UNITED COMMUNITY BANKS INC
Form 10-K
February 27, 2015

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

Commission File Number 001-35095

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

Georgia	58-1807304
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
125 Highway 515 East, Blairsville, Georgia	30512
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (706) 781-2265

Securities registered pursuant to Section 12(b) of the Act: None

Name of exchange on which registered: Nasdaq Global Select

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Sections 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $970,205,714 (based on shares held by non-affiliates at $16.37 per share, the closing stock price on the Nasdaq stock market on June 30, 2014).

As of January 31, 2015, 60,295,768 shares of common stock were issued and outstanding including 50,214,981 voting shares and 10,080,787 non-voting shares. Also outstanding were presently exercisable options to acquire 296,470 shares, presently exercisable warrants to acquire 219,909 shares and 397,251 shares issuable under United Community Banks, Inc.'s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated herein into Part III by reference.

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PART I

ITEM 1. BUSINESS.

United Community Banks, Inc. (“United”), a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, Blairsville, Georgia, now known as United Community Bank, Blairsville, Georgia (the “Bank”).

Since the early 1990’s, United has actively expanded its market coverage through organic growth complemented by selective acquisitions, primarily of banks whose managements share United’s community banking and customer service philosophies. Although those acquisitions have directly contributed to United’s growth, their contribution has primarily been to provide United access to new markets with attractive organic growth potential. Organic growth in assets includes growth through existing offices as well as growth at de novo locations and post-acquisition growth at acquired banking offices.

To emphasize its commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of separate “community banks”, which as of December 31, 2014, operated at 103 locations throughout north Georgia, the Atlanta-Sandy Springs-Roswell, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina, east and central Tennessee and the Greenville-Anderson-Mauldin, South Carolina metropolitan statistical area. In 2012, United expanded into Greenville, South Carolina by opening a loan production office which has subsequently been converted to a full-service branch. The community banks offer a full range of retail and corporate banking services, including checking, savings and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services and other financial services, and are led by local bank presidents (referred to herein as the “Community Bank Presidents”) and management with significant experience in, and ties to, their communities. Each of the Community Bank Presidents has authority, alone or with other local officers, to make most credit decisions.

The Bank, through its full-service retail mortgage lending division, United Community Mortgage Services (“UCMS”), is approved as a seller/servicer for the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and provides fixed and adjustable-rate home mortgages. During 2014, the Bank originated $276 million of residential mortgage loans throughout its footprint in Georgia, North Carolina, Tennessee and South Carolina for the purchase of homes and to refinance existing mortgage debt. Substantially all of these mortgages were sold into the secondary market without recourse to the Bank, other than for breaches of warranties.

The Bank owns an insurance agency, United Community Insurance Services, Inc. (“UCIS”), known as United Community Advisory Services, which is a subsidiary of the Bank. United also owns a captive insurance subsidiary, United Community Risk Management Services, Inc. (“UCRMSI”) that provides risk management services for United’s subsidiaries. Another Bank subsidiary, United Community Payment Systems, LLC, provides payment processing services for the Bank’s customers.

United produces fee revenue through its sale of non-deposit investment products. Those products are sold by employees of United that are licensed financial advisors doing business as United Community Advisory Services. United has an affiliation with a third party broker/dealer, Invest Financial, to facilitate this line of business.

Recent Developments

On January 27, 2015, United announced that it had entered into a definitive merger agreement to acquire MoneyTree Corporation ("MoneyTree") and its wholly-owned bank subsidiary, First National Bank ("FNB"). MoneyTree and FNB are headquartered in Lenoir City, Tennessee and FNB currently operates 10 branches in east Tennessee. At December 31, 2014, FNB had $425 million in assets, $354 million in deposits and $253 million in loans. The resulting combination will enhance both United's position in key growth markets in east Tennessee and its ability to offer expanded banking products to FNB's customer base.

Under the terms of the merger agreement, MoneyTree shareholders will receive merger consideration consisting of 80 percent common stock of United and 20 percent cash in the aggregate, with a fixed exchange ratio that is valued at approximately $52 million based on United's January 27, 2015 closing price of $17.65 per share. Completion of the transaction is subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of MoneyTree's shareholders. The transaction is expected to close in the second quarter of 2015.

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Securities Act'), and Section 21E of the Securities Exchange Act of 1934, (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" or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the 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-K.

Monetary Policy and Economic Conditions

United's profitability depends to a substantial extent on the difference between interest revenue received from loans, investments, and other earning assets, and the interest paid on deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of United, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits.

Competition

The market for banking and bank-related services is highly competitive. United actively competes in its market areas, which include north Georgia, the Atlanta-Sandy Springs-Roswell, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina, east and central Tennessee and the Greenville-Anderson-Mauldin, South Carolina metropolitan statistical area, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies, and brokerage firms.

The table on the following page displays the respective percentage of total bank and thrift deposits for the last five years in each county where the Bank has deposit operations. The table also indicates the Bank's ranking by deposit size in each county. All information in the table was obtained from the Federal Deposit Insurance Corporation Summary of Deposits as of June 30 of each year. The following information only shows market share in deposit gathering, which may not be indicative of market presence in other areas.

Share of Local Deposit Markets by County - Banks and Savings Institutions

	Market Share					Rank in Market				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
Atlanta, Georgia MSA										
Bartow	11%	11 %	9 %	12 %	9 %	3	3	4	3	4
Carroll	7	7	6	6	5	5	5	6	6	7
Cherokee	5	4	5	4	4	9	9	9	9	9
Cobb	3	3	3	3	3	12	11	10	10	10
Coweta	2	2	2	2	2	10	11	10	10	10
Dawson	34	36	36	36	30	1	1	1	1	1
DeKalb	1	1	1	1	1	16	18	18	21	21
Douglas	2	2	2	2	1	11	12	12	11	13
Fayette	7	7	7	8	9	6	5	6	5	4
Forsyth	8	7	6	3	2	4	6	7	11	13
Fulton	1	1	1	1	1	21	20	20	20	18
Gwinnett	3	3	3	3	3	7	7	8	7	8
Henry	7	6	5	4	4	6	6	7	7	9
Newton	3	3	3	3	3	8	8	8	8	8
Paulding	4	4	5	5	3	9	9	6	7	8
Pickens	7	6	4	3	2	4	5	6	7	7
Rockdale	9	12	12	12	12	6	4	4	4	4
Walton	1	2	1	2	1	10	10	10	10	10
Gainesville, Georgia MSA										
Hall	12	12	12	14	14	4	4	5	3	3
North Georgia										
Chattooga	44	43	40	40	39	1	1	1	1	1
Fannin	55	50	49	52	49	1	1	1	1	1
Floyd	15	15	16	16	14	3	4	2	1	3
Gilmer	27	26	25	25	15	2	2	2	2	2
Habersham	22	23	22	20	16	2	2	2	2	3
Jackson	8	7	6	6	5	6	7	6	7	8
Lumpkin	29	29	29	29	28	2	2	2	2	2
Rabun	15	14	13	12	11	3	3	3	5	5
Towns	53	50	48	41	37	1	1	2	2	2
Union	84	84	83	84	86	1	1	1	1	1
White	47	48	44	46	43	1	1	1	1	1
Tennessee										
Blount	1	1	1	2	2	14	12	11	11	11
Bradley	5	5	5	5	5	8	7	7	7	7
Knox	1	1	1	1	1	27	30	26	23	25
Loudon	15	15	13	14	14	3	3	3	3	3
McMinn	-	-	3	2	2	-	-	9	9	9
Monroe	3	3	4	4	3	8	8	7	7	8
Roane	9	9	8	8	8	6	5	6	6	6
Coastal Georgia										
Chatham	2	2	1	1	1	9	9	10	10	10

Glynn	14	12	12	18	15	2	2	3	2	3
Ware	4	3	3	4	4	9	9	9	9	8
North Carolina										
Avery	15	16	16	18	17	4	4	2	1	1
Cherokee	35	35	35	29	29	1	1	1	1	1
Clay	44	44	45	48	49	1	1	1	1	1
Graham	75	71	71	72	72	1	1	1	1	1
Haywood	10	11	10	10	11	6	6	5	5	5
Henderson	3	3	3	3	3	10	10	11	11	11
Jackson	30	28	25	25	25	1	1	1	1	1
Macon	6	7	8	8	8	6	5	5	6	5
Mitchell	36	34	36	37	34	1	1	1	1	1
Swain	15	17	21	25	30	2	2	2	2	2
Transylvania	16	14	15	14	13	3	3	3	3	4
Watauga	2	2	2	1	1	11	11	12	12	11
Yancey	19	20	18	20	19	3	2	2	2	2
South Carolina										
Greenville	1	-	-	-	-	27	-	-	-	-

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Loans

The Bank makes both secured and unsecured loans to individuals, and businesses. Secured loans include first and second real estate mortgage loans and commercial loans secured by non-real estate assets. The Bank also makes direct installment loans to consumers on both a secured and unsecured basis.

Specific risk elements associated with the Bank's lending categories include, but are not limited to:

Loan Type	Percentage of Portfolio	Risk Elements
Commercial Real Estate - owner occupied	24.9%	General economic conditions; consumer spending; effect of rising interest rates; market's loosening of credit underwriting standards and structures; and business confidence.
Commercial Real Estate - income producing	12.8%	Effect of rising interest rates, supply and demand of property type; consumer sentiment; business confidence; effect of financial markets, general economic conditions in the U.S and abroad and recovery of operating fundamentals.
Commercial and industrial	15.2%	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and other non-real estate assets); use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payments; declines in general economic conditions.
Commercial construction	4.2%	Effect of rising interest rates; changes in market demand for property, recovery of operating fundamentals, market's loosening of credit underwriting standards and structures, and fluctuations in both the debt and equity markets.
Residential mortgage	18.5%	Loan portfolio concentrations; changes in general economic conditions or in the local economy; loss of borrower's employment; insufficient collateral value due to decline in property value.
Home equity lines of credit	10.0%	Unemployment and underemployment levels; rise in interest rates; household income growth; declining home values reducing the amount of equity; lines of credit nearing their "end-of-draw" period.
Residential construction	6.4%	Inadequate long-term financing arrangements; inventory levels; cost overruns, changes in market demand for property; rising interest rates.
Consumer installment	2.2%	Consumer sentiment; elevated umemployment and underemployment in many of our local markets; household income stagnation; and increases in consumer prices.
Indirect Auto	5.7%	Consumer sentiment; unemployment and underemployment levels; rise in interest rates; increases in consumer prices; decline in houseload income

and loosening of credit structures.

Lending Policy

The Bank makes loans primarily to persons or businesses that reside, work, own property, or operate in its primary market areas, except for specific specialized lending strategies such as Small Business Administration ("SBA") and franchise lending. Unsecured loans are generally made only to persons who qualify for such credit based on their credit history, net worth, income and liquidity. Secured loans are made to persons who are well established and have the credit history, net worth, collateral, and cash flow to support the loan. Exceptions to the Bank's policies are permitted on a case-by-case basis. Major policy exceptions require an approving officer to document the reason for the exception. Loans exceeding a lending officer's credit limit must be approved through a credit approval process involving Regional Credit Managers. Consumer loans are approved through centralized consumer credit centers.

United's Credit Administration department provides each lending officer with written guidelines for lending activities as approved by the Bank's Board of Directors. Limited lending authority is delegated to lending officers by Credit Administration as authorized by the Bank's Board of Directors. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by Credit Administration as authorized by the Bank's Board of Directors. The Senior Credit Committee approves loans where the total relationship exposure exceeds $8.5 million. At December 31, 2014, the Bank's secured legal lending limit was $202 million; however, the Board of Directors has established an internal lending limit of $25 million. All loans to borrowers for any individual real estate project that exceeds $15 million or whose total aggregate borrowing relationship exceed $20 million require the approval of two Bank directors and must be reported quarterly to the Bank's Board of Directors for ratification.

Commercial Lending

United utilizes its Regional Credit Managers to provide credit administration support for commercial loans to the Bank as needed. The Regional Credit Managers have lending authority set by Credit Administration based on characteristics of the markets they serve. The Regional Credit Managers also provide credit underwriting support as needed by the community banks they serve.

Consumer Credit Center

United has implemented a centralized consumer credit center that provides underwriting, regulatory disclosure and document preparation for all consumer loan requests originated by the bank's market lenders. Requests are processed through an automated loan origination software platform. Underwriters are involved with credit decisions at certain levels and with certain products.

Loan Review and Nonperforming Assets

United's Loan Review Department reviews, or engages an independent third party to review, the Bank's loan portfolio on an ongoing basis to identify any weaknesses in the portfolio and to assess the general quality of credit underwriting. The results of such reviews are presented to Executive Management, the Community Bank Presidents, Credit Administration Management and the Risk Committee of the Board of Directors. If an individual loan or credit relationship has a material weakness identified during the review process, the risk rating of the loan, or generally all loans comprising that credit relationship, will be downgraded to the classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, source of repayment and guarantors, different loans in a relationship can be assigned different risk ratings. United adopted a dual risk rating system for commercial loans whereby risk is defined at the obligor level and the facility level. The obligor risk rating assigns a rating based on qualitative and quantitative metrics that measure the financial viability of the borrower which is an estimate of the probability that the borrower will default. The facility risk rating considers the loss protection provided by assigned collateral factoring in control and the loan-to-value ratio. This rating estimates the probability of loss once the borrower has defaulted.

Under United's 10-tier loan grading system for commercial loans, grades 1 through 6 are considered "pass" (acceptable) credit risk, grade 7 is a "watch" rating, and grades 8 through 10 are "adversely classified" credits that require management's attention. The entire 10-grade rating scale provides for a higher numeric rating for increased risk. For example, a risk rating of 1 is the least risky of all credits and would be typical of a loan that is 100% secured by a deposit at the Bank. Risk ratings of 2 through 6 in the pass category each have incrementally more risk. The four watch list credit ratings and rating definitions are:

7 (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.
8 (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.

9 (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.
10 (Loss)	Loans categorized as Loss have the same characteristics as Doubtful, however, loss is certain. Loans classified as Loss are charged-off.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Consumer loans are part of a pass / fail grading system designed to segment loans based upon the risk of default resulting in a loss to the Bank. Specifically, a failed credit will be a loan that has a high probability of default within the next twelve months with the default expected to result in a loss to the Bank.

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In addition, Credit Administration, with supervision and input from the Accounting Department, prepares a quarterly analysis to determine the adequacy of the Allowance for Credit Losses ("ACL"). The ACL is comprised of the allowance for loan losses and the allowance for unfunded commitments. The allowance for loan losses analysis starts with total loans and subtracts loans fully secured by deposit accounts at the Bank and the portion of loans guaranteed by the United States Small Business Administration ("SBA") or United States Department of Agriculture ("USDA"), which effectively have no risk of loss. Next, all loans that are considered individually impaired are reviewed and assigned a specific reserve if one is warranted. Most collateral dependent impaired loans with specific reserves are charged down to net realizable value of the underlying collateral. The remaining loan balance for each major loan category is then multiplied by its respective estimated loss factor that is derived from the weighted average historical loss rate for the preceding two year period, weighted toward the most recent quarters, and adjusted to reflect current economic conditions. Loss factors for these loans are estimated and determined based on historical loss experience by type of loan. United multiplies the annualized loss factor by the calculated loss emergence period in order to quantify the amount of incurred losses in the loan portfolio. The loss emergence period is determined for each category of loans based on the average length of time between when a loan first becomes more than 30 days past due and when that loan is ultimately charged off. Management's use of the loss emergence period is an estimate of the period of time from the first evidence of loss incurrence through the period of time until such losses are confirmed (or charged-off). Previously, United reported an unallocated portion of the allowance which was maintained due to imprecision in estimating loss factors and loss emergence periods, and economic and other conditions that cannot be entirely quantified in the analysis. With the incorporation of the loss emergence period into United's allowance methodology in the first quarter of 2014, the previously unallocated balance has been allocated to other components of the allowance for loan losses.

