UNITED COMMUNITY BANKS INC
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017

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

<u>UNITED COMMUNITY BANKS, INC.</u>

(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	
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 x 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 x NO ¨

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

Large accelerated filer x	**Accelerated filer ¨**
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	**Smaller reporting company ¨**

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

YES ¨ NO x

Common stock, par value $1 per share 70,982,727 shares outstanding as of July 31, 2017.

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Part I – Financial Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Interest revenue:				
Loans, including fees	$ 74,825	$ 63,472	$ 147,552	$ 127,448
Investment securities, including tax exempt of $357, $149, $636, and $315	17,778	16,833	35,490	32,621
Deposits in banks and short-term investments	563	777	1,082	1,734
Total interest revenue	93,166	81,082	184,124	161,803
Interest expense:				
Deposits:				
NOW	635	444	1,232	929
Money market	1,559	1,206	2,985	2,314
Savings	28	30	55	59
Time	1,379	743	2,387	1,385
Total deposit interest expense	3,601	2,423	6,659	4,687
Short-term borrowings	101	93	141	180
Federal Home Loan Bank advances	1,464	983	2,894	1,716
Long-term debt	2,852	2,665	5,728	5,350
Total interest expense	8,018	6,164	15,422	11,933
Net interest revenue	85,148	74,918	168,702	149,870
(Release of) provision for credit losses	800	(300)	1,600	(500)
Net interest revenue after provision for credit losses	84,348	75,218	167,102	150,370
Fee revenue:				
Service charges and fees	10,701	10,515	21,305	20,641
Mortgage loan and other related fees	4,811	4,448	9,235	7,737
Brokerage fees	1,146	1,117	2,556	2,170
Gains from sales of SBA/USDA loans	2,626	2,801	4,585	4,038
Securities gains, net	4	282	2	661
Other	4,397	4,334	8,076	6,856
Total fee revenue	23,685	23,497	45,759	42,103
Total revenue	108,033	98,715	212,861	192,473
Operating expenses:				
Salaries and employee benefits	37,338	33,572	74,029	66,634
Communications and equipment	4,978	4,393	9,896	8,683
Occupancy	4,908	4,538	9,857	9,261
Advertising and public relations	1,260	1,323	2,321	2,187

Postage, printing and supplies	1,346	1,298	2,716	2,578
Professional fees	2,371	3,189	5,415	5,889
FDIC assessments and other regulatory charges	1,348	1,517	2,631	3,041
Amortization of intangibles	900	987	1,873	1,997
Merger-related and other charges	1,830	1,176	3,884	3,829
Other	6,950	6,067	13,433	11,846
Total operating expenses	63,229	58,060	126,055	115,945
Net income before income taxes	44,804	40,655	86,806	76,528
Income tax expense	16,537	15,389	35,015	28,967
Net income	28,267	25,266	51,791	47,561
Preferred stock dividends and discount accretion	-	-	-	21
Net income available to common shareholders	$ 28,267	$ 25,266	$ 51,791	$ 47,540
Earnings per common share:				
Basic	$ .39	$ .35	$ .72	$ .66
Diluted	.39	.35	.72	.66
Weighted average common shares outstanding:				
Basic	71,810	72,202	71,798	72,187
Diluted	71,820	72,207	71,809	72,191

See accompanying notes to consolidated financial statements.

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

(in thousands)	**Three Months Ended June 30,**			**Six Months Ended June 30,**		
2017	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$ 44,804	$ (16,537)	$ 28,267	$ 86,806	$ (35,015)	$ 51,791
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	11,120	(4,217)	6,903	17,628	(6,681)	10,947
Reclassification adjustment for gains included in net income	(4)	-	(4)	(2)	(1)	(3)
Net unrealized gains	11,116	(4,217)	6,899	17,626	(6,682)	10,944
Amortization of losses included in net income on available-for-sale securities transferred to held-to- maturity	261	(98)	163	571	(214)	357
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	177	(69)	108	590	(230)	360
Reclassification of disproportionate tax effect related to terminated cash flow hedges	-	-	-	-	3,400	3,400
Net cash flow hedge activity	177	(69)	108	590	3,170	3,760
Net actuarial gain (loss) on defined benefit pension plan	82	(32)	50	(718)	280	(438)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	200	(78)	122	400	(157)	243
Net defined benefit pension plan activity	282	(110)	172	(318)	123	(195)
Total other comprehensive income	11,836	(4,494)	7,342	18,469	(3,603)	14,866
Comprehensive income	$ 56,640	$ (21,031)	$ 35,609	$ 105,275	$ (38,618)	$ 66,657
2016						
Net income	$ 40,655	$ (15,389)	$ 25,266	$ 76,528	$ (28,967)	$ 47,561
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	21,366	(8,105)	13,261	33,063	(12,561)	20,502
Reclassification adjustment for gains included in net income	(282)	106	(176)	(661)	247	(414)

Net unrealized gains	21,084	(7,999)	13,085	32,402	(12,314)	20,088
Amortization of losses included in net income on available-for-sale securities transferred to held-to- maturity	473	(178)	295	938	(359)	579
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	460	(179)	281	960	(374)	586
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	167	(65)	102	334	(130)	204
Total other comprehensive income	22,184	(8,421)	13,763	34,634	(13,177)	21,457
Comprehensive income	$ 62,839	$ (23,810)	$ 39,029	$ 111,162	$ (42,144)	$ 69,018

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	June 30, **2017**	December 31, **2016**
ASSETS		
Cash and due from banks	$103,616	$99,489
Interest-bearing deposits in banks	129,570	117,859
Cash and cash equivalents	233,186	217,348
Securities available for sale	2,474,592	2,432,438
Securities held to maturity (fair value $316,583 and $333,170)	312,002	329,843
Mortgage loans held for sale (includes $24,109 and $27,891 at fair value)	25,711	29,878
Loans, net of unearned income	7,040,932	6,920,636
Less allowance for loan losses	(59,500)	(61,422)
Loans, net	6,981,432	6,859,214
Premises and equipment, net	189,614	189,938
Bank owned life insurance	155,026	143,543
Accrued interest receivable	26,938	28,018
Net deferred tax asset	119,594	154,336
Derivative financial instruments	21,640	23,688
Goodwill and other intangible assets	154,350	156,222
Other assets	143,325	144,189
Total assets	$10,837,410	$10,708,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$2,818,668	$2,637,004
NOW	1,874,850	1,989,763
Money market	1,808,736	1,846,440
Savings	581,706	549,713
Time	1,273,112	1,287,142
Brokered	378,663	327,496
Total deposits	8,735,735	8,637,558
Short-term borrowings	-	5,000
Federal Home Loan Bank advances	669,065	709,209
Long-term debt	175,363	175,078
Derivative financial instruments	24,260	27,648
Accrued expenses and other liabilities	100,346	78,427
Total liabilities	9,704,769	9,632,920
Shareholders' equity:		
Common stock, $1 par value; 150,000,000 shares authorized; 70,980,916 and 70,899,114 shares issued and outstanding	70,981	70,899
Common stock issuable; 550,449 and 519,874 shares	8,062	7,327
Capital surplus	1,277,822	1,275,849
Accumulated deficit	(212,607)	(251,857)
Accumulated other comprehensive loss	(11,617)	(26,483)
Total shareholders' equity	1,132,641	1,075,735

