 3,883 | 510 | 4,393 |
| North Carolina | 4,746 | 690 | 5,436 | 5,221 | 234 | 5,455 | 5,314 | 615 | 5,929 |
| Coastal Georgia | 659 | - | 659 | 799 | 105 | 904 | 782 | 80 | 862 |
| Gainesville MSA | 864 | 22 | 886 | 1,310 | 81 | 1,391 | 921 | 49 | 970 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| East Tennessee | 1,885 | 852 | 2,737 | 1,414 | 201 | 1,615 | 1,218 | 323 | 1,541 |
| South Carolina / Specialized Lending | 1,565 | - | 1,565 | 1,285 | 22 | 1,307 | - | - | - |
| Indirect auto | 568 | - | 568 | 346 | - | 346 | 390 | - | 390 |
| **Total NPAs** | $18,805 | $2,356 | $21,161 | $17,881 | $1,726 | $19,607 | $20,724 | $2,969 | $23,693 |

At June 30, 2015, December 31, 2014, and June 30, 2014, United had $89.9 million, $85.1 million and $91.0 million, respectively, in loans with terms that have been modified in TDRs.  Included therein were $3.83 million, $3.78 million and $6.23 million, respectively, of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans.  The remaining TDRs with an aggregate balance of $86.1 million, $81.3 million and $84.8 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At June 30, 2015, December 31, 2014 and June 30, 2014, there were $106 million, $106 million and $107 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification, including TDRs which are by definition considered impaired.  Included in impaired loans at June 30, 2015, December 31, 2014 and June 30, 2014 was $28.7 million, $25.5 million and $35.0 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value.  The balance of impaired loans at June 30, 2015, December 31, 2014 and June 30, 2014 of $77.7 million, $81.0 million and $72.5 million, respectively, had specific reserves that totaled $6.69 million, $9.88 million and $9.02 million, respectively.  The average recorded investment in impaired loans for the second quarters of 2015 and 2014 was $107 million and $108 million, respectively.  For the six months ended June 30, 2015 and 2014, the average recorded investment in impaired loans was $108 million and $108 million, respectively.  For the three and six months ended June 30, 2015, United recognized $1.24 million and $2.47 million, respectively, in interest revenue on impaired loans compared to $1.28 million and $2.50 million, respectively, for the same periods of the prior year.  United's policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, *Receivables,* when a loan meets the criteria for nonaccrual status.

The table below summarizes activity in nonperforming assets.

**Table 12 - Activity in Nonperforming Assets**
*(in thousands)*

| | **Second Quarter 2015** | | | **Second Quarter 2014** | | |
|---|---|---|---|---|---|---|
| | **Nonaccrual Loans** | **Foreclosed Properties** | **Total NPAs** | **Nonaccrual Loans** | **Foreclosed Properties** | **Total NPAs** |
| **Beginning Balance** | $19,015 | $ 1,158 | $20,173 | $25,250 | $ 5,594 | $30,844 |
| Acquisitions | - | 962 | 962 | - | - | - |
| Loans placed on non-accrual | 6,552 | - | 6,552 | 9,529 | - | 9,529 |
| Payments received | (3,839 ) | - | (3,839 ) | (4,027 ) | - | (4,027 ) |
| Loan charge-offs | (1,854 ) | - | (1,854 ) | (8,341 ) | - | (8,341 ) |
| Foreclosures | (1,069 ) | 1,069 | - | (1,687 ) | 1,687 | - |
| Property sales | - | (895 ) | (895 ) | - | (4,430 ) | (4,430 ) |
| Write downs | - | (9 ) | (9 ) | - | (305 ) | (305 ) |
| Net gains on sales | - | 71 | 71 | - | 423 | 423 |
| **Ending Balance** | $18,805 | $ 2,356 | $21,161 | $20,724 | $ 2,969 | $23,693 |

| | **First Six Months 2015** | | | **First Six Months 2014** | | |
|---|---|---|---|---|---|---|
| | **Nonaccrual Loans** | **Foreclosed Properties** | **Total NPAs** | **Nonaccrual Loans** | **Foreclosed Properties** | **Total NPAs** |
| **Beginning Balance** | $17,881 | $ 1,726 | $19,607 | $26,819 | $ 4,221 | $31,040 |
| Acquisitions | - | 962 | 962 | - | - | - |
| Loans placed on non-accrual | 12,496 | - | 12,496 | 18,832 | - | 18,832 |
| Payments received | (5,352 ) | - | (5,352 ) | (5,693 ) | - | (5,693 ) |
| Loan charge-offs | (4,692 ) | - | (4,692 ) | (13,180) | - | (13,180) |
| Foreclosures | (1,528 ) | 1,528 | - | (6,054 ) | 6,054 | - |
| Note / property sales | - | (2,003 ) | (2,003 ) | - | (7,668 ) | (7,668 ) |