Asset/Liability Committee

United's Asset Liability Management Committee ("ALCO") is composed of executive and other officers and the Treasurer of United. ALCO is charged with managing the assets and liabilities of United and the Bank. ALCO's primary role is to balance asset growth and income generation with the prudent management of interest rate risk, market risk and liquidity risk and with the need to maintain appropriate levels of capital. ALCO directs the Bank's overall balance sheet strategy, including the acquisition and investment of funds. At regular meetings, the committee reviews the interest rate sensitivity and liquidity positions, including stress scenarios, the net interest margin, the investment portfolio, the funding mix and other variables, such as regulatory changes, monetary policy adjustments and the overall state of the economy. A more comprehensive discussion of United's asset/liability management and interest rate risk is contained in the Management's Discussion and Analysis (Part II, Item 7) and Quantitative and Qualitative Disclosures About Market Risk (Part II, Item 7A) sections of this report.

Investment Policy

United's investment portfolio policy is to balance income generation with liquidity, interest rate sensitivity, pledging and regulatory needs. The Chief Financial Officer and the Treasurer of United administer the policy, and it is reviewed from time to time by United's ALCO and the Board of Directors. Portfolio activity, composition, and performance are reviewed and approved periodically by United's Board of Directors and Risk Committee thereof.

Employees

As of December 31, 2014, United and its subsidiaries had 1,506 full-time equivalent employees. Neither United nor any of its subsidiaries are a party to any collective bargaining agreement and management believes that employee relations are good.

Available Information

United's Internet website address is www.ucbi.com. United makes available free of charge through its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

Supervision and Regulation

The following is an explanation of the supervision and regulation of United and the Bank as financial institutions. This explanation does not purport to describe state, federal or Nasdaq Stock Market supervision and regulation of general business corporations or Nasdaq listed companies.

General. United is a registered bank holding company subject to regulation by the Federal Reserve under the BHC Act. United is required to file annual and quarterly financial information with the Federal Reserve and is subject to periodic examination by the Federal Reserve.

The BHC Act requires every bank holding company to obtain the Federal Reserve's prior approval before (1) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities listed in the BHC Act or found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are:

making or servicing loans and certain types of leases;
performing certain data processing services;
acting as fiduciary or investment or financial advisor;
providing brokerage services;
underwriting bank eligible securities;
underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and
making investments in corporations or projects designed primarily to promote community welfare.

Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act (the "GLB Act") relaxed the previous limitations and permitted bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies which may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Among the activities that are deemed "financial in nature" include:

lending, exchanging, transferring, investing for others or safeguarding money or securities;
insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;
providing financial, investment, or economic advisory services, including advising an investment company;
issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and
underwriting, dealing in or making a market in securities.

A bank holding company may become a financial holding company under this statute only if each of its subsidiary banks is well-capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. Any bank holding company that does not elect to become a financial holding company remains subject to the bank holding company restrictions of the BHC Act.

Under this legislation, the Federal Reserve serves as the primary "umbrella" regulator of financial holding companies with supervisory authority over each parent company and limited authority over its subsidiaries. The primary regulator of each subsidiary of a financial holding company will depend on the type of activity conducted by the subsidiary. For example, broker-dealer subsidiaries will be regulated largely by securities regulators and insurance subsidiaries will be regulated largely by insurance authorities.

United has no current plans to register as a financial holding company.

United must also register with the Georgia Department of Banking and Finance (the "DBF") and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationship of United and the Bank and related matters. The DBF may also require such other information as is necessary to keep itself informed concerning compliance with Georgia law and the regulations and orders issued thereunder by the DBF, and the DBF may examine United and the Bank. Although the Bank operates branches in North Carolina, east and central Tennessee and Greenville, South Carolina; neither the North Carolina Banking Commission, the Tennessee Department of Financial Institutions, nor the South Carolina Commissioner of Banking examines or directly regulates out-of-state holding companies.

United is an "affiliate" of the Bank under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Bank to United, (2) investments in the stock or securities of United by the Bank, (3) the Bank taking the stock or securities of an "affiliate" as collateral for loans by the Bank to a borrower, and (4) the purchase of assets from United by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank and each of its subsidiaries are regularly examined by the FDIC. The Bank, as a state banking association organized under Georgia law, is subject to the supervision of, and is regularly examined by, the DBF. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving the Bank.

Payment of Dividends. United is a legal entity separate and distinct from the Bank. Most of the revenue of United results from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by United to its shareholders.

Under the regulations of the DBF, a state bank with negative retained earnings may declare dividends by first obtaining the written permission of the DBF. If a state bank has positive retained earnings, it may declare a dividend without DBF approval if it meets all the following requirements:

(a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);

(b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and
(c) the ratio of equity capital to adjusted assets is not less than 6%.

The payment of dividends by United and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank.

Under rules adopted by the Federal Reserve in November 2011, known as the Comprehensive Capital Analysis and Review ("CCAR") Rules, bank holding companies with $50 billion or more of total assets are required to submit annual capital plans to the Federal Reserve and generally may pay dividends and repurchase stock only under a capital plan as to which the Federal Reserve has not objected. The CCAR rules will not apply to United for so long as our total consolidated assets remain below $50 billion. However, it is anticipated that United capital ratios will be important factors considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practices.

Due to our accumulated deficit (negative retained earnings), the Bank must receive pre-approval from the DBF and FDIC to pay cash dividends to United in 2015. In 2014 and 2013, the Bank paid a cash dividend of $129 million and $50.0 million, respectively, to United as approved the DBF and FDIC. No dividends were paid by the Bank to United in 2012. United declared cash dividends on its common stock in 2014 of eleven cents but did not declare any dividends in its common stock in 2013 or 2012.

Capital Adequacy. Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of total capital to risk-weighted assets of 8%; and (2) a minimum ratio of Tier 1 capital to risk-weighted assets of 4%. In addition, the Federal Reserve and the FDIC have established a minimum 3% leverage ratio of Tier 1 capital to quarterly average total assets for the most highly-rated banks and bank holding companies. "Total capital" is composed of Tier 1 capital and Tier 2 capital. "Tier 1 capital" includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets. "Tier 2 capital" includes, among other things, perpetual preferred stock and related surplus not meeting the Tier 1 capital definition, qualifying mandatorily convertible debt securities, qualifying subordinated debt and allowances for possible loan and lease losses, subject to limitations. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The Federal Reserve will require a bank holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The FDIC, the Office of the Comptroller of the Currency (the "OCC") and the Federal Reserve require banks to maintain capital well above minimum levels

In addition, Section 38 of the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "1991 Act"). The "prompt corrective action" provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank's financial condition declines. The FDIC is required to resolve a bank when its ratio of tangible equity to total assets reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a "well-capitalized" institution has a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an "adequately capitalized" institution has a Total risk-based capital ratio of at least 8%, a Tier 1 risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an "undercapitalized" institution has a Total risk-based capital ratio of under 8%, a Tier 1 risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a "significantly undercapitalized" institution has a Total risk-based capital ratio of under 6%, a Tier 1 risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a "critically undercapitalized" institution has a ratio of tangible equity to total assets of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also allow it to "downgrade" an institution to a lower capital category based on supervisory factors other than capital.

As of December 31, 2014, the FDIC categorized the Bank as “well-capitalized” under current regulations.

In July 2013, the Federal Reserve published the Basel III Capital Rules establishing a new comprehensive capital framework applicable to all depository institutions, bank holding companies with total consolidated assets of $500 million or more and all and savings and loan holding companies except for those that are substantially engaged in insurance underwriting or commercial activities (collectively, “banking organizations”). The rules implement the December 2010 framework proposed by the Basel Committee on Banking Supervision (the “Basel Committee”), known as “Basel III”, for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules substantially revise the foregoing risk-based capital requirements applicable to bank holding companies and depository institutions, including United and the Bank, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules:

define the components of capital and address other issues affecting the numerator in banking institutions’ regulatory capital ratios;
address risk weights and other issues affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee’s 2004 “Basel II” capital accords;
introduce a new capital measure called “common equity Tier 1” (“CET1”);
specify that Tier 1 capital consists of CET1 and “additional Tier 1 capital” instruments meeting specified requirements; and
implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies’ rules.

The Basel III Capital Rules became effective for United and the Bank on January 1, 2015 subject to a phase in period.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require United and the Bank to maintain;

a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation);
a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);
a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and
a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority’s risk-adjusted measure for market risk).

The initial minimum capital ratios as of January 1, 2015 are as follows: (i) 4.5% CET1 to risk-weighted assets, (ii) 6.0% Tier 1 capital to risk-weighted assets, and (iii) 8.0% total capital to risk-weighted assets.

Effective January 1, 2015, the Basel III Capital Rules also revised the FDIC’s current “prompt corrective action” regulations by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8.0% (as compared to the current 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, certain banking organizations, including United and the Bank, may make a one-time permanent election to continue to exclude these items. United and the Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of United’s available-for-sale securities portfolio. The Basel III Capital Rules also eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital of bank holding companies. Instruments issued prior to May 19, 2010 are grandfathered for bank holding companies with consolidated assets of $15 billion or less (subject to the 25% of Tier 1 capital limit).

The "capital conservation buffer" is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Consistent with the Dodd-Frank Act, the Basel III Capital Rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250% risk weight. In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

Management believes that, as of December 31, 2014, United and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements were currently in effect.

Consumer Protection Laws. The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau ("CFPB"), and giving it the power to promulgate and enforce federal consumer protection laws. Depository institutions are subject to the CFPB's rule writing authority, and existing federal bank regulatory agencies retain examination and enforcement authority for such institutions. The CFPB and United's existing federal regulator, the FDIC, are focused on the following:

- risks to consumers and compliance with the federal consumer financial laws;
- the markets in which firms operate and risks to consumers posed by activities in those markets;
- depository institutions that offer a wide variety of consumer financial products and services;
- depository institutions with a more specialized focus; and
- non-depository companies that offer one or more consumer financial products or services.

Stress Testing. As required by the Dodd-Frank Act, the federal bank regulatory agencies have implemented stress testing requirements for certain financial institutions, including bank holding companies and state chartered banks, with more than $10 billion in total consolidated assets. Although these requirements do not apply to institutions with $10 billion or less in total consolidated assets, the federal bank regulatory agencies emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential impact of adverse market conditions or outcomes on the organization's financial condition. Based on this regulatory guidance, United and the Bank will be expected to consider the institution's interest rate risk management, commercial real estate concentrations and other credit-related information, and funding and liquidity management during this analysis of adverse outcomes.

Volcker Rule. The Dodd-Frank Act amended the BHC Act to require the federal bank regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule". The Federal Reserve adopted final rules implementing the Volcker Rule on December 10, 2013. Although United continues to evaluate the impact of the Volcker Rule and the final rules adopted by the Federal Reserve thereunder, United does not currently anticipate that the Volcker Rule will have a material effect on its operations and the operations of its subsidiaries, including the Bank, as United does not engage in businesses prohibited by the Volcker Rule. United may incur costs to adopt additional policies and systems to ensure compliance with the Volcker Rule.

Durbin Amendment. The Dodd-Frank Act included provisions which restrict interchange fees to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. This statutory provision is known as the "Durbin Amendment". The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rules, interchange fees for debit card transactions were capped at $0.21 plus five basis points in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. Another related rule also permits an additional $0.01 per transaction "fraud prevention adjustment" to the interchange fee if certain Federal Reserve standards are implemented, including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, only apply to debit card issuers with $10 billion or more in total consolidated assets.

Incentive Compensation. The federal bank regulatory agencies have issued guidance on incentive compensation policies (the "Incentive Compensation Guidance") intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the institution's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of financial institutions, such as United, that are not "large, complex banking organizations." These reviews will be tailored to each financial institution based on the scope and complexity of the institution's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the financial institution's supervisory ratings, which can affect the institution's ability to make acquisitions and take other actions. Enforcement actions may be taken against a financial institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the institution's safety and soundness and the institution is not taking prompt and effective measures to correct the deficiencies.

The federal bank regulatory agencies have proposed rule-making implementing provisions of the Dodd-Frank Act to prohibit incentive-based compensation plans that expose "covered financial institutions" to inappropriate risks. Covered financial institutions are institutions that have over $1 billion in assets and offer incentive-based compensation programs. The proposed rules would:

- provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks,
- be compatible with effective internal controls and risk management, and
- be supported by strong corporate governance, including active and effective oversight by the organization's board of directors and appropriate policies, procedures and monitoring.

The scope and content of federal bank regulatory agencies' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect United's ability to hire, retain and motivate its key employees.

Commercial Real Estate. The federal bank regulatory agencies, including the FDIC, restrict concentrations in commercial real estate lending and have noted that recent increases in banks' commercial real estate concentrations have created safety and soundness concerns in the current economic downturn. The regulatory guidance mandates certain minimal risk management practices and categorizes banks with defined levels of such concentrations as banks requiring elevated examiner scrutiny. The Bank has concentrations in commercial real estate loans in excess of those defined levels. Although management believes that United's credit processes and procedures meet the risk management standards dictated by this guidance, regulatory outcomes could effectively limit increases in the real estate concentrations in the Bank's loan portfolio and require additional credit administration and management costs associated with those portfolios.

Source of Strength Doctrine. Federal Reserve regulations and policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, United is expected to commit resources to support the Bank.

Loans. Inter-agency guidelines adopted by federal bank regulatory agencies mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital.

Transactions with Affiliates. Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Generally, these requirements limit these transactions to a percentage of the bank's capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

Financial Privacy. In accordance with the GLB Act, federal banking regulatory agencies adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating terrorist financing. This has generally been accomplished by amending existing anti-money laundering laws and regulations. Treasury has issued a number of implementing regulations which apply various requirements of the USA Patriot Act of 2001 to the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Future Legislation. Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of United and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of United or any of its subsidiaries. With the current economic environment, the nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

Executive Officers of United

Senior executives of United are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors.