Total liabilities and shareholders' equity	$ 10,837,410	$ 10,708,655

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	Preferred Stock **Series H**	**Common Stock**	Non-Voting **Common Stock**	Common **Stock Issuable**	**Capital Surplus**	**Accumulated Deficit**	Accumulated Other **Comprehensive Income (Loss)**	**Total**
Balance, December 31, 2015	$9,992	$66,198	$5,286	$6,779	$ 1,286,361	$(330,879)	$(25,452)	$1,018,285
Net income						47,561		47,561
Other comprehensive income							21,457	21,457
Redemption of Series H preferred stock (9,992 shares)	(9,992)							(9,992)
Common stock issued to dividend reinvestment plan and employee benefit plans (10,360 shares)		10			164			174
Conversion of non-voting common stock to voting (4,026,724 shares)		4,027	(4,027)					-
Amortization of stock option and restricted stock awards					1,826			1,826
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (41,909 shares issued, 65,011 shares deferred)		42		941	(1,585)			(602)
Purchases of common stock (460,000 shares)		(460)			(7,741)			(8,201)
Deferred compensation plan, net, including dividend equivalents				204				204
Shares issued from deferred compensation plan (45,538 shares)		46		(1,273)	1,227			-
Common stock dividends ($.14 per share)						(10,085)		(10,085)
Tax on restricted stock vesting					(869)			(869)
Preferred stock dividends: Series H						(21)		(21)
Balance, June 30, 2016	$-	$69,863	$1,259	$6,651	$ 1,279,383	$(293,424)	$(3,995)	$1,059,737

Balance, December 31, 2016	$-	$70,899	$-	$7,327	$ 1,275,849	$(251,857)	$(26,483)	$1,075,735
Net income						51,791		51,791
Other comprehensive income							14,866	14,866
Common stock issued to dividend reinvestment plan and to employee benefit plans (8,569 shares)		9			207			216
Amortization of stock option and restricted stock awards					3,149			3,149
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (40,954 shares issued, 58,784 shares deferred)		41		887	(1,612)			(684)
Deferred compensation plan, net, including dividend equivalents				216				216
Shares issued from deferred compensation plan (32,279 shares)		32		(368)	229			(107)
Common stock dividends ($.18 per share)						(12,978)		(12,978)
Cumulative effect of change in accounting principle						437		437
Balance, June 30, 2017	$-	$70,981	$-	$8,062	$ 1,277,822	$(212,607)	$(11,617)	$1,132,641

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
(in thousands)	**2017**	**2016**
Operating activities:		
Net income	$51,791	$47,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	12,932	14,378
(Release of) provision for credit losses	1,600	(500)
Stock based compensation	3,149	1,826
Deferred income tax expense	35,685	29,423
Securities gains, net	(2)	(661)
Gains from sales of SBA/USDA loans	(4,585)	(4,038)
Net losses (gains) and write downs on sales of other real estate owned	471	(328)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(425)	(54,559)
Accrued expenses and other liabilities	(7,191)	3,679
Mortgage loans held for sale	4,167	(5,921)
Net cash provided by operating activities	97,592	30,860
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	31,369	30,374
Purchases of securities held to maturity	(13,433)	(1,000)
Investment securities available for sale:		
Proceeds from sales of securities available for sale	94,650	88,297
Proceeds from maturities and calls of securities available for sale	309,054	199,086
Purchases of securities available for sale	(412,407)	(308,799)
Net increase in loans	(115,952)	(313,917)
Purchase of bank owned life insurance	(10,000)	-
Proceeds from sales of premises and equipment	5	987
Purchases of premises and equipment	(11,687)	(9,913)
Proceeds from sale of other real estate	5,781	2,817
Net cash used in investing activities	(122,620)	(312,068)
Financing activities:		
Net change in deposits	98,694	(15,566)
Net change in short-term borrowings	(5,000)	(16,640)
Proceeds from FHLB advances	2,710,000	4,720,000
Repayments of FHLB advances	(2,750,000)	(4,415,000)
Cash paid for shares withheld to cover payroll taxes upon vesting of restricted stock	(791)	(602)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	216	174
Retirement of preferred stock	-	(9,992)
Purchase of common stock	-	(3,756)
Cash dividends on common stock	(12,253)	(10,085)

Cash dividends on preferred stock	-	(46)
Net cash provided by financing activities	40,866	248,487
Net change in cash and cash equivalents	15,838	(32,721)
Cash and cash equivalents at beginning of period	217,348	240,363
Cash and cash equivalents at end of period	$233,186	$207,642
Supplemental disclosures of cash flow information:		
Interest paid	$15,346	$13,161
Income taxes paid	4,651	2,637
Significant non-cash investing and financing transactions:		
Unsettled securities purchases	20,269	-
Unsettled government guaranteed loan sales	26,107	22,614
Unsettled government guaranteed loan purchases	-	5,010
Unsettled purchases of common stock	-	4,445
Transfers of loans to foreclosed properties	1,042	4,312

See accompanying notes to consolidated financial statements.

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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 (“GAAP”) and reporting guidelines of banking regulatory authorities and regulators. 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, 2016.

Effective January 1, 2017, management elected to begin measuring residential mortgage servicing rights at fair value. The cumulative effect adjustment of this election to retained earnings, net of income tax effect, was $437,000.

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 statement. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Certain 2016 amounts have been reclassified to conform to the 2017 presentation. As discussed in the Form 10-K for the year ended December 31, 2016, certain loan balances previously shown as retail loans were reclassified to several commercial categories to better align the reporting with the business purpose or underlying credit risk of the loans, rather than the collateral type. The reclassifications moved residential mortgages and home equity lines from the residential mortgage and home equity lines of credit categories to the owner-occupied and income-producing commercial real estate categories. Although these loans were secured by one-to-four family residential properties, their purpose was commercial since they included residential home rental property and business purpose loans secured by the borrower’s primary residence. In addition, residential construction loans were reclassified to the commercial construction category. These reclassified loans are to builders and developers of residential properties. Reclassifying these balances better aligned the loan categories with the management of credit risk. For the three and six months ended June 30, 2016, historic charge-offs and recoveries on these same loans have been reclassified, as well as the corresponding allowance for loan loss balances, average impaired loan balances, and new troubled debt restructurings.