The senior executive officers of United, and their ages, positions with United, past five year employment history and terms of office as of February 1, 2015, are as follows:

Name (age)	Position with United and Employment History	Officer of United Since
Jimmy C. Tallent (62)	Chairman and Chief Executive Officer (2015); President, Chief Executive Officer and Director (1988 - 2015)	1988
H. Lynn Harton (53)	President and Chief Operating Officer and Director (2015); Executive Vice President and Chief Operating Officer (2012 - 2015); prior to joining United was Executive Vice President and Special Assistant to the Chief Executive Officer of Toronto-Dominion Bank (2010 - 2012); President and Chief Executive Officer (2009 - 2010), Chief Commercial Banking Officer (2008-2009), Chief Risk and Chief Credit Officer (2007 - 2009) of South Financial Group	2012
Rex S. Schuette (65)	Executive Vice President and Chief Financial Officer (2001 - 2015)	2001

Bill M. Gilbert (62)	President, Community Banking (2015); Director of Banking (2013 - 2015); Regional President of North Georgia and Coastal Georgia (2011 - 2013); Senior Vice President of Retail Banking (2003 - 2011)	2000
Bradley J. Miller (44)	Executive Vice President, Chief Risk Officer and General Counsel (2015); Senior Vice President and General Counsel (2007 - 2015)	2007
Robert A. Edwards (50)	Executive Vice President and Chief Credit Officer (2015); prior to joining United was Senior Vice President and Executive Credit Officer of Toronto-Dominion Bank (2010 - 2015); Executive Vice President and Chief Credit Officer of South Financial Group (2008 - 2010)	2015
Richard W. Bradshaw (53)	President, Specialized Lending (2014 - 2015); prior to joining United was Senior Vice President, Head of United States SBA Programs of Toronto-Dominion Bank (2010 - 2014); Executive Vice President, Director of Corporate Financial Services of Carolina First Bank (2009 - 2010)	2014

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with directors or officers of United acting solely in their capacities as such.

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ITEM 1A. RISK FACTORS.

An investment in United's common stock involves risk. Investors should carefully consider the risks described below and all other information contained in this Form 10-K and the documents incorporated by reference before deciding to purchase common stock. It is possible that risks and uncertainties not listed below may arise or become material in the future and affect United's business.

As a financial services company, adverse conditions in the general business or economic environment could have a material adverse effect on our financial condition and results of operations.

Adverse changes in business and economic conditions generally or specifically in the markets in which we operate could adversely impact our business, including causing one or more of the following negative developments:

- a decrease in the demand for loans and other products and services offered by us;
- a decrease in the value of our loans secured by residential or commercial real estate;
- a permanent impairment of our assets, such as our deferred tax assets; or
- an increase in the number of customers or other counterparties who default on their loans or other obligations to us, which could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

For example, if we are unable to continue to generate sufficient taxable income in the future, then we may not be able to fully realize the benefits of our deferred tax assets. Such a development or one or more other negative developments resulting from adverse conditions in the general business or economic environment, some of which are described above, could have a material adverse effect on our financial condition and results of operations.

The results of our most recent internal credit stress test may not accurately predict the impact on our financial condition if the economy were to deteriorate.

We regularly perform an internal analysis of our capital position. Under the stress test, we estimate our loan losses (loan charge-offs), resources available to absorb those losses and any necessary additions to capital that would be required under the "more adverse" stress test scenario.

The results of these stress tests involve many assumptions about the economy and future loan losses and default rates, and may not accurately reflect the impact on our financial condition if the economy were to deteriorate. Any deterioration of the economy could result in credit losses significantly higher, with a corresponding impact on our financial condition and capital, than those predicted by our internal stress test.

Our industry and business may be adversely affected by conditions in the financial markets and economic conditions generally.

In recent years, we have faced a challenging and uncertain economic environment, including a major recession in the U.S. economy. A return of recessionary conditions and/or a deterioration of national economic conditions could adversely affect the financial condition and operating performance of financial institutions. Specifically, declines in real estate values and sales volumes and increased unemployment levels may result in higher than expected loan delinquencies, increases in levels of non-performing and classified assets and a decline in demand for products and services offered by financial institutions. While economic conditions in the markets in which we operate, the U.S. and worldwide have improved since the recession, there can be no assurance that this improvement will continue. Uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits, which could cause us to incur losses and may adversely affect our results of operations and financial condition.

Our ability to raise additional capital may be limited, which could affect our liquidity and be dilutive to existing shareholders.

We may be required or choose to raise additional capital, including for strategic, regulatory or other reasons. Depending on the capital markets, traditional sources of capital may not be available to us on reasonable terms if we needed to raise additional capital. In such case, there is no guarantee that we will be able to successfully raise additional capital at all or on terms that are favorable or otherwise not dilutive to existing shareholders.

Capital resources and liquidity are essential to our businesses and could be negatively impacted by disruptions in our ability to access other sources of funding.

Capital resources and liquidity are essential to the Bank. We depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include traditional and brokered deposits, inter-bank borrowings, Federal Funds purchased, repurchase agreements and Federal Home Loan Bank advances. We also raise funds from time to time in the form of either short-or long-term borrowings or equity issuances.

Our capital resources and liquidity could be negatively impacted by disruptions in our ability to access these sources of funding. The cost of brokered and other out-of-market deposits and potential future regulatory limits on the interest rate we pay for brokered deposits could make them unattractive sources of funding. Further, factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to access sources of funds. Other financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy generally and there may not be a viable market for raising short or long-term debt or equity capital. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could be developed if we are downgraded or put on (or remain on) negative watch by the rating agencies, we suffer a decline in the level of our business activity or regulatory authorities take significant action against us, among other reasons.

Among other things, if we fail to remain “well-capitalized” for bank regulatory purposes, because we do not qualify under the minimum capital standards or the FDIC otherwise downgrades our capital category, it could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and trust preferred securities, and our ability to make acquisitions, and we would not be able to accept brokered deposits without prior FDIC approval. To be “well-capitalized” under the Basel III Capital Rules that became effective on January 1, 2015, a bank must generally maintain a common equity Tier 1 capital ratio of 6.5%, Tier 1 leverage capital ratio of 5.0%, Tier 1 risk-based capital ratio of 8.0% and total risk-based capital ratio of 10%. In addition, our regulators may require us to maintain higher capital levels. Our failure to remain “well-capitalized” or to maintain any higher capital requirements imposed on us could negatively affect our business, results of operations and financial condition.

If we are unable to raise funds using the methods described above, we would likely need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations and financial condition.

In addition, United is a legal entity separate and distinct from the Bank and depends on subsidiary service fees and dividends from the Bank to fund its payment of dividends to its common and preferred shareholders and of interest and principal on its outstanding debt and trust preferred securities. The Bank is also subject to other laws that authorize regulatory authorities to prohibit or reduce the flow of funds from the Bank to United and the Bank’s negative retained earnings position requires written consent of the Bank’s regulators before it can pay a dividend. Any inability of United to pay its obligations, or need to defer the payment of any such obligations, could have a material adverse effect on our business, operations, financial condition, and the value of our common stock.

Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which we are perceived in such markets, may adversely affect financial condition or results of operations.

In general, the amount, type and cost of our funding, including from other financial institutions, the capital markets and deposits, directly impacts our operating costs and our assets growth and therefore, can positively or negatively affect our financial condition or results of operations. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, our operating losses, our ability to remain "well capitalized," events that adversely impact our reputation, enforcement actions, disruptions in the capital markets, events that adversely impact the financial services industry, changes affecting our assets, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments. Also, we compete for funding with other financial institutions, many of which are substantially larger, and have more capital and other resources than we do. In addition, as some of these competitors consolidate with other financial institutions, their competitive advantages may increase. Competition from these institutions may also increase the cost of funds.

Our business is subject to the success of the local economies and real estate markets in which we operate.

Our success significantly depends on the growth in population, income levels, loans and deposits and on stability in real estate values in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally do not improve significantly, our business may be adversely affected. If market and economic conditions deteriorate, this may lead to valuation adjustments on our loan portfolio and losses on defaulted loans and on the sale of other real estate owned. Additionally, such adverse economic conditions in our market areas, specifically decreases in real estate property values due to the nature of our loan portfolio, more than 80% of which is secured by real estate, could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of more diverse economies.

Our concentration of residential construction and development loans is subject to unique risks that could adversely affect our results of operations and financial condition.

Our residential construction and development loan portfolio was $299 million at December 31, 2014, comprising 6% of total loans. Of this amount, $147 million is secured by developed lots and $65 million is secured by raw land or land in the process of development. Residential construction and development loans are often riskier than home equity loans or residential mortgage loans to individuals. Poor economic conditions could result in decreased demand for residential housing, which, in turn, would adversely affect the development and construction efforts of residential real estate developer borrowers. Consequently, economic downturns adversely affect the ability of residential real estate developer borrowers to repay these loans and the value of property used as collateral for such loans. A sustained weak economy could also result in higher levels of nonperforming loans in other categories, such as commercial and industrial loans, which may result in additional losses. As a result, these loans could represent higher risk due to slower sales and reduced cash flow that affect the borrowers' ability to repay on a timely basis which could result in a sharp increase in our total net charge-offs and require us to significantly increase our allowance for loan losses, any of which could have a material adverse effect on our financial condition or results of operations.

Our concentration of commercial real estate loans is subject to risks that could adversely affect our results of operations and financial condition.

Our commercial real estate loan portfolio was $1.76 billion at December 31, 2014, comprising 38% of total loans. Commercial real estate loans typically involve larger loan balances than compared to residential mortgage loans. The repayment of loans secured by commercial real estate is dependent upon both the successful operation of the commercial project and the business operated out of that commercial real estate site, as over half of the commercial real estate loans are for owner-occupied properties. If the cash flows from the project are reduced or if the borrower's business is not successful, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may be subject to adverse conditions in the real estate market or economy. In addition, many economists believe that the potential for deterioration in income producing commercial real estate may occur through rising vacancy rates or declining absorption rates of existing square footage and/or units. As a result, these loans could represent higher risk due to slower sales and reduced cash flow that affect the borrowers' ability to repay on a timely basis, could result in a sharp increase in our total net charge-offs and could require us to significantly increase our allowance for loan losses, any of which could have a material adverse effect on our financial condition or results of operations.

Changes in prevailing interest rates may negatively affect net income and the value of our assets.

Changes in prevailing interest rates may negatively affect the level of our net interest revenue, the primary component of our net income. Federal Reserve policies, including interest rate policies, determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which affect our net interest revenue. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets. Accordingly, changes in interest rates could decrease net interest revenue. Changes in the interest rates may also negatively affect the value of our assets and our ability to realize gains or avoid losses from the sale of those assets, all of which also ultimately affect earnings. In addition, an increase in interest rates may decrease the demand for loans.

United's reported financial results depend on the accounting and reporting policies of United, the application of which requires significant assumptions, estimates and judgments.

United's accounting and reporting policies are fundamental to the methods by which we record and report our financial condition and results of operations. United's management must make significant assumptions and estimates and exercise significant judgment in selecting and applying many of these accounting and reporting policies so they comply with accounting principles generally accepted in the United States of America ("GAAP") and reflect management's judgment of the most appropriate manner to report United's financial condition and results. In some cases, management must select a policy from two or more alternatives, any of which may be reasonable under the circumstances, which may result in United reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting United's financial condition and results. They require management to make difficult, subjective and complex assumptions, estimates and judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to the allowance for loan losses, fair value measurement, and income taxes. Because of the uncertainty of assumptions and estimates involved in these matters, United may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the reserve provided; significantly decrease the carrying value of loans, foreclosed property or other assets or liabilities to reflect a reduction in their fair value; or, significantly increase or decrease accrued taxes and the value of our deferred tax assets.

If our allowance for credit losses is not sufficient to cover actual loan losses, earnings would decrease.

Our loan customers may not repay their loans according to their terms and the collateral securing the payment of these loans may be insufficient to assure repayment. We may experience significant loan losses which would have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. We maintain an allowance for credit losses in an attempt to cover any probable incurred loan losses in the loan portfolio. In determining the size of the allowance, our management relies on an analysis of the loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and real estate values, trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. As a result of these considerations, we have from time to time increased our allowance for credit losses. For the year ended December 31, 2014, we recorded a provision for credit losses of $8.50 million compared to $65.5 million and $62.5 million for the years ended December 31, 2013 and 2012, respectively. If those assumptions are incorrect, the allowance may not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in the loan portfolio.

We may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers and employees.

When we make loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant’s loan application, property appraisal reports, title information and the borrower’s net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our financial condition or results of operations.

Competition from financial institutions and other financial service providers may adversely affect our profitability.

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with banks, credit unions, savings and loan associations, mortgage banking firms, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as community, super-regional, national and international financial institutions that operate offices in our market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. Many of our competitors are well-established, larger financial institutions that are able to operate profitably with a narrower net interest margin and have a more diverse revenue base. We may face a competitive disadvantage as a result of our smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although we compete by concentrating marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, customer loyalty can be easily influenced by a competitor’s new products and our strategy may or may not continue to be successful. We may also be affected by the marketplace loosening of credit underwriting standards and structures.

We may face risks with respect to future expansion and acquisitions.

We may engage in de novo branch expansion and, if the appropriate business opportunity becomes available, we may seek to acquire other financial institutions or parts of those institutions, including in FDIC-assisted transactions. These involve a number of risks, including:

the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to an acquired branch or institution, a new branch office or a new market;
the time and costs of evaluating new markets, hiring or retaining experienced local management and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on results of operations;
the loss of key employees and customers of an acquired branch or institution;
the difficulty or failure to successfully integrate the acquired financial institution or portion of the institution; and
the temporary disruption of our business or the business of the acquired institution.

Changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our financial condition and results of operations.

We and our subsidiary bank are heavily regulated by federal and state authorities. This regulation is designed primarily to protect depositors, federal deposit insurance funds and the banking system as a whole, but not shareholders. Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. Any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

Federal and state regulators have the ability to impose or request that we consent to substantial sanctions, restrictions and requirements on our banking and nonbanking subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors' resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. In particular, institutions that are not sufficiently capitalized in accordance with regulatory standards may also face capital directives or prompt corrective action. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Enforcement actions, including the imposition of monetary penalties, may have a material impact on our financial condition or results of operations, and damage to our reputation, and loss of our holding company status. In addition, compliance with any such action could distract management's attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital. Closure of the Bank would result in a total loss of your investment.

The short-term and long-term impact of the changing regulatory capital requirements is uncertain.

In July 2013, the Federal Reserve published the Basel III Capital Rules, which substantially changed the regulatory risk-based capital rules applicable to United and the Bank. The Basel III Capital Rules include new minimum risk-based capital and leverage ratios, which are being phased in beginning January 1, 2015, and modify the capital and asset definitions for purposes of calculating those ratios. Among other things, as of January 1, 2015, the Basel III Capital Rules establish a new common equity Tier 1 minimum capital requirement of 4.5%, a higher minimum Tier 1capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0%. In addition, the Basel III Capital Rules provide, to be considered "well-capitalized", a new common equity Tier 1 capital requirement of 6.5% and a higher Tier 1capital to risk-weighted assets requirement of 8.0% that became fully effective as of January 1, 2015. Moreover, the Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of an additional 2.5% of common equity Tier 1 capital in addition to the 4.5% minimum common equity Tier 1 requirement and the other amounts necessary to the minimum risk-based capital requirements that will be phased in and fully effective in 2019.

The application of the more stringent capital requirements described above could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in additional regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements under the Basel III Capital Rules could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in us modifying our business strategy and could limit our ability to pay dividends.

Our ability to fully utilize deferred tax assets could be impaired.

We reported a net deferred tax asset of $216 million as of December 31, 2014, which includes approximately $181 million of deferred tax benefits related to federal and state operating loss carry-forwards. Our ability to use such assets, including the reversal or partial release of the valuation allowance, is dependent on our ability to generate future earnings within the operating loss carry-forward periods, which are generally 20 years. If we do not realize taxable earnings within the carry-forward periods, our deferred tax asset would be permanently impaired.

Additionally, our ability to use such assets to offset future tax liabilities could be permanently impaired if cumulative common stock transactions over a rolling three-year period resulted in an ownership change under Section 382 of the Internal Revenue Code. There is no guarantee that our tax benefits preservation plan will prevent us from experiencing an ownership change under Section 382. Our inability to utilize these deferred tax assets (benefits) would have a material adverse effect on our financial condition and results of operations.

We could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. Any change in enacted tax laws, rules or regulatory or judicial interpretations, any adverse outcome in connection with tax audits in any jurisdiction or any change in the pronouncements relating to accounting for income taxes could adversely affect our effective tax rate, tax payments and results of operations. In addition, changes in enacted tax laws, such as adoption of a lower income tax rate in any of the jurisdictions in which we operate, could impact our ability to obtain the future tax benefits represented by our deferred tax assets.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure we use, including our Internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the Internet or users. Such problems could jeopardize the security of our customers personal information and other information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, or inhibit current and potential customers from our Internet banking services, any of all of which could have a material adverse effect on our results of operations and financial condition. Although we have security measures designed to mitigate the possibility of break-ins, breaches and other disruptive problems, including firewalls and penetration testing, there can be no assurance that such security measures will be effective in preventing such problems.

Our lack of geographic diversification increases our risk profile.

Our operations are located principally in Georgia, western North Carolina, east Tennessee and western South Carolina. As a result of this geographic concentration, our results depend largely upon economic and business conditions in this area. Deterioration in economic and business conditions in our service area could have a material adverse impact on the quality of our loan portfolio and the demand for our products and services, which in turn may have a material adverse effect on our results of operations.

Our interest-only home equity lines of credit expose us to increased lending risk.

At December 31, 2014, we had $466 million of home equity line of credit loans, which represented 10% of our loan portfolio as of that date. Historically, United's home equity lines of credit generally had a 35 month or 10 year draw period with interest-only payment requirements for the term of the loan, a balloon payment requirement at the end of the draw period. Since June 2012, new home equity lines of credit generally have a 10 year interest only draw period followed by a 15 year amortized repayment period for any outstanding balance at the 10 year conversion date. United continues to offer a home equity line of credit with a 35 month draw period with interest-only payment requirements for the term of the loan with a balloon payment requirement at the end of the draw period. All home equity line of credit products, historically and currently available, have a maximum 80% combined loan to value ratio. Loan to value ratios are established on a case by case basis considering the borrower's credit profile and the collateral type – primary or secondary residence. These loans are also secured by a first or second lien on the underlying home.

In the case of interest-only loans, a borrower's monthly payment is subject to change when the loan converts to fully-amortizing status. Since the borrower's monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, the borrower might not be able to afford the increased monthly payment. In addition, interest-only loans have a large, balloon payment at the end of the loan term, which the borrower may be unable to pay. Also, real estate values may decline, dramatically reducing or even eliminating the borrower's equity, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off their mortgage obligations. The risks can be magnified by United's limited ability to monitor the delinquency status of the first lien on the collateral. For these reasons, home equity lines of credit are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of losses. The Bank mitigates these risks in its underwriting by calculating the fully amortizing principal and interest payment assuming 100% utilization and using that amount to determine the borrower's ability to pay.

We rely on third parties to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

There are no unresolved comments from the SEC staff regarding United's periodic or current reports under the Exchange Act.

ITEM 2. PROPERTIES.

The executive offices of United are located at 125 Highway 515 East, Blairsville, Georgia. United owns this property. The Bank conducts business from facilities primarily owned by the Bank or its subsidiaries, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Bank provides services or performs operational functions at 121 locations, of which 103 are owned and 18 are leased under operating leases. Note 9 to United's consolidated financial statements includes additional information regarding amounts invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of operations, United and the Bank are defendants in various legal proceedings. Additionally, in the ordinary course of business, United and the Bank are subject to regulatory examinations and investigations. Based on our knowledge and advice of counsel, in the opinion of management, there is no such pending or threatened legal matter in which an adverse decision will result in a material adverse change in the consolidated financial condition or results of operations of United. No material proceedings terminated in the fourth quarter of 2014.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR UNITED'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Stock. United's common stock trades on the Nasdaq Global Select Market under the Times New Roman "UCBI". The closing price for the period ended December 31, 2014 was $18.94. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2014 and 2013.

	2014				2013			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$20.28	$15.74	$19.41	494,205	$11.57	$9.59	$11.34	195,803
Second quarter	19.87	14.86	16.37	308,486	12.94	10.15	12.42	184,922
Third quarter	18.42	15.42	16.46	331,109	16.04	12.15	14.99	341,270
Fourth quarter	19.50	15.16	18.94	262,598	18.56	14.82	17.75	421,948

At January 31, 2015, there were 6,636 record shareholders and approximately 15,450 beneficial shareholders of United's common stock.

Dividends. United declared cash dividends of $.11 per share on its common stock in 2014. No cash or stock dividends were declared on United's common stock during 2013. Federal and state laws and regulations impose restrictions on the ability of the Bank to pay dividends to United without prior approvals.

Additional information regarding dividends is included in Note 19 to the consolidated financial statements, under the heading of "Supervision and Regulation" in Part I of this report and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Dividends."

Share Repurchases. United's Amended and Restated 2000 Key Employee Stock Option Plan allows option holders to exercise stock options by delivering previously acquired shares having a fair market value equal to the exercise price provided that the shares delivered must have been held by the option holder for at least six months. In addition, United may withhold a sufficient number of restricted stock shares at the time of vesting to cover payroll tax withholdings at the election of the restricted stock recipient. In 2014 and 2013, 74,644 and 24,374 shares, respectively, were withheld to cover payroll taxes owed at the time of restricted stock vesting. No shares were delivered to exercise stock options in 2014 or 2013.

On December 31, 2013, United redeemed all of its outstanding Series A Preferred Stock in the principal amount of $217,000. The redemption price for shares of the Series A Preferred Stock was the stated value of $10 per share, plus any accrued and unpaid dividends that had been earned thereon through the redemption date. Following the redemption, there are no shares of United's Series A Preferred Stock outstanding.

On December 27, 2013, United redeemed $75 million of its $180 million in outstanding Series B Preferred Stock. The redemption price for shares of the Series B Preferred Stock called for redemption was the stated liquidation value of $1,000 per share, plus any accrued and unpaid dividends that had been earned thereon to, but not including, the redemption date. The remaining $105 million of Unite's Series B Preferred Stock was redeemed on January 10, 2014 on comparable terms.

On March 3, 2014, United redeemed all of its outstanding Series D Preferred Stock in the principal amount of $16.6 million. The redemption price for shares of the Series D Preferred Stock was the stated liquidation value of $1,000 per share, plus any accrued and unpaid dividends that had been earned thereon to, but not including, the redemption date. Following the redemption, there are no shares of United's Series D Preferred Stock outstanding.

In December 2014, United repurchased an outstanding warrant from Fletcher International Ltd for $12.0 million, its estimated fair value.

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Performance Graph. Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United's common stock against the cumulative total return on the Nasdaq Stock Market (U.S. Companies) Index and the Nasdaq Bank Stocks Index for the five-year period commencing December 31, 2009 and ending on December 31, 2014.

	Cumulative Total Return *					
	2009	2010	2011	2012	2013	2014
United Community Banks, Inc.	$100	$58	$41	$56	$105	$112
Nasdaq Stock Market (U.S.) Index	100	117	115	133	184	209
Nasdaq Bank Index	100	112	98	113	158	162

* Assumes $100 invested on December 31, 2009 in United's common stock and above noted indexes. Total return includes reinvestment of dividends at the closing stock price of the common stock on the dividend payment date and the closing values of stock and indexes as of December 31 of each year.

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ITEM 6. SELECTED FINANCIAL DATA.

For the Years Ended December 31

(in thousands, except per share data; taxable equivalent)	2014	2013	2012	2011	2010
INCOME SUMMARY					
Net interest revenue	$224,418	$219,641	$229,758	$238,670	$244,637
Operating provision for credit losses (1)	8,500	65,500	62,500	251,000	234,750
Operating fee revenue	55,554	56,598	56,112	44,907	46,963
Total operating revenue (1)	271,472	210,739	223,370	32,577	56,850
Operating expenses (2)	162,865	174,304	186,774	261,599	242,952
Loss on sale of nonperforming assets	—	—	—	—	45,349
Operating income (loss) from continuing operations before taxes	108,607	36,435	36,596	(229,022)	(231,451)
Operating income taxes	40,987	(236,705)	2,740	(2,276)	73,218
Net operating income (loss) from continuing operations	67,620	273,140	33,856	(226,746)	(304,669)
Noncash goodwill impairment charges	—	—	—	—	(210,590)
Fraud loss provision and subsequent recovery, net of tax benefit	—	—	—	—	11,750
Net income (loss) from discontinued operations	—	—	—	—	(101)
Gain from sale of subsidiary, net of income taxes and selling costs	—	—	—	—	1,266
Net income (loss)	67,620	273,140	33,856	(226,746)	(502,344)
Preferred dividends and discount accretion	439	12,078	12,148	11,838	10,316
Net income (loss) available to common shareholders	$67,181	$261,062	$21,708	$(238,584)	$(512,660)
PERFORMANCE MEASURES					
Per common share:					
Diluted operating earnings (loss) from continuing operations (1)(2)	$1.11	$4.44	$.38	$(5.97)	$(16.64)
Diluted earnings (loss) from continuing operations	1.11	4.44	.38	(5.97)	(27.15)
Diluted earnings (loss)	1.11	4.44	.38	(5.97)	(27.09)
Cash dividends declared	.11	—	—	—	—
Book value	12.20	11.30	6.67	6.62	15.40
Tangible book value (4)	12.15	11.26	6.57	6.47	14.80
Key performance ratios:					
Return on common equity (3)	9.17 %	46.72 %	5.43 %	(93.57)%	(85.08)%
Return on assets	.91	3.86	.49	(3.15)	(6.61)
Dividend payout ratio	9.91	—	—	—	—
Net interest margin	3.26	3.30	3.51	3.52	3.59
Operating efficiency ratio from continuing operations (2)	58.26	63.14	65.43	92.27	98.98

Average equity to average assets	9.69	10.35	8.47	7.75	10.77
Average tangible equity to average assets [4]	9.67	10.31	8.38	7.62	8.88
Average tangible common equity to average assets [4]	9.60	7.55	5.54	3.74	6.52
Tangible common equity to risk-weighted assets [4]	13.82	13.17	8.26	8.25	5.64
ASSET QUALITY *					
Non-performing loans	$17,881	$26,819	$109,894	$127,479	$179,094
Foreclosed properties	1,726	4,221	18,264	32,859	142,208
Total non-performing assets (NPAs)	19,607	31,040	128,158	160,338	321,302
Allowance for loan losses	71,619	76,762	107,137	114,468	174,695
Operating net charge-offs [1]	13,879	93,710	69,831	311,227	215,657
Allowance for loan losses to loans	1.53 %	1.77 %	2.57 %	2.79 %	3.79 %
Operating net charge-offs to average loans [1]	.31	2.22	1.69	7.33	4.42
NPAs to loans and foreclosed properties	.42	.72	3.06	3.87	6.77
NPAs to total assets	.26	.42	1.88	2.30	4.42
AVERAGE BALANCES ($ in millions)					
Loans	$4,450	$4,254	$4,166	$4,307	$4,961
Investment securities	2,274	2,190	2,089	1,999	1,453
Earning assets	6,880	6,649	6,547	6,785	6,822
Total assets	7,436	7,074	6,865	7,189	7,605
Deposits	6,228	6,027	5,885	6,275	6,373
Shareholders' equity	720	732	582	557	819
Common shares - Basic (thousands)	60,588	58,787	57,857	39,943	18,925
Common shares - Diluted (thousands)	60,590	58,845	57,857	39,943	18,925
AT YEAR END ($ in millions)					
Loans *	$4,672	$4,329	$4,175	$4,110	$4,604
Investment securities	2,198	2,312	2,079	2,120	1,490
Total assets	7,567	7,425	6,802	6,983	7,276
Deposits	6,327	6,202	5,952	6,098	6,469
Shareholders' equity	740	796	581	575	469
Common shares outstanding (thousands)	60,259	59,432	57,741	57,561	18,937

(1) Excludes the subsequent recovery of $11.8 million in previously recognized fraud related loan losses in 2010. (2) Excludes goodwill impairment charge of $211 million in 2010. (3) Net income (loss) available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (4) Excludes effect of acquisition related intangibles and associated amortization.

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

SELECTED FINANCIAL DATA (Continued)

(in thousands, except per share data; taxable equivalent)	2014 Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2013 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
INCOME SUMMARY								
Interest revenue	$64,353	$63,338	$61,783	$60,495	$61,695	$61,426	$62,088	$62,114
Interest expense	6,021	6,371	6,833	6,326	5,816	7,169	7,157	7,540
Net interest revenue	58,332	56,967	54,950	54,169	55,879	54,257	54,931	54,574
Provision for credit losses	1,800	2,000	2,200	2,500	3,000	3,000	48,500	11,000
Fee revenue	14,823	14,412	14,143	12,176	13,519	14,225	15,943	12,911
Total revenue	71,355	69,379	66,893	63,845	66,398	65,482	22,374	56,485
Operating expenses	41,919	41,364	40,532	39,050	41,614	40,097	48,823	43,770
Income before income taxes	29,436	28,015	26,361	24,795	24,784	25,385	(26,449)	12,715
Income tax expense (benefit)	11,189	10,399	10,004	9,395	8,873	9,885	(256,413)	950
Net income	18,247	17,616	16,357	15,400	15,911	15,500	229,964	11,765
Preferred dividends and discount accretion	—	—	—	439	2,912	3,059	3,055	3,052
Net income available to common shareholders	$18,247	$17,616	$16,357	$14,961	$12,999	$12,441	$226,909	$8,713
PERFORMANCE MEASURES								
Per common share:								
Diluted income	$.30	$.29	$.27	$.25	$.22	$.21	$3.90	$.15
Cash dividends declared	.05	.03	.03	—	—	—	—	—
Book value	12.20	12.15	11.94	11.66	11.30	10.99	10.90	6.85
Tangible book value (2)	12.15	12.10	11.91	11.63	11.26	10.95	10.82	6.76
Key performance ratios:								
Return on common equity (1)(3)	9.60 %	9.41 %	8.99 %	8.64 %	7.52 %	7.38 %	197.22 %	8.51 %
Return on assets (3)	.96	.95	.88	.85	.86	.86	13.34	.70
Dividend payout ratio	16.67	10.34	11.11	—	—	—	—	—