Note 2 –Accounting Standards Updates and Recently Adopted Standards

Accounting Standards Updates

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. This ASU provides guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and will be applied retrospectively either to each prior reporting period or with a cumulative effect recognized at the date of initial application. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, United does not expect the new revenue recognition guidance to have a material impact on the consolidated financial statements. United continues to evaluate the changes in disclosures required by the new guidance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. For public entities, this update is effective for fiscal years beginning after December 15, 2018, with modified retrospective application to prior periods presented. Upon adoption, United expects to report higher assets and liabilities as a result of including leases on the consolidated balance sheet. At December 31, 2016, future minimum lease payments amounted to $29.1 million. United does not expect the new guidance to have a material impact on the consolidated statement of income or the consolidated statement of shareholders' equity.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new guidance replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. Application of this update will primarily be on a modified retrospective approach, although the guidance for debt securities for which an other-than-temporary impairment has been recognized before the effective date and for loans previously covered by ASC 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality* will be applied on a prospective basis. For public entities, this update is effective for fiscal years beginning after December 15, 2019. Upon adoption, United expects that the allowance for credit losses will be higher given the change to estimated losses for the estimated life of the financial asset, however management is still in the process of determining the magnitude of the increase. Management has begun developing a project plan to ensure it is prepared for implementation by the effective date.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost and allow only the service cost component to be eligible for capitalization. For public entities, this update is effective for fiscal years beginning after December 15, 2017, with retrospective presentation of the service cost and other components and prospective application for any capitalization of service cost. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. For public entities, this update is effective for fiscal years beginning after December 15, 2018, with modified retrospective application. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. This update clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Specifically, modification accounting should be applied unless the fair value of the modified award is the same as the original award immediately before modification, the vesting conditions of the modified award are the same as the original award immediately before modification, and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before modification. For public entities, this update is effective for fiscal years beginning after December 15, 2017, with prospective application. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

<u>Recently Adopted Standards</u>

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. United adopted this standard effective January 1, 2017, with no material impact on the consolidated financial statements, although management expects more volatility in the effective tax rate as excess tax benefits and deficiencies on stock compensation transactions flow through income tax expense rather than capital surplus. United prospectively adopted the amendment requiring that excess tax benefits and deficiencies be recognized as income tax expense or benefit in the income statement and as an operating activity in the statement of cash flows. In addition, United elected to account for forfeitures as they occur, rather than estimate the number of awards expected to vest. United retrospectively implemented the clarification that cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 3 – Balance Sheet Offsetting and Repurchase Agreements Accounted for as Secured Borrowings

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 the dates indicated *(in thousands)*.

June 30, 2017	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 200,000	$ (200,000)	$ -	$ -	$ -	$ -
Derivatives	21,640	-	21,640	(2,331)	(2,102)	17,207
Total	$ 221,640	$ (200,000)	$ 21,640	$ (2,331)	$ (2,102)	$ 17,207
Weighted average interest rate of reverse repurchase agreements	1.79 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Collateral Pledged	Net Amount
	$ 200,000	$ (200,000)	$ -	$ -	$ -	$ -

Repurchase agreements / reverse repurchase agreements						
Derivatives	24,260	-	24,260	(2,331)	(19,099)	2,830
Total	$ 224,260	$ (200,000)	$ 24,260	$ (2,331)	$ (19,099)	$ 2,830
Weighted average interest rate of repurchase agreements	.95 %					

December 31, 2016	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 150,000	$ (150,000)	$ -	$ -	$ -	$ -
Derivatives	23,688	-	23,688	(3,485)	(3,366)	16,837
Total	$ 173,688	$ (150,000)	$ 23,688	$ (3,485)	$ (3,366)	$ 16,837
Weighted average interest rate of reverse repurchase agreements	1.78 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 150,000	$ (150,000)	$ -	$ -	$ -	$ -
Derivatives	27,648	-	27,648	(3,485)	(18,505)	5,658
Total	$ 177,648	$ (150,000)	$ 27,648	$ (3,485)	$ (18,505)	$ 5,658
Weighted average interest rate of repurchase agreements	.88 %					

At June 30, 2017, United recognized the right to reclaim cash collateral of $19.1 million and the obligation to return cash collateral of $2.10 million. At December 31, 2016, United recognized the right to reclaim cash collateral of $18.5 million and the obligation to return cash collateral of $3.37 million. The right to reclaim cash collateral and the obligation to return cash collateral were included in the consolidated balance sheet in other assets and other liabilities, respectively.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents additional detail regarding repurchase agreements accounted for as secured borrowings and the securities underlying these agreements as of the dates indicated *(in thousands)*.

	Remaining Contractual Maturity of the Agreements				
As of June 30, 2017	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
Mortgage-backed securities	$ -	$ -	$ 100,000	$ 100,000	$ 200,000
Total	$ -	$ -	$ 100,000	$ 100,000	$ 200,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$ 200,000
Amounts related to agreements not included in offsetting disclosure					$ -

	Remaining Contractual Maturity of the Agreements				
As of December 31, 2016	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
Mortgage-backed securities	$ -	$ -	$ 50,000	$ 100,000	$ 150,000
Total	$ -	$ -	$ 50,000	$ 100,000	$ 150,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$ 150,000
Amounts related to agreements not included in offsetting disclosure					$ -

United is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase agreement price. United manages this risk by maintaining an unpledged securities portfolio that it believes is sufficient to cover a decline in the market value of the securities sold under agreements to repurchase.

Note 4 – Securities

The amortized cost basis, unrealized gains and losses and fair value of securities held-to-maturity as of the dates indicated are as follows *(in thousands)*.

As of June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 52,938	$ 2,259	$ -	$ 55,197
Mortgage-backed securities [1]	259,064	4,003	1,681	261,386
Total	$ 312,002	$ 6,262	$ 1,681	$ 316,583
As of December 31, 2016				
State and political subdivisions	$ 57,134	$ 2,197	$ 249	$ 59,082
Mortgage-backed securities [1]	272,709	4,035	2,656	274,088
Total	$ 329,843	$ 6,232	$ 2,905	$ 333,170

[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 cost basis, unrealized gains and losses, and fair value of securities available-for-sale as of the dates indicated are presented below *(in thousands)*.

As of June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	$170,294	$ 633	$ 8	$170,919
U.S. Government agencies	37,191	449	21	37,619
State and political subdivisions	112,161	1,022	48	113,135
Mortgage-backed securities (1)	1,502,050	12,199	9,063	1,505,186
Corporate bonds	305,983	2,845	350	308,478
Asset-backed securities	335,631	2,679	237	338,073
Other	1,182	-	-	1,182
Total	$2,464,492	$ 19,827	$ 9,727	$2,474,592
As of December 31, 2016				
U.S. Treasuries	$170,360	$ 20	$ 764	$169,616
U.S. Government agencies	21,053	6	239	20,820
State and political subdivisions	74,555	176	554	74,177
Mortgage-backed securities (1)	1,397,435	8,924	14,677	1,391,682
Corporate bonds	306,824	591	2,023	305,392
Asset-backed securities	468,742	2,798	1,971	469,569
Other	1,182	-	-	1,182
Total	$2,440,151	$ 12,515	$ 20,228	$2,432,438

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

Securities with a carrying value of $1.30 billion and $1.45 billion were pledged to secure public deposits, derivatives and other secured borrowings at June 30, 2017 and December 31, 2016, respectively.

The following table summarizes held-to-maturity securities in an unrealized loss position as of the dates indicated (*in thousands)*.

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$ 96,520	$ 1,681	$ -	$ -	$ 96,520	$ 1,681
Total unrealized loss position	$ 96,520	$ 1,681	$ -	$ -	$ 96,520	$ 1,681
As of December 31, 2016						
State and political subdivisions	$ 18,359	$ 249	$ -	$ -	$ 18,359	$ 249
Mortgage-backed securities	118,164	2,656	-	-	118,164	2,656
Total unrealized loss position	$ 136,523	$ 2,905	$ -	$ -	$ 136,523	$ 2,905

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 the dates indicated *(in thousands).*

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	$40,521	$ 8	$-	$ -	$40,521	$ 8
U.S. Government agencies	1,800	21	-	-	1,800	21
State and political subdivisions	7,529	48	-	-	7,529	48
Mortgage-backed securities	510,944	8,527	24,183	536	535,127	9,063
Corporate bonds	31,089	160	810	190	31,899	350
Asset-backed securities	54,517	127	11,511	110	66,028	237
Total unrealized loss position	$646,400	$ 8,891	$36,504	$ 836	$682,904	$ 9,727
As of December 31, 2016						
U.S. Treasuries	$145,229	$ 764	$-	$ -	$145,229	$ 764
U.S. Government agencies	19,685	239	-	-	19,685	239
State and political subdivisions	61,782	554	-	-	61,782	554
Mortgage-backed securities	810,686	13,952	26,279	725	836,965	14,677
Corporate bonds	228,504	1,597	15,574	426	244,078	2,023
Asset-backed securities	54,477	540	115,338	1,431	169,815	1,971
Total unrealized loss position	$1,320,363	$ 17,646	$157,191	$ 2,582	$1,477,554	$ 20,228

At June 30, 2017, there were 94 available-for-sale securities and 35 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, 2017 were primarily attributable to changes in interest rates and spread relationships.

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, 2017 or 2016.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes available-for-sale securities sales activity for the three and six months ended June 30, 2017 and 2016 *(in thousands)*.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Proceeds from sales	$ 70,453	$ 26,992	$ 94,650	$ 88,297
Gross gains on sales	$ 227	$ 285	$ 325	$ 958
Gross losses on sales	(223)	(3)	(323)	(297)
Net gains on sales of securities	$ 4	$ 282	$ 2	$ 661
Income tax expense attributable to sales	$ -	$ 106	$ (1)	$ 247

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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, 2017, 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	$ 140,387	$ 140,972	$ -	$ -
5 to 10 years	29,907	29,947	-	-
	170,294	170,919	-	-
US Government agencies:				
Within 1 year	11,697	11,697	-	-
1 to 5 years	2,109	2,124	-	-
5 to 10 years	17,878	18,050	-	-
More than 10 years	5,507	5,748	-	-
	37,191	37,619	-	-
State and political subdivisions:				
Within 1 year	500	512	4,249	4,290
1 to 5 years	30,293	30,353	14,231	14,790
5 to 10 years	24,489	24,612	17,744	19,320
More than 10 years	56,879	57,658	16,714	16,797
	112,161	113,135	52,938	55,197
Corporate bonds:				
1 to 5 years	258,544	261,026	-	-
5 to 10 years	46,439	46,642	-	-
More than 10 years	1,000	810	-	-
	305,983	308,478	-	-
Asset-backed securities:				
1 to 5 years	9,085	9,286	-	-
5 to 10 years	182,229	183,531	-	-
More than 10 years	144,317	145,256	-	-
	335,631	338,073	-	-
Other:				

More than 10 years	1,182	1,182	-	-
	1,182	1,182	-	-
Total securities other than mortgage-backed securities:				
Within 1 year	12,197	12,209	4,249	4,290
1 to 5 years	440,418	443,761	14,231	14,790
5 to 10 years	300,942	302,782	17,744	19,320
More than 10 years	208,885	210,654	16,714	16,797
Mortgage-backed securities	1,502,050	1,505,186	259,064	261,386
	$2,464,492	$2,474,592	$312,002	$316,583

Expected maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 5 – Loans and Allowance for Credit Losses

Major classifications of loans are summarized as of the dates indicated as follows *(in thousands)*.

	June 30, 2017	December 31, 2016
Owner occupied commercial real estate	$1,722,883	$ 1,650,360
Income producing commercial real estate	1,342,149	1,281,541
Commercial & industrial	1,088,375	1,069,715
Commercial construction	586,405	633,921
Total commercial	4,739,812	4,635,537
Residential mortgage	880,418	856,725
Home equity lines of credit	665,252	655,410
Residential construction	193,117	190,043
Consumer installment	113,324	123,567
Indirect auto	449,009	459,354
Total loans	7,040,932	6,920,636
Less allowance for loan losses	(59,500)	(61,422)
Loans, net	$6,981,432	$ 6,859,214

At June 30, 2017 and December 31, 2016, loans totaling $3.62 billion and $3.33 billion, respectively, were pledged as collateral to secure Federal Home Loan Bank advances and other contingent funding sources.

At June 30, 2017, the carrying value and outstanding balance of purchased credit impaired (“PCI”) loans accounted for under ASC 310-30 were $46.8 million and $68.8 million, respectively. At December 31, 2016, the carrying value and outstanding balance of PCI loans were $62.8 million and $87.9 million, respectively. The following table presents changes in the value of the accretable yield for PCI loans for the periods indicated *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	$ 7,762	$ 4,144	$ 7,981	$ 4,279
Accretion	(1,412)	(626)	(3,102)	(1,942)
Reclassification from nonaccretable difference	3,827	806	4,716	1,453
Changes in expected cash flows that do not affect nonaccretable difference	1,188	1,013	1,770	1,547
Balance at end of period	$ 11,365	$ 5,337	$ 11,365	$ 5,337

In addition to the accretable yield on PCI loans, the fair value adjustments on purchased loans outside the scope of ASC 310-30 are also accreted to interest revenue over the life of the loans. At June 30, 2017 and December 31, 2016, the remaining accretable fair value marks on loans acquired through a business combination and not accounted for under ASC 310-30 were $5.51 million and $7.14 million, respectively. In addition, indirect auto loans purchased at a premium outside of a business combination have a remaining premium of $10.8 million and $11.4 million, respectively, as of June 30, 2017 and December 31, 2016. During the three and six months ended June 30, 2017, United purchased indirect auto loans of $40.5 million and $81.7 million, respectively. During the three and six months ended June 30, 2016, United purchased indirect auto loans of $40.9 million and $111 million, respectively.

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 periods indicated *(in thousands)*.

Three Months Ended June 30,	2017 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	2016 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Endin Balan
Owner occupied commercial real estate	$15,669	$(158)	$120	$(209)	$15,422	$17,990	$(869)	$69	$(1,515)	$15,6
Income producing commercial real estate	8,878	(203)	20	659	9,354	8,962	(305)	224	(198)	8,68
Commercial & industrial	3,725	(598)	244	249	3,620	3,149	(223)	615	(339)	3,20
Commercial construction	12,790	(361)	20	(1,411)	11,038	13,213	(75)	273	(314)	13,0
Residential mortgage	9,071	(131)	105	753	9,798	10,200	(617)	128	1,618	11,3
Home equity lines of credit	4,530	(424)	171	313	4,590	5,931	(469)	216	(431)	5,24
Residential construction	3,267	(70)	123	(236)	3,084	4,764	(219)	8	298	4,85
Consumer installment	609	(457)	195	237	584	773	(390)	229	111	723
Indirect auto	2,004	(313)	94	225	2,010	1,328	(366)	41	443	1,44
Total allowance for loan losses	60,543	(2,715)	1,092	580	59,500	66,310	(3,533)	1,803	(327)	64,2
Allowance for unfunded commitments	2,002	-	-	220	2,222	2,342	-	-	27	2,36
Total allowance for credit losses	62,545	(2,715)	1,092	800	61,722	$68,652	$(3,533)	$1,803	$(300)	$66,6