Net interest margin (3)	3.31	3.32	3.21	3.21	3.26	3.26	3.33	3.37
Efficiency ratio	57.47	57.96	58.65	59.05	60.02	58.55	68.89	64.97
Average equity to average assets	9.76	9.85	9.61	9.52	11.62	11.80	11.57	8.60
Average tangible equity to average assets (2)	9.72	9.83	9.58	9.50	11.59	11.76	11.53	8.53
Average tangible common equity to average assets (2)	9.72	9.83	9.58	9.22	8.99	9.02	8.79	5.66
Tangible common equity to risk-weighted assets (2)	13.82	14.10	13.92	13.63	13.18	13.34	13.16	8.45
ASSET QUALITY *								
Non-performing loans	$17,881	$18,745	$20,724	$25,250	$26,819	$26,088	$27,864	$96,006
Foreclosed properties	1,726	3,146	2,969	5,594	4,221	4,467	3,936	16,734
Total non-performing assets (NPAs)	19,607	21,891	23,693	30,844	31,040	30,555	31,800	112,740
Allowance for loan losses	71,619	71,928	73,248	75,223	76,762	80,372	81,845	105,753
Net charge-offs	2,509	3,155	4,175	4,039	4,445	4,473	72,408	12,384
Allowance for loan losses to loans	1.53 %	1.57 %	1.66 %	1.73 %	1.77 %	1.88 %	1.95 %	2.52 %
Net charge-offs to average loans (3)	.22	.28	.38	.38	.41	.42	6.87	1.21
NPAs to loans and foreclosed properties	.42	.48	.54	.71	.72	.72	.76	2.68
NPAs to total assets	.26	.29	.32	.42	.42	.42	.44	1.65
AVERAGE BALANCES ($ in millions)								
Loans	$4,621	$4,446	$4,376	$4,356	$4,315	$4,250	$4,253	$4,197
Investment securities	2,222	2,231	2,326	2,320	2,280	2,178	2,161	2,141
Earning assets	7,013	6,820	6,861	6,827	6,823	6,615	6,608	6,547
Total assets	7,565	7,374	7,418	7,384	7,370	7,170	6,915	6,834
Deposits	6,383	6,143	6,187	6,197	6,190	5,987	5,983	5,946
Shareholders' equity	738	726	713	703	856	846	636	588
Common shares - basic (thousands)	60,830	60,776	60,712	60,059	59,923	59,100	58,141	58,081
Common shares - diluted (thousands)	60,833	60,779	60,714	60,061	59,925	59,202	58,141	58,081
AT PERIOD END ($ in millions)								
Loans *	$4,672	$4,569	$4,410	$4,356	$4,329	$4,267	$4,189	$4,194
	2,198	2,222	2,190	2,302	2,312	2,169	2,152	2,141

Investment securities								
Total assets	7,567	7,526	7,352	7,398	7,425	7,243	7,163	6,849
Deposits	6,327	6,241	6,164	6,248	6,202	6,113	6,012	6,026
Shareholders’ equity	740	736	722	704	796	852	829	592
Common shares outstanding (thousands)	60,259	60,248	60,139	60,092	59,432	59,412	57,831	57,767

(1) 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). (2) Excludes effect of acquisition related intangibles and associated amortization.
(3) Annualized.
* Excludes loans and foreclosed properties covered by loss sharing agreements with the FDIC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

The following discussion is intended to provide insight into the financial condition and results of operations of United and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

Operating earnings (loss) and operating earnings (loss) per diluted share are non-GAAP performance measures. United's management believes that operating performance measures are useful in analyzing the Company's financial performance trends since they exclude items that are generally non-recurring in nature and therefore most of the discussion in this section will refer to operating performance measures. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on pages 31 through 32.

United reported net income of $67.6 million, or $1.11 per diluted share, in 2014, compared with $273 million, or $4.44 per share in 2013. Earnings for 2013 were significantly impacted by the reversal of a $272 million valuation allowance on United's net deferred tax asset and a large bulk sale of classified assets, both of which took place in the second quarter of 2013. The effects of these two events on the income statement were significant increases in the provision for loan losses and foreclosed property expense from the classified asset sales and the recognition of a tax benefit in the income tax line from the valuation allowance reversal.

United's financial condition improved considerably over the last two years, as several of our strategic goals were achieved. We reduced nonperforming assets to pre-crisis levels, restored our deferred tax asset, and redeemed $75 million of our Series B Preferred Stock which was followed by the redemption of the remaining $105 million in early January 2014 and $16.6 million in Series D Preferred Stock in March 2014. The improvement continued in 2014 with further investment in new businesses and markets. In 2014, United made significant investments in its SBA business, including the acquisition of Business Carolina, Inc., a specialty lending corporation headquartered in Columbia, South Carolina that specializes in SBA and USDA lending, and added management, lenders, underwriters and operations to its specialized lending areas which drove much of the $343 million in loan growth in 2014. Credit quality continued its improving trend leading to much lower levels of nonperforming assets and a lower credit loss provision.

Taxable equivalent net interest revenue was $224 million for 2014, compared to $220 million in 2013. The $4.78 million increase in 2014 is in contrast to a declining trend in net interest revenue in the previous four years. The increase is a result of strategic initiatives to develop new business lines and expand into new markets as well as balance sheet management and restructuring actions taken in the second quarter of 2014 that are mentioned below.

Net interest margin decreased 4 basis points from 3.30% in 2013 to 3.26% in 2014 due primarily to lower yields on loans. The 30 basis point decrease in the average loan yield was partially offset by the 6 basis point reduction in the average rate paid on interest bearing deposits and a higher yield on the taxable investment securities. United's average yield on its taxable investment securities portfolio increased 26 basis points from 2013, mostly as a result of balance sheet management activities late in the second quarter of 2014. The balance sheet management activities, which included restructuring interest rate swaps, selling investment securities and repaying high cost wholesale borrowings, had the effect of lowering United's funding costs and increasing the yield on the investment securities portfolio.

As of December 31, 2014, United's allowance for loan losses was $71.6 million, or 1.53% of loans, compared with $76.8 million, or 1.77% of loans, at the end of 2013. Nonperforming assets of $19.6 million were .26% of total assets at December 31, 2014 compared to .42% as of December 31, 2013. United's allowance for loan losses has continued along a declining trend, both in terms of dollars and as a percentage of assets, as credit measures have improved.

Fee revenue of $55.6 million was down $1.04 million, or 2%, from 2013. The decrease was primarily due to lower mortgage fees reflecting changes in the interest rate environment resulting in lower refinancing activity. Mortgage loan and related fees decreased $2.41 million from 2013. In 2014, United closed $276 million in mortgage loans compared with $297 million in 2013. In 2014, 63%, or $174 million, of the closed loans were for home purchases versus 48%, or $144 million in 2013. Other fee revenue is shown in more detail in Table 4 on page 36. Other fee revenue for 2014 included $2.62 million in gains from sales of SBA loans and there were no gains in 2013. The decrease in other fee revenue of $2.04 million results from an $870,000 decrease in customer derivatives revenue, a $1.45 million in gain on a bank owned life insurance policy in 2013 and $468,000 in gains from the sale of low income housing tax credits in 2013. Deposit service charges and fees were up $1.08 million mostly due to higher interchange fee revenue and an increase in account service fees which were partially offset by lower overdraft fees. Brokerage fees were up $342,000 from 2013.

For 2014, operating expenses of $163 million were down $11.4 million, or 7%, from 2013. United's focus on reducing costs and improving operating efficiency resulted in reductions of communications and equipment, occupancy, and advertising and public relations expenses in 2014. United also had significant decreases in foreclosed property costs, down $7.24 million from 2013, and FDIC assessments and other regulatory charges, down $4.43 million from 2013, both reflecting improving credit measures. Professional fees were down $2.91 million of which $1.20 million was due to the release of a previously disclosed litigation reserve. Salaries and employee benefits expense was up $4.71 million reflecting United's investment in key personnel in new lines of business and markets as well as an increase in production and performance incentives.

Loans at December 31, 2014 were $4.67 billion, up $343 million from the end of 2013. A significant portion of the loan growth resulted from United's new specialized lending businesses, including health care, corporate, SBA, asset-based and commercial real estate lending. These new businesses added $290 million in loan growth in 2014 including $24.8 million that resulted from the acquisition of Business Carolina, Inc. In addition, United purchased $169 million of indirect auto loans during 2014, which drove the increase in the consumer category. Deposits were up $125 million to $6.33 billion, as United focused on increasing low cost core transaction deposits which grew $252 million in 2014, excluding public funds deposits. At the end of 2014, total equity capital was $740 million, down $56.1 million from December 31, 2013, reflecting net income of $67.6 million, offset by the redemption of $122 million in preferred stock and the payment of dividends on United's common stock of $6.66 million. At December 31, 2014, all of United's regulatory capital ratios were above well capitalized levels.

Critical Accounting Policies

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America 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. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon future events. Carrying assets and liabilities at fair value results in more financial statement volatility. The fair values and the information used to record the valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies for United are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant effect on the financial statements.

Management considers the following accounting policies to be critical accounting policies:

Allowance for Credit Losses

The allowance for credit losses is an estimate and represents management's estimate of probable incurred credit losses in the loan portfolio and unfunded loan commitments. It consists of two components: the allowance for loan losses and the allowance for unfunded commitments. Estimating the amount of the allowance for credit losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on non-impaired loans based on historical loss experience, management's evaluation of the current loan portfolio, and consideration of current economic trends, events and conditions. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses is an estimate of probable incurred losses in the loan portfolio and is based on analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on impairment analyses of all nonaccrual loans over $500,000, accruing substandard loans in relationships over $2 million and troubled debt restructurings ("TDRs"), which are all considered impaired loans. These analyses involve judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loss element is determined using the weighted average of actual losses incurred over the prior eight quarters for each type of loan, multiplied by an estimated loss emergence period. The weighted average is weighted toward the most recent quarters' loss experience. The historical loss experience is adjusted for known changes in economic trends, events and conditions and credit quality trends such as changes in the amount of past due and nonperforming loans. The resulting loss allocation factors are applied to the balance of each type of loan after removing the balance of impaired loans and other specifically allocated loans from each category. The loss allocation factors are updated quarterly.

Prior to 2014, United reported an unallocated portion of the allowance. In 2014, United incorporated a loss emergence period into its allowance analysis which resulted in the full allocation of the previously unallocated allowance. Management's use of the loss emergence period is an estimate of the period of time from the first evidence of loss incurrence through the period of time until such losses are confirmed (or charged-off).

There are many factors affecting the allowance for credit losses; some are quantitative while others require qualitative judgment. Although management believes its processes for determining the allowance adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect earnings or financial position in future periods.

Additional information on United's loan portfolio and allowance for credit losses can be found in the sections of Management's Discussion and Analysis titled "Asset Quality and Risk Elements" and "Nonperforming Assets" and in the sections of Part I, Item 1 titled "Lending Policy" and "Loan Review and Nonperforming Assets". Note 1 to the consolidated financial statements includes additional information on United's accounting policies related to the allowance for loan losses.

Fair Value Measurements

United's impaired loans and foreclosed assets may be measured and carried at fair value, the determination of which requires management to make assumptions, estimates and judgments. At December 31, 2014, the percentage of total assets measured at fair value was 23%. See Note 23 "Fair Value" in the consolidated financial statements herein for additional disclosures regarding the fair value of our assets and liabilities.

When a loan is considered individually impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost, fair value, less cost to sell, or listed selling price less cost to sell, following foreclosure. Fair value is defined by GAAP "as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets. It is not a forced transaction (for example, a forced liquidation or distress sale)." Although management believes its processes for determining the value of impaired loans and foreclosed properties are appropriate and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. In addition, because of subjectivity in fair value determinations, there may be grounds for differences in opinions, which may result in disagreements between management and the Bank's regulators, disagreements which could cause the Bank to change its judgments about fair value.

The fair values for available-for-sale and held-to-maturity securities are generally based upon quoted market prices or observable market prices for similar instruments. United utilizes a third-party pricing service to assist with determining the fair value of its securities portfolio. The pricing service uses observable inputs when available including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers. These values take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information. When market observable data is not available, which generally occurs due to the lack of liquidity for certain securities, the valuation of the security is subjective and may involve substantial judgment by management. As of December 31, 2014, United had $750,000 of available-for-sale securities valued using unobservable inputs. This amount represents less than .01% of total assets. United periodically reviews available-for-sale securities that are in an unrealized loss position to determine whether other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost-basis. The primary factors United considers in determining whether impairment is other-than-temporary are long term expectations and recent experience regarding principal and interest payments, and United's ability and intent to hold the security until the amortized cost basis is recovered.

United uses derivatives primarily to manage interest rate risk. The fair values of derivative financial instruments are determined based on quoted market prices, dealer quotes and internal pricing models that are primarily sensitive to market observable data. However, United does evaluate the level of these observable inputs and there are some instances, with highly structured transactions, where United has determined that the inputs not directly observable. This is discussed covered in Note 23 to the Financial Statements. United mitigates the credit risk by subjecting counterparties to credit reviews and approvals similar to those used in making loans and other extensions of credit. In addition, certain counterparties are required to provide collateral to United when their unsecured loss positions exceed certain negotiated limits.

As United expanded its SBA 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 United 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 United discloses this asset as level 3 item in Note 23.

Income Tax Accounting

Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current or prior years. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of regulatory agencies and federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings.

At December 31, 2014, United reported a net deferred tax asset totaling $216 million, and a valuation allowance of $4.80 million. Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. United's management considers both positive and negative evidence. In making such judgments, significant weight is given to evidence that can be objectively verified.

Regulatory risk-based capital rules limit the amount of deferred tax assets that a bank or bank holding company can include in Tier 1 capital. Generally, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of such deferred tax assets that the bank expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for that year or (ii) 10% of the amount of the bank's Tier 1 capital.

Mergers and Acquisitions

United selectively engages in the evaluation of strategic partnerships. Mergers and acquisitions present opportunities to enter new markets with an established presence and a capable management team already in place. United employs certain criteria to ensure that any merger or acquisition candidate meets strategic growth and earnings objectives that will build future franchise value for shareholders. Additionally, the criteria include ensuring that management of a potential partner shares United's community banking philosophy of premium service quality and operates in attractive markets with excellent opportunities for further organic growth.

On June 26, 2014, United completed the acquisition of substantially all of the assets of Business Carolina, Inc., a specialty 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.

United will continue to evaluate potential transactions as they are presented.

GAAP Reconciliation and Explanation

This Form 10-K contains non-GAAP financial 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, operating provision for loan losses, operating fee revenue, total operating revenue, operating expense, operating income (loss), operating earnings (loss) per share and operating earnings (loss) per diluted share. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included on the tables on pages 31 through 32.

In 2010, United recorded a non-cash goodwill impairment charge of $211 million in the third quarter. Also in 2010, United received a partial recovery of $11.8 million, net of recovery costs, in the fourth quarter resulting from fraud losses incurred in 2007 relating to two failed real estate developments near Spruce Pine, North Carolina.

Net operating income (loss) excludes the effect of the goodwill impairment charge of $211 million and the $11.8 million fraud loss partial recovery in 2010, because management believes that the circumstances leading to those items were isolated, non-recurring events and do not reflect overall trends in United’s earnings and financial performance. Management believes this non-GAAP net operating loss provides users of United’s financial information with a meaningful measure for assessing United’s financial results and credit trends, as well as comparison to financial results for prior periods.

The following table contains a reconciliation of net operating income to GAAP net income.

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

(in thousands, except per share data; taxable equivalent)	For the Twelve Months Ended December 31, 2014	2013	2012	2011	2010
Interest revenue reconciliation					
Interest revenue - taxable equivalent	$249,969	$247,323	$267,667	$304,308	$344,493
Taxable equivalent adjustment	(1,537)	(1,483)	(1,690)	(1,707)	(2,001)
Interest revenue (GAAP)	$248,432	$245,840	$265,977	$302,601	$342,492
Net interest revenue reconciliation					
Net interest revenue - taxable equivalent	$224,418	$219,641	$229,758	$238,670	$244,637
Taxable equivalent adjustment	(1,537)	(1,483)	(1,690)	(1,707)	(2,001)
Net interest revenue (GAAP)	$222,881	$218,158	$228,068	$236,963	$242,636
Provision for credit losses reconciliation					
Operating provision for credit losses	$8,500	$65,500	$62,500	$251,000	$234,750
Partial recovery of special fraud-related loan loss	—	—	—	—	(11,750)
Provision for credit losses (GAAP)	$8,500	$65,500	$62,500	$251,000	$223,000
Total revenue reconciliation					
Total operating revenue	$271,472	$210,739	$223,370	$32,577	$56,850
Taxable equivalent adjustment	(1,537)	(1,483)	(1,690)	(1,707)	(2,001)
Partial recovery of special fraud-related loss	—	—	—	—	11,750
Total revenue (GAAP)	$269,935	$209,256	$221,680	$30,870	$66,599
Expense reconciliation					
Operating expense	$162,865	$174,304	$186,774	$261,599	$288,301
Noncash goodwill impairment charge	—	—	—	—	210,590
Operating expense (GAAP)	$162,865	$174,304	$186,774	$261,599	$498,891
Income before taxes reconciliation					
Income before taxes	$108,607	$36,435	$36,596	$(229,022)	$(231,451)
Taxable equivalent adjustment	(1,537)	(1,483)	(1,690)	(1,707)	(2,001)
Income before taxes (GAAP)	$107,070	$34,952	$34,906	$(230,729)	$(432,292)
Income tax expense (benefit) reconciliation					
Income tax expense (benefit)	$40,987	$(236,705)	$2,740	$(2,276)	$73,218
Taxable equivalent adjustment	(1,537)	(1,483)	(1,690)	(1,707)	(2,001)
Income tax expense (benefit) (GAAP)	$39,450	$(238,188)	$1,050	$(3,983)	$71,217
Diluted earnings (loss) from continuing operations per common share reconciliation					
	$1.11	$4.44	$.38	$(5.97)	$(16.64)

Diluted operating earnings (loss) from continuing operations per common share					
Noncash goodwill impairment charge	—	—	—	—	(11.13)
Partial recovery of special fraud-related loan loss	—	—	—	—	.62
Diluted earnings (loss) from continuing operations per common share (GAAP)	$1.11	$4.44	$.38	$(5.97)	$(27.15)
Book value per common share reconciliation					
Tangible book value per common share	$12.15	$11.26	$6.57	$6.47	$14.80
Effect of goodwill and other intangibles	.05	.04	.10	.15	.60
Book value per common share (GAAP)	$12.20	$11.30	$6.67	$6.62	$15.40
Efficiency ratio from continuing operations reconciliation					
Operating efficiency ratio from continuing operations	58.26 %	63.14 %	65.43 %	92.27 %	98.98 %
Noncash goodwill impairment charge	—	—	—	—	72.29
Efficiency ratio from continuing operations (GAAP)	58.26 %	63.14 %	65.43 %	92.27 %	171.27 %
Average equity to assets reconciliation					
Tangible common equity to assets	9.60 %	7.55 %	5.54 %	3.74 %	6.52 %
Effect of preferred equity	.07	2.76	2.84	3.88	2.36
Tangible equity to assets	9.67	10.31	8.38	7.62	8.88
Effect of goodwill and other intangibles	.02	.04	.09	.13	1.89
Equity to assets (GAAP)	9.69 %	10.35 %	8.47 %	7.75 %	10.77 %
Tangible common equity to risk-weighted assets reconciliation					
Tangible common equity to risk-weighted assets	13.82 %	13.18 %	8.26 %	8.25 %	5.64 %
Effect of other comprehensive income	.35	.39	.51	(.03)	(.42)
Effect of deferred tax limitation	(3.11)	(4.26)	—	—	—
Effect of trust preferred	1.00	1.04	1.15	1.18	1.06
Effect of preferred equity	—	2.39	4.24	4.29	3.53
Tier I capital ratio (Regulatory)	12.06 %	12.74 %	14.16 %	13.69 %	9.81 %
Net charge-offs reconciliation					
Operating net charge-offs	$13,878	$93,710	$69,831	$311,227	$215,657
Subsequent partial recovery of fraud-related charge-off	—	—	—	—	(11,750)
Net charge-offs (GAAP)	$13,878	$93,710	$69,831	$311,227	$203,907
Net charge-offs to average loans reconciliation					
Operating net charge-offs to average loans	.31 %	2.22 %	1.69 %	7.33 %	4.42 %
Subsequent partial recovery of fraud-related charge-off	—	—	—	—	(.25)
Net charge-offs to average loans (GAAP)	.31 %	2.22 %	1.69 %	7.33 %	4.17 %

Table 1 (Continued) - Non-GAAP Performance Measures Reconciliation - Quarterly
Selected Financial Information

(in thousands, except per share data; taxable equivalent)	2014 Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2013 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenue reconciliation								
Interest revenue - taxable equivalent	$64,353	$63,338	$61,783	$60,495	$61,695	$61,426	$62,088	$62,114
Taxable equivalent adjustment	(398)	(405)	(377)	(357)	(380)	(370)	(368)	(365)
Interest revenue (GAAP)	$63,955	$62,933	$61,406	$60,138	$61,315	$61,056	$61,720	$61,749
Net interest revenue reconciliation								
Net interest revenue - taxable equivalent	$58,332	$56,967	$54,950	$54,169	$55,879	$54,257	$54,931	$54,574
Taxable equivalent adjustment	(398)	(405)	(377)	(357)	(380)	(370)	(368)	(365)
Net interest revenue (GAAP)	$57,934	$56,562	$54,573	$53,812	$55,499	$53,887	$54,563	$54,209
Total revenue reconciliation								
Total operating revenue	$71,355	$69,379	$66,893	$63,845	$66,398	$65,482	$22,374	$56,485
Taxable equivalent adjustment	(398)	(405)	(377)	(357)	(380)	(370)	(368)	(365)
Total revenue (GAAP)	$70,957	$68,974	$66,516	$63,488	$66,018	$65,112	$22,006	$56,120
Income before taxes reconciliation								
Income before taxes	$29,436	$28,015	$26,361	$24,795	$24,784	$25,385	$(26,449)	$12,715
Taxable equivalent adjustment	(398)	(405)	(377)	(357)	(380)	(370)	(368)	(365)
Income before taxes (GAAP)	$29,038	$27,610	$25,984	$24,438	$24,404	$25,015	$(26,817)	$12,350
Income tax expense (benefit) reconciliation								
Income tax expense (benefit)	$11,189	$10,399	$10,004	$9,395	$8,873	$9,885	$(256,413)	$950

Taxable equivalent adjustment	(398)	(405)	(377)	(357)	(380)	(370)	(368)	(365)
Income tax expense (benefit) (GAAP)	$10,791	$9,994	$9,627	$9,038	$8,493	$9,515	$(256,781)	$585
Book value per common share reconciliation								
Tangible book value per common share	$12.15	$12.10	$11.91	$11.63	$11.26	$10.95	$10.82	$6.76
Effect of goodwill and other intangibles	.05	.05	.03	.03	.04	.04	.08	.09
Book value per common share (GAAP)	$12.20	$12.15	$11.94	$11.66	$11.30	$10.99	$10.90	$6.85
Average equity to assets reconciliation								
Tangible common equity to assets	9.72 %	9.83 %	9.58 %	9.22 %	8.99 %	9.02 %	8.79 %	5.66 %
Effect of preferred equity	—	—	—	.28	2.60	2.74	2.74	2.87
Tangible equity to assets	9.72	9.83	9.58	9.50	11.59	11.76	11.53	8.53
Effect of goodwill and other intangibles	.04	.02	.03	.02	.03	.04	.04	.07
Equity to assets (GAAP)	9.76 %	9.85 %	9.61 %	9.52 %	11.62 %	11.80 %	11.57 %	8.60 %
Tangible common equity to risk-weighted assets reconciliation								
Tangible common equity to risk-weighted assets	13.82 %	14.10 %	13.92 %	13.63 %	13.18 %	13.34 %	13.16 %	8.45 %
Effect of other comprehensive income	.35	.34	.53	.36	.39	.49	.29	.49
Effect of deferred tax limitation	(3.11)	(3.39)	(3.74)	(3.92)	(4.26)	(4.72)	(4.99)	-
Effect of trust preferred	1.00	1.02	1.04	1.03	1.04	1.09	1.11	1.15
Effect of preferred equity	—	—	—	—	2.39	4.01	4.11	4.22
Tier I capital ratio (Regulatory)	12.06 %	12.07 %	11.75 %	11.10 %	12.74 %	14.21 %	13.68 %	14.31 %

Results of Operations

United reported net income of $67.6 million for the year ended December 31, 2014. This compared to net income of $273 million in 2013. Diluted earnings per common share for 2014 were $1.11. This compared to diluted earnings per common share for 2013 of $4.44.

United's results for 2013 included a few large items in operating earnings that are generally nonrecurring in nature that affect comparability between periods. Earnings for 2013 were significantly impacted by a large bulk sale of classified assets in the second quarter that resulted in a pre-tax loss of $26.8 million, which was more than offset by a $257 million credit to income tax expense resulting from the reversal of most of the valuation allowance on United's deferred tax assets.

Net Interest Revenue (Taxable Equivalent)
Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and other liabilities) is the single largest component of United's revenue. United actively manages this revenue source to provide optimal levels of revenue while balancing interest rate, credit, and liquidity risks. Taxable equivalent net interest revenue totaled $224 million in 2014, an increase of $4.78 million, or 2%, from 2013. Taxable equivalent net interest revenue for 2013 decreased $10.1 million, or 4%, from 2012.

Net interest revenue had been on a declining trend from 2009 through 2013 due to attrition in the loan portfolio and intense loan pricing competition. United's securities portfolio yield had also declined during that period as United was unable to reinvest proceeds of maturing securities at comparable interest rates. United had been unable to lower its funding costs to fully offset the decline in earning asset yields leading to lower net interest revenue. In the second quarter of 2014, United restructured its balance sheet to improve its net interest margin and increase net interest revenue. The second quarter 2014 balance sheet restructure included the sale of 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 was reinvested in fixed-rate mortgage-backed securities ("MBS") 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 latter half of the year, were primarily responsible for the increase in net interest revenue and stabilizing the net interest margin.

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 a neutral 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. United effectively terminated another $100 million notional in pay fixed swaps that were serving as cash flow hedges of LIBOR based money market deposits late in the fourth quarter of 2014.

The above noted securities transactions, along with slowing prepayment activity in United's mortgage backed securities, which were mostly purchased at a premium, increased the overall yield in the investment portfolio. The higher investment securities yields offset much of the effect on interest revenue of the decline in loan yields. The yield on other interest-earning assets increased 42 basis points although the average balance declined $48.5 million from 2013. Included in other interest-earning assets are reverse repurchase agreements, including collateral swap transactions, where United 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 in 2014 increased $176 million, or 4%, from the prior year as United's funding needs increased with the increase in lending activity and a larger securities portfolio. Average noninterest bearing deposits increased $175 million from 2013 to 2014 providing much of United's 2014 funding needs. The average cost of interest bearing liabilities for 2014 was .50% compared to .56% for 2013, reflecting United's concerted efforts to reduce deposit pricing. 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. United was able to reduce the effective rate on brokered deposits by swapping the fixed rate on longer-term brokered time deposits to

LIBOR minus a spread. In 2013, this hedging program resulted in a negative rate on brokered certificates of deposit.

The banking industry uses two key ratios to measure relative profitability of net interest revenue - the net interest spread and the net interest margin. 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 other non-interest bearing funding sources 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 overall balance sheet management activities and is defined as net interest revenue as a percentage of total average interest earning assets, which includes the positive effect of funding a portion of interest earning assets with customers' non-interest bearing deposits and with shareholders' equity.

For 2014, 2013 and 2012, United's net interest spread was 3.13%, 3.16%, and 3.34%, respectively, while the net interest margin was 3.26%, 3.30%, and 3.51%, respectively. The decline in both ratios from 2013 to 2014 was due to lower yields on loans, which were not completely offset by the increase in the taxable investment securities yield and the decrease in rates paid for deposits and other interest bearing liabilities.

The following table shows the relationship between interest revenue and interest expense and the average balances of interest-earning assets and interest-bearing liabilities.

Table 2 - Average Consolidated Balance Sheet and Net Interest Margin Analysis
For the Years Ended December 31,
(In thousands, taxable equivalent)

	2014 Average Balance	Interest	Avg. Rate	2013 Average Balance	Interest	Avg. Rate	2012 Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans [1][2]	$4,450,268	$197,039	4.43%	$4,254,159	$201,278	4.73%	$4,165,520	$217,705	5.23%
Taxable securities[3]	2,255,084	47,755	2.12	2,169,024	40,331	1.86	2,065,162	43,657	2.11
Tax-exempt securities [1][3]	19,279	1,209	6.27	21,228	1,354	6.38	23,759	1,565	6.59
Federal funds sold and other interest-earning assets	155,803	3,966	2.55	204,303	4,360	2.13	292,857	4,740	1.62
Total interest-earning assets	6,880,434	249,969	3.63	6,648,714	247,323	3.72	6,547,298	267,667	4.09
Non-interest-earning assets:									
Allowance for loan losses	(75,237)			(95,411)			(114,647)		
Cash and due from banks	67,818			63,174			53,247		
Premises and equipment	161,391			167,424			172,544		
Other assets[3]	401,240			290,098			206,609		
Total assets	$7,435,646			$7,073,999			$6,865,051		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW	$1,396,373	$1,651	.12	$1,285,842	$1,759	.14	$1,293,510	$2,049	.16
Money market	1,389,837	3,060	.22	1,315,385	2,210	.17	1,140,354	2,518	.22
Savings deposits	277,351	81	.03	244,725	133	.05	216,880	150	.07
Time deposits less than $100,000	811,846	3,636	.45	974,470	5,850	.60	1,170,202	9,788	.84
	551,027	3,373	.61	654,102	5,115	.78	766,411	8,027	1.05

Time deposits greater than $100,000									
Brokered deposits	293,657	124	.04	219,215	(501)	(.23)	155,902	1,282	.82
Total interest-bearing deposits	4,720,091	11,925	.25	4,693,739	14,566	.31	4,743,259	23,814	.50
Federal funds purchased, repurchase agreeements, & other short-term borrowings	74,541	2,160	2.90	66,561	2,071	3.11	80,593	2,987	3.71
Federal Home Loan Bank advances	175,481	912	.52	32,604	68	.21	124,771	907	.73
Long-term debt	129,865	10,554	8.13	131,081	10,977	8.37	127,623	10,201	7.99
Total borrowed funds	379,887	13,626	3.59	230,246	13,116	5.70	332,987	14,095	4.23
Total interest-bearing liabilities	5,099,978	25,551	.50	4,923,985	27,682	.56	5,076,246	37,909	.75
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	1,507,944			1,333,199			1,142,236		
Other liabilities	107,523			84,506			64,986		
Total liabilities	6,715,445			6,341,690			6,283,468		
Shareholders' equity	720,201			732,309			581,583		
Total liabilities and shareholders' equity	$7,435,646			$7,073,999			$6,865,051		
Net interest revenue		$224,418			$219,641			$229,758	
Net interest-rate spread			3.13%			3.16%			3.34%
Net interest margin (4)			3.26%			3.30%			3.51%

(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 rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $3.36 million, $4.36 million and $23.6 million in 2014, 2013 and 2012, respectively, 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 relative effect on net interest revenue of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities.