Six Months Ended June 30,	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$16,446	$(183)	$357	$(1,198)	$15,422	$18,016	$(1,468)	$190	$(1,063)	$15,675
Income producing commercial real estate	8,843	(1,100)	47	1,564	9,354	11,548	(582)	327	(2,610)	8,683
Commercial & industrial	3,810	(814)	612	12	3,620	4,433	(795)	904	(1,340)	3,202
Commercial construction	13,405	(563)	592	(2,396)	11,038	9,553	(362)	393	3,513	13,097
Residential mortgage	8,545	(673)	117	1,809	9,798	12,719	(713)	139	(816)	11,329
Home equity lines of credit	4,599	(895)	220	666	4,590	5,956	(1,192)	307	176	5,247
Residential construction	3,264	(70)	132	(242)	3,084	4,002	(278)	51	1,076	4,851
Consumer installment	708	(899)	402	373	584	828	(697)	435	157	723
Indirect auto	1,802	(733)	149	792	2,010	1,393	(599)	72	580	1,446

Total allowance for loan losses	61,422	(5,930)	2,628	1,380	59,500	68,448	(6,686)	2,818	(327)	64,253
Allowance for unfunded commitments	2,002	-	-	220	2,222	2,542	-	-	(173)	2,369
Total allowance for credit losses	$63,424	$(5,930)	$2,628	$1,600	$61,722	$70,990	$(6,686)	$2,818	$(500)	$66,622

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 the dates indicated *(in thousands)*.

	Allowance for Loan Losses June 30, 2017				December 31, 2016			
	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance
Owner occupied commercial real estate	$1,512	$ 13,910	$ -	$15,422	$1,746	$ 14,700	$-	$16,446
Income producing commercial real estate	956	8,398	-	9,354	885	7,919	39	8,843
Commercial & industrial	30	3,590	-	3,620	58	3,752	-	3,810
Commercial construction	187	10,851	-	11,038	168	13,218	19	13,405
Residential mortgage	1,195	8,603	-	9,798	517	7,997	31	8,545
Home equity lines of credit	5	4,585	-	4,590	2	4,597	-	4,599
Residential construction	81	3,003	-	3,084	64	3,198	2	3,264
Consumer installment	8	571	5	584	12	696	-	708
Indirect auto	30	1,980	-	2,010	-	1,802	-	1,802
Total allowance for loan losses	4,004	55,491	5	59,500	3,452	57,879	91	61,422
Allowance for unfunded commitments	-	2,222	-	2,222	-	2,002	-	2,002
Total allowance for credit losses	$4,004	$ 57,713	$ 5	$61,722	$3,452	$ 59,881	$91	$63,424

	Loans Outstanding June 30, 2017				December 31, 2016			
	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance
Owner occupied commercial real estate	$30,244	$ 1,679,080	$13,559	$1,722,883	$31,421	$ 1,600,355	$18,584	$1,650,360
	28,613	1,291,170	22,366	1,342,149	30,459	1,225,763	25,319	1,281,541

Income producing commercial real estate								
Commercial & industrial	1,845	1,086,250	280	1,088,375	1,915	1,066,764	1,036	1,069,715
Commercial construction	6,357	575,920	4,128	586,405	5,050	620,543	8,328	633,921
Residential mortgage	14,672	861,395	4,351	880,418	13,706	836,624	6,395	856,725
Home equity lines of credit	384	663,390	1,478	665,252	63	653,337	2,010	655,410
Residential construction	1,547	191,085	485	193,117	1,594	187,516	933	190,043
Consumer installment	298	112,895	131	113,324	290	123,118	159	123,567
Indirect auto	1,283	447,726	-	449,009	1,165	458,189	-	459,354
Total loans	$85,243	$ 6,908,911	$46,778	$7,040,932	$85,663	$ 6,772,209	$62,764	$6,920,636

Management considers all non-PCI relationships 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. 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 recorded investment in the loan. 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, 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 calculates the loss emergence period for each pool of loans based on the weighted average length of time between the date a loan first exceeds 30 days past due and the date the loan is charged off.

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.

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Notes to Consolidated Financial Statements

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 placed on nonaccrual status, evaluating the loan for impairment, and, if necessary, fully or partially charging off the loan. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department, the Loss Mitigation Department and the Foreclosure/OREO Department. Nonaccrual real estate loans are generally charged down to fair value less costs to sell at the time they are placed on nonaccrual status.

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

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. 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 the dates indicated *(in thousands)*.

	June 30, 2017			December 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Owner occupied commercial real estate	$7,712	$ 7,290	$ -	$9,171	$ 8,477	$ -
Income producing commercial real estate	14,997	14,997	-	16,864	16,864	-
Commercial & industrial	634	634	-	421	334	-

Commercial construction	3,187	2,349	-	845	841	-
Total commercial	26,530	25,270	-	27,301	26,516	-
Residential mortgage	2,695	2,674	-	630	628	-
Home equity lines of credit	391	208	-	-	-	-
Residential construction	222	167	-	-	-	-
Consumer installment	30	30	-	-	-	-
Indirect auto	200	179	-	1,165	1,165	-
Total with no related allowance recorded	30,068	28,528	-	29,096	28,309	-
With an allowance recorded:						
Owner occupied commercial real estate	23,362	22,954	1,512	23,574	22,944	1,746
Income producing commercial real estate	13,642	13,616	956	13,681	13,595	885
Commercial & industrial	1,297	1,211	30	1,679	1,581	58
Commercial construction	4,200	4,008	187	4,739	4,209	168
Total commercial	42,501	41,789	2,685	43,673	42,329	2,857
Residential mortgage	12,284	11,998	1,195	13,565	13,078	517
Home equity lines of credit	296	176	5	63	63	2
Residential construction	1,450	1,380	81	1,947	1,594	64
Consumer installment	270	268	8	293	290	12
Indirect auto	1,108	1,104	30	-	-	-
Total with an allowance recorded	57,909	56,715	4,004	59,541	57,354	3,452
Total	$87,977	$ 85,243	$ 4,004	$88,637	$ 85,663	$ 3,452

As of June 30, 2017 and December 31, 2016, $3.23 million and $2.90 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 $95,000 at both June 30, 2017 and December 31, 2016 to customers with outstanding loans that are classified as TDRs.

The modification of the TDR terms 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; a mandated bankruptcy restructuring; or interest-only payment terms greater than 90 days where the borrower is unable to amortize the loan. Modified PCI loans are not accounted for as TDRs because they are not separated from the pools, and as such are not classified as impaired loans.

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Loans modified under the terms of a TDR during the three and six months ended June 30, 2017 and 2016 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that defaulted (became 90 days or more delinquent) during the periods presented and were initially restructured within one year prior to default *(dollars in thousands)*.

	New TDRs						TDRs Modified Within the Previous Twelve Months That Have Subsequently Defaulted	
		Pre-Modification Outstanding	Post-Modification Outstanding Recorded Investment by Type of Modification					
Three Months Ended June 30, 2017	Number of Contracts	Recorded Investment	Rate Reduction	Structure	Other	Total	Number of Contracts	Recorded Investment
Owner occupied commercial real estate	3	$ 1,860	$ -	$ 1,860	$ -	$ 1,860	-	$ -
Income producing commercial real estate	1	226	-	-	226	226	-	-
Commercial & industrial	1	28	-	28	-	28	-	-
Commercial construction	-	-	-	-	-	-	-	-
Total commercial	5	2,114	-	1,888	226	2,114	-	-
Residential mortgage	5	483	-	483	-	483	-	-
Home equity lines of credit	1	296	-	-	176	176	-	-
Residential construction	-	-	-	-	-	-	-	-
Consumer installment	-	-	-	-	-	-	-	-
Indirect auto	-	-	-	-	-	-	-	-
Total loans	11	$ 2,893	$ -	$ 2,371	$ 402	$ 2,773	-	$ -
Six Months Ended June 30, 2017								
Owner occupied commercial real estate	3	$ 1,860	$ -	$ 1,860	$ -	$ 1,860	-	$ -
Income producing commercial real estate	1	226	-	-	226	226	-	-
Commercial & industrial	2	53	-	53	-	53	-	-
Commercial construction	-	-	-	-	-	-	-	-
Total commercial	6	2,139	-	1,913	226	2,139	-	-
Residential mortgage	12	836	-	836	-	836	2	655

Home equity lines of credit	1		296	-	-	176	176	-	-
Residential construction	1		40	40	-	-	40	-	-
Consumer installment	1		6	-	6	-	6	-	-
Indirect auto	-		-	-	-	-	-	-	-
Total loans	21	$	3,317	$ 40	$ 2,755	$ 402	$ 3,197	2	$ 655
Three Months Ended June 30, 2016									
Owner occupied commercial real estate	4	$	1,042	$ -	$ 1,042	$ -	$ 1,042	1	$ 252
Income producing commercial real estate	-		-	-	-	-	-	-	-
Commercial & industrial	2		749	-	749	-	749	-	-
Commercial construction	1		169	-	169	-	169	-	-
Total commercial	7		1,960	-	1,960	-	1,960	1	252
Residential mortgage	10		1,628	1,543	83	-	1,626	1	85
Home equity lines of credit	1		38	38	-	-	38	-	-
Residential construction	4		260	45	77	82	204	-	-
Consumer installment	-		-	-	-	-	-	-	-
Indirect auto	10		235	-	-	235	235	-	-
Total loans	32	$	4,121	$ 1,626	$ 2,120	$ 317	$ 4,063	2	$ 337
Six Months Ended June 30, 2016									
Owner occupied commercial real estate	7	$	1,691	$ -	$ 1,691	$ -	$ 1,691	2	$ 499
Income producing commercial real estate	-		-	-	-	-	-	-	-
Commercial & industrial	3		946	-	946	-	946	-	-
Commercial construction	2		235	-	169	66	235	-	-
Total commercial	12		2,872	-	2,806	66	2,872	2	499
Residential mortgage	17		2,427	1,957	432	-	2,389	1	85
Home equity lines of credit	1		38	38	-	-	38	-	-
Residential construction	4		260	45	77	82	204	-	-
Consumer installment	1		20	-	20	-	20	-	-
Indirect auto	18		474	-	-	474	474	-	-
Total loans	53	$	6,091	$ 2,040	$ 3,335	$ 622	$ 5,997	3	$ 584

TDRs that subsequently default and are placed on nonaccrual are charged down to the fair value, less costs of disposal, of the collateral consistent with United's policy for nonaccrual loans.

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The average balances of impaired loans and income recognized on impaired loans while they were considered impaired are presented below for the periods indicated *(in thousands)*.

	2017			2016		
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	$30,825	$ 371	$ 376	$34,098	$ 398	$ 408
Income producing commercial real estate	28,768	359	347	26,831	323	333
Commercial & industrial	1,877	26	17	2,706	35	35
Commercial construction	6,670	70	77	6,326	65	69
Total commercial	68,140	826	817	69,961	821	845
Residential mortgage	14,742	130	147	18,217	205	207
Home equity lines of credit	552	2	4	101	1	1
Residential construction	1,563	23	24	1,698	28	32
Consumer installment	307	6	6	320	6	5
Indirect auto	1,137	14	14	867	11	11
Total	$86,441	$ 1,001	$ 1,012	$91,164	$ 1,072	$ 1,101
Six Months Ended June 30,						
Owner occupied commercial real estate	$30,342	$ 716	$ 712	$33,897	$ 846	$ 874
Income producing commercial real estate	28,589	710	692	27,117	638	667
Commercial & industrial	1,908	53	45	2,546	65	61
Commercial construction	5,836	123	130	5,909	135	139
Total commercial	66,675	1,602	1,579	69,469	1,684	1,741
Residential mortgage	14,175	268	290	16,776	362	359
Home equity lines of credit	308	3	5	82	2	2
Residential construction	1,591	46	47	1,558	48	49
Consumer installment	297	11	12	331	12	12
Indirect auto	1,130	28	28	826	22	22
Total	$84,176	$ 1,958	$ 1,961	$89,042	$ 2,130	$ 2,185

Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans based on the size of the loan. 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 full 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 the loan’s recorded investment.

PCI loans 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 to be 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 loan loss provision or future period yield adjustments. The accrual of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at June 30, 2017 or December 31, 2016 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

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 $246,000 and $170,000 for the three months ended June 30, 2017 and 2016, respectively, and $523,000 and $425,000 for the six months ended June 30, 2017 and 2016, respectively.

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The following table presents the recorded investment in nonaccrual loans by loan class as of the dates indicated *(in thousands)*.

	June 30, 2017	December 31, 2016
Owner occupied commercial real estate	$5,248	$ 7,373
Income producing commercial real estate	2,587	1,324
Commercial & industrial	1,010	966
Commercial construction	2,530	1,538
Total commercial	11,375	11,201
Residential mortgage	7,886	6,368
Home equity lines of credit	2,152	1,831
Residential construction	287	776
Consumer installment	121	88
Indirect auto	1,274	1,275
Total	$23,095	$ 21,539

Excluding PCI loans, substantially all loans more than 90 days past due were on nonaccrual status at June 30, 2017 and December 31, 2016. The following table presents the aging of the recorded investment in past due loans by class of loans as of the dates indicated *(in thousands)*.