Table 3 - Change in Interest Revenue and Interest Expense
(in thousands, taxable equivalent)

	2014 Compared to 2013 Increase (decrease) due to changes in			2013 Compared to 2012 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	$9,030	$(13,269)	$(4,239)	$4,552	$(20,979)	$(16,427)
Taxable securities	1,650	5,774	7,424	2,118	(5,444)	(3,326)
Tax-exempt securities	(123)	(22)	(145)	(163)	(48)	(211)
Federal funds sold and other interest-earning assets	(1,145)	751	(394)	(1,656)	1,276	(380)
Total interest-earning assets	9,412	(6,766)	2,646	4,851	(25,195)	(20,344)
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	143	(251)	(108)	(12)	(278)	(290)
Money Market	131	719	850	350	(658)	(308)
Savings deposits	16	(68)	(52)	18	(35)	(17)
Time deposits less than $100,000	(878)	(1,336)	(2,214)	(1,465)	(2,473)	(3,938)
Time deposits greater than $100,000	(732)	(1,010)	(1,742)	(1,067)	(1,845)	(2,912)
Brokered deposits	(125)	750	625	360	(2,143)	(1,783)
Total interest-bearing deposits	(1,445)	(1,196)	(2,641)	(1,816)	(7,432)	(9,248)
Federal funds purchased, repurchase agreements & other short-term borrowings	237	(148)	89	(477)	(439)	(916)
Federal Home Loan Bank advances	630	214	844	(427)	(412)	(839)
Long-term debt	(101)	(322)	(423)	281	495	776
Total borrowed funds	766	(256)	510	(623)	(356)	(979)
Total interest-bearing liabilities	(679)	(1,452)	(2,131)	(2,439)	(7,788)	(10,227)
Increase (decrease) in net interest revenue	$10,091	$(5,314)	$4,777	$7,290	$(17,407)	$(10,117)

Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Provision for Credit Losses

The provision for credit losses is based on management’s evaluation of probable incurred losses in the loan portfolio and unfunded loan commitments as measured by analysis of the allowance for credit losses at the end of each reporting period. The provision for credit losses was $8.50 million in 2014, compared with $65.5 million in 2013, and $62.5 million in 2012. As a percentage of average outstanding loans (excluding loans covered by loss sharing agreements with the FDIC), the provision for credit losses was .19%, 1.55% and 1.52%, respectively, in 2014, 2013 and 2012. The amount of provision recorded in each year was the amount required such that the total allowance for credit losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover incurred losses in the loan portfolio. In 2014, the provision for loan losses was down substantially reflecting the significant improvement in credit measures following the second quarter 2013 sale of classified assets. The 2013 provision was higher than the 2012 provision due to the increase level of charge-offs associated with the second quarter 2013 classified asset disposition. The ratio of net loan charge-offs to average outstanding loans for 2013 was .31% compared with 2.22% for 2013 and 1.69% for 2012.

In the fourth quarter of 2013, United established an allowance for unfunded loan commitments which is included in other liabilities in the consolidated balance sheet. The allowance for unfunded loan 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. At December 31, 2014, the allowance for unfunded commitments was $1.93 million compared with $2.17 million at December 31, 2013.

Over the past two years, United has experienced a significant improvement in credit quality and corresponding credit measures. During the second quarter of 2013, United sold classified assets totaling approximately $172 million, including a bulk sale of $131 million. The classified asset sales and a general improving trend reduced United’s nonperforming assets to $31.0 million as of December 31, 2013. Credit quality continued to improve through 2014 with nonperforming assets decreasing further to $19.6 million at December 31, 2014. Additional discussion on credit quality and the allowance for loan losses is included in the “Asset Quality and Risk Elements” and “Critical Accounting Polices” sections of this report, as well as Note 1 to the consolidated financial statements.

Fee Revenue

Fee revenue was $55.6 million in 2014, compared with $56.6 million in 2013 and $56.1 million in 2012. The following table presents the components of fee revenue.

Table 4 - Fee Revenue
For the Years Ended December 31,
(in thousands)

	2014	2013	2012	Change 2014-2013
Overdraft fees	$11,871	$12,425	$13,302	(4)%
ATM and debit card fees	15,295	14,509	13,108	5
Other service charges and fees	5,907	5,063	5,260	17
Service charges and fees	33,073	31,997	31,670	3
Mortgage loan and related fees	7,520	9,925	10,483	(24)
Brokerage fees	4,807	4,465	3,082	8
Gains from sales of SBA loans	2,615	—	—	
Customer derivatives	729	1,599	524	(54)
Securities gains, net	4,871	186	7,078	
Losses on prepayment of borrowings	(4,446)	—	(6,681)	
Other	6,385	8,426	9,956	(24)
Total fee revenue	$55,554	$56,598	$56,112	(2)

Service charges and fees of $33.1 million were up $1.08 million, or 3%, from 2013. The increase was primarily due to higher debit card interchange fees which have grown due to higher transaction volume. Overdraft fees continue to decline as customer utilization of our courtesy overdraft services decreases. The increase in other service charges from 2013 to 2014 was due to new service fees introduced on January 1, 2014. United also introduced new service fees on low balance demand deposit accounts in January 2012. The decrease in other service charges and fees from 2012 to 2013 reflects changes in customer behavior to avoid the new fees which included maintaining higher account balances.

Mortgage loan and related fees of $7.52 million were down $2.41 million, or 24%, from 2013. In 2014, United closed 1,639 mortgage loans totaling $276 million compared with 1,918 loans totaling $297 million in 2013. Over the past two years, mortgage refinancing activity has reacted to changes in long-term interest rates. United has continued to invest in its mortgage business by hiring new lenders in select markets. This has allowed United to increase the volume of new purchase mortgages to offset the decline in refinancing activity. In 2014, new home purchase mortgages of $174 million accounted for 63% of production volume compared with $144 million, or 48%, of production volume in 2013 and $118 million, or 33%, of production volume in 2012.

Brokerage fees of $4.81 million increased $342,000, or 8%, from 2013. In late 2012, United added new leadership to its brokerage business and added new brokers in select markets. Brokerage fees have increased over the last two years as a result of United's focus in growing its advisory services business.

In the second quarter of 2014, United completed its acquisition of Business Carolina, Inc., a specialty lending business headquartered in Columbia, South Carolina that specializes in SBA and USDA lending. At the same time, United brought in new leadership, including lenders and support staff, in its specialized lending area to increase its share of government guaranteed lending programs. United's SBA and USDA lending strategy includes the selective sale of the guaranteed portion of certain loans at attractive premiums. In 2014, United recognized gains of $2.62 million from the sale of the guaranteed portion of SBA and USDA loans.

Fees from customer swap transactions earned under United's back-to-back customer swap program of $729,000 were down $870,000 in 2014 from 2013 due to weakening demand for this product following strong growth in 2013 compared to 2012. United provides interest rate swaps to commercial customers who desire fixed rate loans. United makes a floating rate loan to those customers and enters into an interest rate swap contract with the customer to swap the floating rate to a fixed rate. United then enters into an offsetting swap with a swap dealer with terms that mirror the customer swap. The fixed and variable legs of the customer and dealer swaps offset leaving United with a variable rate loan.

United recognized net securities gains of $4.87 million, $186,000 and $7.08 million during 2014, 2013 and 2012, respectively. United also recognized losses from the prepayment of structured repurchase agreements totaling $4.45 million in 2014 and losses from the prepayment of FHLB advances and structured repurchase agreements of $6.68 million in 2012. The losses were part of the same balance sheet management activities and had the effect of offsetting the securities gains in each respective period.

Other fee revenue of $6.39 million for 2014 was down $2.04 million from 2013, mostly due to non-core items that were comprised of $1.45 million in gains from bank owned life insurance and $468,000 in gains from the sale of low income housing tax credits that were included in other fee revenue in 2013. Other fee revenue for 2012 also reflected non-core items that included $1.10 million in interest on a prior year tax refund that resulted from a net operating loss carry back claim and $728,000 in gains from the sale of low income housing tax credits.

Operating Expense

The following table presents the components of operating expenses.

Table 5 - Operating Expenses
For the Years Ended December 31,
(in thousands)

	2014	2013	2012	Change 2014-2013
Salaries and employee benefits	$100,941	$96,233	$96,026	5 %
Communications and equipment	12,523	13,233	12,940	(5)
Occupancy	13,513	13,930	14,304	(3)
Advertising and public relations	3,461	3,718	3,855	(7)
Postage, printing and supplies	3,542	3,283	3,899	8
Professional fees	7,907	9,617	8,792	(18)
Foreclosed property - foreclosure and carrying costs	1,338	3,163	5,118	(58)
Foreclosed property - writedowns and losses from sales	(704)	4,706	8,875	(115)
FDIC assessments and other regulatory charges	4,792	9,219	10,097	(48)
Amortization of intangibles	1,348	2,031	2,917	(34)
Other	14,204	15,171	19,951	(6)
Total operating expenses	$162,865	$174,304	$186,774	(7)

Operating expenses were $163 million in 2014 as compared to $174 million in 2013 and $187 million in 2012. The decrease mostly reflects lower foreclosed property losses and write downs associated with the declining volume of foreclosed properties following the classified asset sales in the second quarter of 2013 as well as lower FDIC insurance assessments resulting from improvement in United’s credit measures.

Salaries and employee benefits expense for 2014 was $101 million, an increase of $4.71 million, or 5%, from 2013. The increase reflects United’s strategic investment in new businesses, particularly its specialized lending area, and expansion into new markets as well as higher production and performance incentives. Headcount totaled 1,532 at December 31, 2014 compared to 1,506 at December 31, 2013, an increase of 26 positions.

Communications and equipment expense of $12.5 million for 2014 was down $710,000, or 5%, from 2013. The decrease reflects lower software maintenance costs and lower equipment rental charges. The decrease in equipment rental charges reflects United’s shift from leasing copier and printing equipment to purchasing those items.

Occupancy expense of $13.5 million for 2014 was down $417,000, or 3%, compared to 2013. The decrease was primarily related to a $400,000 charge in 2013 to write off leasehold improvements on a branch lease that was consolidated into another branch.

Advertising and public relations expense for 2014 was $3.46 million, a decrease of $257,000, or 7%, from 2013. The decrease was due to continued efforts to reduce discretionary spending.

Postage, printing and supplies expense for 2014 was $3.54 million, an increase of $259,000, or 8%, from 2013. The increase was primarily due to higher printing and forms charges related to increased business activity.

Professional fees were $7.91 million for 2014, down $1.71 million, or 18%, from 2013. The decrease is mostly due to lower legal fees as legal costs associated with the classified asset sales in the second quarter of 2013 caused professional fees to be higher in 2013.

Foreclosed property expenses include foreclosure and carrying costs and realized losses and write-downs of foreclosed properties. Foreclosure and carrying costs for 2014 were $1.34 million, a decrease of $1.83 million from 2013, primarily due to a lower number of foreclosed properties. The foreclosure and carrying costs category includes legal fees, property taxes, marketing costs, utility services, and maintenance and repair charges. Realized losses and write-downs on foreclosed property totaled a net gain of $704,000 for the year ended December 31, 2014, compared to a net loss of $4.71 million for 2013. Foreclosed property costs declined in 2014 as the balance of foreclosed properties has stabilized following the accelerated sales of classified assets in the second quarter of 2013. Foreclosed property costs in 2013 were down from 2012 due to the declining volume of foreclosed properties and improving credit conditions.

FDIC assessments and other regulatory charges expense for 2014 was $4.79 million, a decrease of $4.43 million, or 48%, from 2013 due to improving credit measures. Amortization of intangibles continues to decrease as core deposit intangibles related to past acquisitions become fully amortized.

Other expenses totaled $14.2 million for 2014, a decrease of $967,000, or 6%, from 2013, reflecting the release of $1.20 million of the litigation reserve established in 2012. The decrease from 2012 to 2013 is primarily due to a $4.00 million charge in 2012 to establish the litigation reserve for potential losses related to threatened litigation.

Income Taxes

Income tax expense was $39.5 million in 2014, compared to income tax benefit of $238 million in 2013 and income tax expense of $1.05 million in 2012, respectively. Income tax expense for 2014 represents an effective tax rate of 36.8%. The 2013 tax benefit was primarily due to the second quarter reversal of $272 million of the deferred tax valuation allowance. The 2012 income tax provision mostly reflects alternative minimum taxes payable by United as United had a full valuation allowance on its deferred tax asset at the time and therefore did not report a full tax provision. The effective tax rates (as a percentage of pre-tax earnings) were not meaningful for 2013 and 2012 due to the valuation allowance on United’s deferred tax asset and the subsequent reversal of the valuation allowance in the second quarter of 2013. The tax rate for 2015 is expected to be approximately 37.8% reflecting the mix of taxable and tax-exempt income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis including operating losses and tax credit carryforwards. Net deferred tax assets (deferred tax assets net of deferred tax liabilities and valuation allowance) are reported in the consolidated balance sheet as a component of total assets.

Accounting Standards Codification Topic 740, Income Taxes, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence with more weight given to evidence that can be objectively verified. Each quarter, management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results.

Based on all evidence considered, as of December 31, 2014 and 2013, management concluded that it was more likely than not that the net deferred tax asset would be realized. With continuous improvements in credit quality, quarterly earnings for the past thirteen quarters have closely followed management’s forecast for these periods, excluding the impact of the discretionary sales of classified assets in the second quarter of 2013. The improvement in management’s ability to produce reliable forecasts, continuous and significant improvements in credit quality, and a sustained period of profitability were given appropriate weighting in our analysis, and such evidence was considered sufficient to overcome the weight of the negative evidence related to the significant operating losses in prior years.

In addition to such positive evidence at December 31, 2014, United has also reduced the amount of credit risk inherent in its loan portfolio by reducing its concentration of construction loans and improving its overall loan portfolio diversification. These changes place United in a strong position to manage through the ongoing weakness in the economy. United also has a long record of positive earnings and accurate earnings forecasts prior to the economic downturn and is currently in a strong capital position.

Management expects to generate higher levels of future taxable income and believes this will allow for full utilization of United's net operating loss carryforwards within four to six years, which is well within the statutory carryforward periods. In determining whether management's projections of future taxable income are reliable, management considered objective evidence supporting the forecast assumptions as well as recent experience demonstrating management's ability to reasonably project future results of operations. Further, while the banking environment is expected to remain challenging due to economic and other uncertainties, management believes that it can confidently forecast future taxable income at sufficient levels over the future period of time that United has available to realize its December 31, 2014 deferred tax asset.

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.

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Fourth Quarter 2014 Discussion

Taxable equivalent net interest revenue for the fourth quarter of 2014 increased $2.45 million, or 4%, to $58.3 million from the same period a year ago, primarily due to growth in the loan portfolio and a higher average yield in the investment securities portfolio, partially offset by a one basis point increase in the rate on interest-bearing liabilities. The net interest margin increased 5 basis points from the fourth quarter of 2013 to 3.31% for the fourth quarter of 2014. The increase in the net interest margin reflects the positive impact of balance sheet restructuring activities in the second quarter of 2014.

The fourth quarter of 2014 provision for credit losses was $1.80 million, compared to $3.00 million for the fourth quarter of 2013. Nonperforming assets totaled $19.6 million, down $11.4 million from a year ago. Nonperforming assets as a percentage of total assets were .26% at December 31, 2014, compared with .42% at December 31, 2013. Changes from a year ago reflect ongoing improvement in credit measures.