As of June 30, 2017	Loans Past Due 30 - 59 Days	60 - 89 Days	> 90 Days	Total	Loans Not Past Due	PCI Loans	Total
Owner occupied commercial real estate	$1,707	$ 407	$ 3,320	$5,434	$1,703,890	$ 13,559	$1,722,883
Income producing commercial real estate	784	42	1,086	1,912	1,317,871	22,366	1,342,149
Commercial & industrial	1,384	2,103	136	3,623	1,084,472	280	1,088,375
Commercial construction	415	15	872	1,302	580,975	4,128	586,405
Total commercial	4,290	2,567	5,414	12,271	4,687,208	40,333	4,739,812
Residential mortgage	5,691	1,456	3,085	10,232	865,835	4,351	880,418
Home equity lines of credit	2,759	236	597	3,592	660,182	1,478	665,252
Residential construction	1,066	59	54	1,179	191,453	485	193,117

Consumer installment	349	92	51	492	112,701	131	113,324
Indirect auto	878	297	827	2,002	447,007	-	449,009
Total loans	$15,033	$ 4,707	$ 10,028	$29,768	$6,964,386	$ 46,778	$7,040,932
As of December 31, 2016							
Owner occupied commercial real estate	$2,195	$ 1,664	$ 3,386	$7,245	$1,624,531	$ 18,584	$1,650,360
Income producing commercial real estate	1,373	355	330	2,058	1,254,164	25,319	1,281,541
Commercial & industrial	943	241	178	1,362	1,067,317	1,036	1,069,715
Commercial construction	452	14	292	758	624,835	8,328	633,921
Total commercial	4,963	2,274	4,186	11,423	4,570,847	53,267	4,635,537
Residential mortgage	7,221	1,799	1,700	10,720	839,610	6,395	856,725
Home equity lines of credit	1,996	101	957	3,054	650,346	2,010	655,410
Residential construction	950	759	51	1,760	187,350	933	190,043
Consumer installment	633	117	35	785	122,623	159	123,567
Indirect auto	1,109	301	909	2,319	457,035	-	459,354
Total loans	$16,872	$ 5,351	$ 7,838	$30,061	$6,827,811	$ 62,764	$6,920,636

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.

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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 that become past due 90 days or are in bankruptcy 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 substandard column and all other consumer purpose loans are reported in the “pass” column.

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

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Based on the most recent analysis performed, the risk category of loans by class of loans as of the dates indicated is as follows *(in thousands)*.

As of June 30, 2017	Pass	Watch	Substandard	Doubtful / Loss	**Total**
Owner occupied commercial real estate	$1,653,111	$24,946	$ 31,267	$ -	$1,709,324
Income producing commercial real estate	1,278,582	17,724	23,477	-	1,319,783
Commercial & industrial	1,071,805	8,089	8,201	-	1,088,095
Commercial construction	569,643	5,598	7,036	-	582,277
Total commercial	4,573,141	56,357	69,981	-	4,699,479
Residential mortgage	856,196	-	19,871	-	876,067
Home equity lines of credit	656,701	-	7,073	-	663,774
Residential construction	190,544	-	2,088	-	192,632
Consumer installment	112,503	-	690	-	113,193
Indirect auto	446,038	-	2,971	-	449,009
Total loans, excluding PCI loans	$6,835,123	$56,357	$ 102,674	$ -	$6,994,154
Owner occupied commercial real estate	$984	$4,167	$ 8,408	$ -	$13,559
Income producing commercial real estate	11,939	8,860	1,567	-	22,366
Commercial & industrial	84	140	56	-	280
Commercial construction	2,962	864	302	-	4,128
Total commercial	15,969	14,031	10,333	-	40,333
Residential mortgage	3,407	-	944	-	4,351
Home equity lines of credit	666	-	812	-	1,478
Residential construction	464	-	21	-	485
Consumer installment	73	-	58	-	131
Indirect auto	-	-	-	-	-
Total PCI loans	$20,579	$14,031	$ 12,168	$ -	$46,778
As of December 31, 2016					
Owner occupied commercial real estate	$1,577,301	$18,029	$ 36,446	$ -	$1,631,776
Income producing commercial real estate	1,220,626	8,502	27,094	-	1,256,222
Commercial & industrial	1,055,282	4,188	9,209	-	1,068,679
Commercial construction	612,900	6,166	6,527	-	625,593
Total commercial	4,466,109	36,885	79,276	-	4,582,270
Residential mortgage	829,844	-	20,486	-	850,330
Home equity lines of credit	647,425	-	5,975	-	653,400

Residential construction	185,643	-	3,467	-	189,110
Consumer installment	122,736	-	672	-	123,408
Indirect auto	456,717	-	2,637	-	459,354
Total loans, excluding PCI loans	$6,708,474	$36,885	$ 112,513	$ -	$6,857,872
Owner occupied commercial real estate	$2,044	$3,444	$ 13,096	$ -	$18,584
Income producing commercial real estate	13,236	8,474	3,609	-	25,319
Commercial & industrial	216	160	660	-	1,036
Commercial construction	3,212	1,265	3,851	-	8,328
Total commercial	18,708	13,343	21,216	-	53,267
Residential mortgage	5,189	-	1,206	-	6,395
Home equity lines of credit	1,094	-	916	-	2,010
Residential construction	898	-	35	-	933
Consumer installment	159	-	-	-	159
Indirect auto	-	-	-	-	-
Total PCI loans	$26,048	$13,343	$ 23,373	$ -	$62,764

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Note 6 – Reclassifications Out of Accumulated Other Comprehensive Income

The following table presents the details regarding amounts reclassified out of accumulated other comprehensive income for the periods indicated *(in thousands)*.

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income For the Three Months Ended June 30, 2017	2016	For the Six Months Ended June 30, 2017	2016	Affected Line Item in the Statement Where Net Income is Presented
Realized gains on available-for-sale securities:					
	$ 4	$ 282	$ 2	$ 661	Securities gains, net
	-	(106)	1	(247)	Tax expense
	$ 4	$ 176	$ 3	$ 414	Net of tax
Amortization of losses included in net income on available-for-sale securities transferred to held to maturity:					
	$ (261)	$ (473)	$ (571)	$ (938)	Investment securities interest revenue
	98	178	214	359	Tax benefit
	$ (163)	$ (295)	$ (357)	$ (579)	Net of tax
Gains included in net income on derivative financial instruments accounted for as cash flow hedges:					
Amortization of losses on de-designated positions	$ -	$ -	$ -	$ (7)	Deposits in banks and short-term investments interest revenue
Amortization of losses on de-designated positions	(149)	(151)	(298)	(342)	Money market deposit interest expense
Amortization of losses on de-designated positions	(28)	(309)	(292)	(611)	Federal Home Loan Bank advances interest expense
	(177)	(460)	(590)	(960)	Total before tax
	69	179	230	374	Tax benefit
	$ (108)	$ (281)	$ (360)	$ (586)	Net of tax
Reclassification of disproportionate tax effect related to terminated cash flow hedges:					

	$ -	$ -	$ (3,400)	$ -	Income tax expense

Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan:

Prior service cost	$ (140)	$ (125)	$ (280)	$ (250)	Salaries and employee benefits expense
Actuarial losses	(60)	(42)	(120)	(84)	Salaries and employee benefits expense
	(200)	(167)	(400)	(334)	Total before tax
	78	65	157	130	Tax benefit
	$ (122)	$ (102)	$ (243)	$ (204)	Net of tax
Total reclassifications for the period	$ (389)	$ (502)	$ (957)	$ (955)	Net of tax

Amounts shown above in parentheses reduce earnings.

Note 7 – 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 six months ended June 30, 2016, United accrued dividends of $21,000 on its Series H preferred stock. The Series H preferred stock was redeemed in the first quarter of 2016; accordingly, United did not accrue any dividends in 2017 or the second quarter of 2016.

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The following table sets forth the computation of basic and diluted earnings per share for the periods indicated *(in thousands, except per share data).*

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Net income available to common shareholders	$ 28,267	$ 25,266	$ 51,791	$ 47,540
Weighted average shares outstanding:				
Basic	71,810	72,202	71,798	72,187
Effect of dilutive securities				
Stock options	10	5	11	4
Diluted	71,820	72,207	71,809	72,191
Net income per common share:				
Basic	$ .39	$ .35	$ .72	$ .66
Diluted	$ .39	$ .35	$ .72	$ .66

At June 30, 2017, 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; 63,404 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $25.45; and 595,188 shares of common stock issuable upon the vesting of restricted stock unit awards.

At June 30, 2016, 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; 187,541 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $77.65; and 581,760 shares of common stock issuable upon the vesting of restricted stock unit awards.

Note 8 – Derivatives and Hedging Activities

<u>Risk Management Objective of Using Derivatives</u>

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. Derivative financial instruments are used to manage differences in the amount, timing, and duration of known or expected cash receipts and known or expected cash payments principally related to 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.

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The table below presents the fair value of derivative financial instruments as of the dates indicated as well as their classification on the consolidated balance sheet *(in thousands)*.

Derivatives designated as hedging instruments under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value June 30, 2017	Fair Value December 31, 2016
Fair value hedge of corporate bonds	Derivative assets	$47	$ 265
		$47	$ 265
Fair value hedge of brokered CDs	Derivative liabilities	$1,713	$ 1,980
		$1,713	$ 1,980

Derivatives not designated as hedging instruments under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value June 30, 2017	Fair Value **December 31, 2016**
Customer derivative positions	Derivative assets	$4,499	$ 5,266
Dealer offsets to customer derivative positions	Derivative assets	4,641	3,869
Mortgage banking - loan commitment	Derivative assets	1,424	1,552
Mortgage banking - forward sales commitment	Derivative assets	119	534
Bifurcated embedded derivatives	Derivative assets	10,432	10,225
Interest rate caps	Derivative assets	478	-
Offsetting positions for de-designated hedges	Derivative assets	-	1,977
		$21,593	$ 23,423
Customer derivative positions	Derivative liabilities	$3,327	$ 3,897
Dealer offsets to customer derivative positions	Derivative liabilities	4,723	5,328
Risk participations	Derivative liabilities	21	26
Mortgage banking - forward sales commitment	Derivative liabilities	119	96
Dealer offsets to bifurcated embedded derivatives	Derivative liabilities	14,030	14,341
De-designated hedges	Derivative liabilities	327	1,980
		$22,547	$ 25,668

Customer derivative positions are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap/cap 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 are marked to market through earnings. The fair value 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 economic hedge.

To accommodate customers, United occasionally enters into credit risk participation agreements with counterparty banks to accept a portion of the credit risk related to interest rate swaps. This allows customers to execute an interest rate swap with one bank while allowing for the distribution of the credit risk among participating members. Credit risk participation agreements arise when United contracts with other financial institutions, as a guarantor, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. These transactions are typically executed in conjunction with a participation in a loan with the same customer. Collateral used to support the credit risk for the underlying lending relationship is also available to offset the risk of the credit risk participation.

In addition, United originates certain residential mortgage loans with the intention of selling these loans. Between the time United enters into an interest-rate lock commitment to originate a residential mortgage loan that is to be held for sale and the time the loan is funded and eventually sold, United is subject to the risk of variability in market prices. United enters into forward sale agreements to mitigate risk and to protect the expected gain on the eventual loan sale. Most of this hedging activity is executed on a matched basis, with a loan sale commitment hedging a specific loan. The commitments to originate residential mortgage loans and forward loan sales commitments are freestanding derivative instruments. Beginning late in the third quarter of 2016 for newly originated mortgage loans, United began to account for the underlying loans at fair value pursuant to the fair value option, and these loans are not reflected in the table above. Fair value adjustments on these derivative instruments are recorded within mortgage loan and other related fee income in the consolidated statement of income.

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In the second quarter of 2017, United purchased interest rate caps with a notional amount of $200 million to serve as an economic macro hedge of exposure to rising interest rates.

Cash Flow Hedges of Interest Rate Risk

At June 30, 2017 and December 31, 2016 United did not have any active cash flow hedges. Changes in balance sheet composition and interest rate risk position made cash flow 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 expects that $591,000 will be reclassified as an increase to interest expense over the next twelve months related to these cash flow hedges.

The table below presents the effect of cash flow hedges on the consolidated statement of income for the periods indicated *(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)		
	2017	2016	Location	2017	2016	Location	2017	2016
Three Months Ended June 30,								
Interest rate swaps	$ -	$ -	Interest expense	$ (177)	$ (460)	Interest expense	$ -	$ -
Six Months Ended June 30,								
Interest rate swaps	$ -	$ -	Interest expense	$ (590)	$ (960)	Interest expense	$ -	$ -

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, 2017, United had four interest rate swaps with a notional amount of $40.7 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, 2017, United had one interest rate swap with a notional value 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 December 31, 2016, United had one interest rate swap with an aggregate notional amount of $12.8 million that was designated as a fair value hedge of interest rate risk and was pay-variable / receive-fixed, hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates. Also at December 31, 2016, United had one interest rate swap with a notional value 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.

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, 2017, United recognized net losses of $327,000 and $452,000, respectively, related to ineffectiveness in the fair value hedging relationships. During the three and six months ended June 30, 2016, United recognized net gains of $216,000 and $854,000, respectively, related to ineffectiveness in the fair value hedging relationships. United also recognized net reductions of interest expense of $65,000 and $97,000, respectively, for the three and six months ended June 30, 2017 and net reductions of interest expense of $448,000 and $1.24 million, respectively, for the three and six months ended June 30, 2016 related to 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, 2017 of $80,000 and $173,000, respectively, and reductions of interest revenue on securities during the three and six months ended June 30, 2016 of $117,000 and $246,000, respectively, related to fair value hedges of corporate bonds.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The table below presents the effect of derivatives in fair value hedging relationships on the consolidated statement of income for the periods indicated *(in thousands)*.

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative 2017	2016	Amount of Gain (Loss) Recognized in Income on Hedged Item 2017	2016
Three Months Ended June 30,					
Fair value hedges of brokered CDs	Interest expense	$ 73	$ 720	$ (344)	$ (413)
Fair value hedges of corporate bonds	Interest revenue	(323)	(793)	267	702
		$ (250)	$ (73)	$ (77)	$ 289
Six Months Ended June 30,					
Fair value hedges of brokered CDs	Interest expense	$ (201)	$ 3,271	$ (155)	$ (2,213)
Fair value hedges of corporate bonds	Interest revenue	(217)	(2,407)	121	2,203
		$ (418)	$ 864	$ (34)	$ (10)

In certain cases, the estate of deceased brokered certificate of deposit holders may put the certificate of deposit back to United 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.

<u>Derivatives Not Designated as Hedging Instruments under ASC 815</u>

The table below presents the gains and losses recognized in income on derivatives not designated as hedging instruments under ASC 815 for the periods indicated *(in thousands)*.

Location of Gain