The following table presents the components of fee revenue for the fourth quarters of 2014 and 2013.

Table 6 - Quarterly Fee Revenue
(in thousands)

	Three Months Ended December 31,		
	2014	2013	Change
Overdraft fees	$2,936	$3,199	(8) %
ATM and debit card fees	3,977	3,691	8
Other service charges and fees	1,533	1,276	20
Service charges and fees	8,446	8,166	3
Mortgage loan and related fees	2,111	1,713	23
Brokerage fees	1,176	1,361	(14)
Gains on sales of SBA loans	926	—	—
Customer derivatives	78	417	(81)
Securities gains, net	208	70	197
Other	1,878	1,792	5
Total fee revenue	$14,823	$13,519	10

Fee revenue for the fourth quarter of 2014 of $14.8 million increased $1.30 million, or 10%, from $13.5 million for the fourth quarter of 2013. Service charges and fees on deposit accounts of $8.45 million increased $280,000, or 3%, from $8.17 million for the fourth quarter of 2013. The increase was due to higher debit card interchange fees resulting from higher transaction volume and higher other service charges and fees resulting from new service fees initiated in January of 2014, partially offset by continued lower utilization of our courtesy overdraft services. Mortgage fees of $2.11 million increased $398,000, or 23%, from $1.71 million in the fourth quarter of 2013 due to an increase in new home purchase mortgages. United closed $77.4 million in mortgage loans in the fourth quarter of 2014, of which 63% were for new home purchases, compared to $55.5 million in the fourth quarter of 2013, of which 48% were for new home purchases. Brokerage fees of $1.18 million decreased $185,000, or 14%, from the fourth quarter of 2013. United began selling some of its SBA loan production for attractive premiums beginning in the second quarter of 2014. Gains recognized on those sales in the fourth quarter of 2014 totaled $926,000. United did not have any gains from sales of SBA loans in the fourth quarter of 2013. Customer derivative fees were down in the fourth quarter of 2014, compared with a year ago due to a decrease in customer demand for the product. Other fee revenue of $1.88

million increased $86,000, or 5%, from the fourth quarter of 2013.

The following table presents operating expenses for the fourth quarters of 2014 and 2013.

Table 7 - Quarterly Operating Expenses
(in thousands)

	Three Months Ended December 31,		
	2014	2013	Change
Salaries and employee benefits	$26,592	$24,817	7 %
Communications and equipment	3,153	3,414	(8)
Occupancy	3,448	3,735	(8)
Advertising and public relations	802	781	3
Postage, printing and supplies	1,086	882	23
Professional fees	2,034	2,102	(3)
Foreclosed property - foreclosure and carrying costs	317	626	(49)
Foreclosed property - writedowns, (gains) losses from sales, net	(186)	(435)	(57)
FDIC assessments and other regulatory charges	883	1,804	(51)
Amortization of intangibles	287	408	(30)
Other	3,503	3,480	1
Total operating expenses	$41,919	$41,614	1

Operating expenses of $41.9 million increased $305,000 from $41.6 million for the fourth quarter of 2013, a 1% increase. Salaries and employee benefit costs of $26.6 million were up $1.78 million from the fourth quarter of 2013, due primarily to investment in revenue producers to support new businesses and expansion into new markets as well as incentives paid for achieving strategic goals and financial targets. Salaries and employee benefits in the fourth quarter of 2014 also included $350,000 in severance charges. Communications and equipment expenses of $3.15 million were down $261,000, or 8%, from $3.41 million for the fourth quarter of 2013 due to lower equipment rental expense. Occupancy expense of $3.45 million was down $287,000 for the fourth quarter of 2014 compared to 2013, primarily due to a $400,000 write-off in 2013 of leasehold improvements on a branch lease for a branch that was consolidated into another branch. Foreclosed property - foreclosure and carrying costs of $317,000 decreased $309,000 from $626,000 for the fourth quarter of 2013, due to a lower number of foreclosed properties held. Write-downs and net gains from sales of foreclosed property totaled a net gain of $186,000 for the fourth quarter of 2014 compared with a net gain of $435,000 for the fourth quarter of 2013. FDIC assessments and other regulatory charges decreased from $1.80 million during the fourth quarter of 2013 to $883,000 for the same period in 2014 due to improvement in credit measures. Other expenses of $3.50 million were up less than 1% from the fourth quarter of 2013. In the fourth quarter of 2014, United reversed $1.20 million of a previously established litigation reserve. The reversal of the litigation reserve was partially offset by a $492,000 charge to reimburse the FDIC for interest incorrectly claimed on an earlier loss sharing certificate, $127,000 in make whole claims on mortgage loans, and higher lending support costs.

Balance Sheet Review

Total assets at December 31, 2014 were $7.57 billion, an increase of $142 million, or 2%, from December 31, 2013. On a daily average basis, total assets increased $362 million, or 5%, from 2013 to 2014. Average interest earning assets for 2014 and 2013 were $6.88 billion and $6.65 billion, respectively.

Loans

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 75% of the loans are secured by real estate. Despite the weak economy and lagging loan demand, United has continued to pursue lending opportunities. The rate of decrease in the loan portfolio dropped significantly following the disposition of problem loans in the first quarter of 2011 and has continued to stabilize, resulting in modest growth in 2012 and 2013. 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 $4.45 billion in 2014, compared with $4.25 billion in 2013, an increase of 5%. At December 31, 2014, total loans were $4.67 billion, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, an increase of $343 million, or 8%, from December 31, 2013.

The following table presents the composition of United's loan portfolio for the last five years.

Table 8 - Loans Outstanding
As of December 31,
(in thousands)

Loans by Category	2014	2013	2012	2011	2010
Owner occupied commercial real estate	$1,163,480	$1,133,543	$1,131,544	$1,111,502	$980,673
Income producing commercial real estate	598,537	623,167	681,821	709,912	780,751
Commercial & industrial	710,256	471,961	458,246	428,249	441,518
Commercial construction	196,030	148,903	154,769	164,155	296,582
Total commercial	2,668,303	2,377,574	2,426,380	2,413,818	2,499,524
Residential mortgage	865,789	875,077	829,566	834,759	943,404
Home equity lines of credit	465,872	440,887	384,637	300,143	335,376
Residential construction	298,627	328,579	381,677	448,391	695,166
Consumer installment	104,899	111,045	114,309	112,503	130,656
Indirect auto	268,629	196,104	38,439	—	—
Total loans	$4,672,119	$4,329,266	$4,175,008	$4,109,614	$4,604,126

Loans by Market	2014	2013	2012	2011	2010
North Georgia	$1,163,479	$1,240,234	$1,363,723	$1,425,811	$1,688,586
Atlanta MSA	1,281,753	1,275,139	1,249,470	1,219,652	1,310,222
North Carolina	552,766	571,971	579,085	597,446	701,798
Coastal Georgia	455,709	423,045	400,022	346,189	335,020
Gainesville MSA	257,449	254,655	261,406	264,567	312,049
East Tennessee	280,312	279,587	282,863	255,949	256,451
South Carolina / Specialized Lending	412,022	88,531	—	—	—
Indirect auto	268,629	196,104	38,439	—	—
Total loans	$4,672,119	$4,329,266	$4,175,008	$4,109,614	$4,604,126

As of December 31, 2014, United's 25 largest credit relationships consisted of loans and loan commitments ranging from $11 million to $50 million, with an aggregate total credit exposure of $447 million. Total credit exposure includes $64.2 million in unfunded commitments and $383 million in balances outstanding, excluding participations sold. United had only eight lending relationships whose total credit exposure exceeded $20 million of which only three relationships were in excess of $25 million.

The following table sets forth the maturity distribution of commercial and construction loans, including the interest rate sensitivity for loans maturing after one year.

Table 9 - Loan Portfolio Maturity
As of December 31, 2014
(in thousands)

	Maturity	Rate Structure for Loans Maturing Over One Year	
	One Year	Fixed	Floating

	or Less	One through Five Years	Over Five Years	Total	Rate	Rate
Commercial (commercial and industrial)	$162,708	$412,795	$134,753	$710,256	$243,282	$304,266
Construction (commercial and residential)	165,002	247,986	81,669	494,657	168,778	160,877
Total	$327,710	$660,781	$216,422	$1,204,913	$412,060	$465,143

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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 United's credit administration function is included in Item 1 under the heading "Loan Review and Nonperforming Assets."

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 December 31, 2014 and 2013, the funded portion of home equity lines totaled $466 million and $441 million, respectively. Approximately 3% of the home equity loans at December 31, 2014 were amortizing. Of the $466 million in balances outstanding at December 31, 2014, $289 million, or 62%, were first liens. At December 31, 2014, 60% 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 years.

Table 10 - Performing Substandard Loans
(dollars in thousands)

	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
By Category					
Owner occupied commercial real estate	$46,401	$43,083	$64,936	$78,969	$85,723
Income producing commercial real estate	20,560	34,642	52,607	$64,089	$71,042
Commercial & industrial	7,863	9,589	18,477	15,753	16,767
Commercial construction	3,566	16,758	19,285	18,510	90,745
Total commercial	78,390	104,072	155,305	177,321	264,277
Residential mortgage	31,831	44,022	55,355	65,649	74,438
Home equity	5,296	7,967	9,824	10,793	11,705
Residential construction	10,920	14,104	37,804	71,955	158,770
Consumer installment	1,382	2,538	3,653	2,751	2,957
Indirect auto	574	—	—	—	—
Total	$128,393	$172,703	$261,941	$328,469	$512,147
By Market					
North Georgia	$55,821	$69,510	$105,851	$134,945	$212,992

Atlanta MSA	31,596	43,171	77,630	99,453	185,327
North Carolina	16,479	18,954	28,657	40,302	42,335
Coastal Georgia	15,642	18,561	17,421	24,985	29,223
Gainesville MSA	1,109	14,916	19,251	17,338	33,962
East Tennessee	5,933	7,591	13,131	11,446	8,308
South Carolina / Specialized Lending	1,239	—	—	—	—
Indirect auto	574	—	—	—	—
Total loans	$128,393	$172,703	$261,941	$328,469	$512,147

At December 31, 2014, performing substandard loans totaled $128 million and decreased $44.3 million from December 31, 2013. The decrease from 2013 reflects a general declining trend. Performing substandard loans have been on a downward trend as credit conditions have continued to improve and problem credits are resolved. Most of the decrease from a year ago occurred in United's Atlanta, Georgia, north Georgia and Gainesville, Georgia markets. Income producing commercial real estate, commercial construction, residential mortgage and residential construction showed the most significant decreases.

Reviews of substandard performing and non-performing loans, TDRs, past due loans and larger credits, are conducted on a regular basis and reported to management each quarter 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 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 allocation of the allowance for credit losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. In 2014, United incorporated a loss emergence period into its allowance for loan losses analysis. The increase in precision resulting from the loss emergence period resulted in full allocation of the previously unallocated portion of the allowance.

The following table summarizes the allocation of the allowance for credit losses for each of the past five years.

Table 11 - Allocation of Allowance for Credit Losses
As of December 31,
(in thousands)

	2014		2013		2012		2011		2010	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Commercial (secured by real estate)	$26,337	38	$24,338	41	$27,847	43	$31,644	44	$31,191	38
Commercial & industrial	3,255	15	6,527	11	5,537	11	5,681	10	7,580	10
Commercial construction	4,747	4	3,669	3	8,389	4	6,097	4	6,780	6
Total commercial	34,339	57	34,534	55	41,773	58	43,422	58	45,551	54
Residential mortgage	24,885	29	20,974	30	26,642	29	29,076	28	22,305	28
Residential construction	10,603	6	12,532	8	26,662	9	30,379	11	92,571	15
Consumer installment	1,792	8	2,479	7	2,747	4	2,124	3	3,030	3
Unallocated	—		6,243		9,313		9,467		11,238	
Total allowance for loan losses	71,619	100	76,762	100	107,137	100	114,468	100	174,695	100
Allowance for unfunded commitments	1,930		2,165		—		—		—	

Total allowance for credit losses	$73,549	$78,927	$107,137	$114,468	$174,695

* Loan balance in each category, expressed as a percentage of total loans.

The following table presents a summary of changes in the allowance for credit losses for each of the past five years.

Table 12 - Allowance for Credit Losses
Years Ended December 31,
(in thousands)

	2014	2013	2012	2011	2010
Balance beginning of period	$76,762	$107,137	$114,468	$174,695	$155,602
Charge-offs:					
Owner occupied commercial real estate	3,136	24,965	10,280	50,401	21,646
Income producing commercial real estate	1,611	11,505	12,782	9,067	11,947
Commercial & industrial	2,145	18,914	2,424	24,890	10,837
Commercial construction	235	6,483	5,411	55,730	9,993
Residential mortgage	7,502	8,840	12,885	46,439	25,364
Home equity lines of credit	2,314	3,437	4,377	7,268	3,442
Residential construction	3,176	23,049	24,260	118,916	136,666
Consumer installment	2,008	2,184	2,198	3,594	4,828
Indirect auto	540	277	16	—	—
Total loans charged-off	22,667	99,654	74,633	316,305	224,723
Recoveries:					
Owner occupied commercial real estate	3,056	1,305	557	222	1,167
Income producing commercial real estate	725	640	135	226	—
Commercial & industrial	1,698	1,888	1,104	967	1,762
Commercial construction	6	69	111	203	431
Residential mortgage	1,110	611	675	660	838
Home equity lines of credit	287	104	124	78	29
Residential construction	627	173	1,272	1,678	15,370
Consumer installment	1,226	1,114	824	1,044	1,219
Indirect auto	54	40	—	—	—
Total recoveries	8,789	5,944	4,802	5,078	20,816
Net charge-offs	13,878	93,710	69,831	311,227	203,907
Provision for loan losses	8,735	63,335	62,500	251,000	223,000
Allowance for loan losses at end of period	71,619	76,762	107,137	114,468	174,695
Allowance for unfunded commitments at beginning of period	2,165	—	—	—	—
Provision for unfunded commitments	(235)	2,165	—	—	—
Allowance for unfunded commitments at end of period	1,930	2,165	—	—	—
Allowance for credit losses	$73,549	$78,927	$107,137	$114,468	$174,695
Total loans [(1)]:					
At year-end	$4,672,119	$4,329,266	$4,175,008	$4,109,614	$4,604,126
Average	4,440,868	4,228,235	4,123,530	4,244,305	4,884,330

Allowance for loan losses as a percentage of year-

end loans	1.53 %	1.77 %	2.57 %	2.79 %	3.79 %
As a percentage of average loans:					
Net charge-offs	.31	2.22	1.69	7.33	4.17
Provision for loan losses	.20	1.50	1.52	5.91	4.57

(1) Excludes loans acquired through the FDIC assisted acquisition of Southern Community Bank that are covered by loss sharing agreements.

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled $73.5 million at December 31, 2014 compared with $78.9 million at December 31, 2013. At December 31, 2014, the allowance for loan losses was $71.6 million, or 1.53% of total loans, compared with $76.8 million, or 1.77% of loans at December 31, 2013. The decrease in the allowance for credit losses is consistent with the overall improving trends in credit quality of the loan portfolio.

Management believes that the allowance for credit losses at December 31, 2014 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 precision 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 changes 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 credit losses.

Nonperforming Assets

Nonperforming loans totaled $17.9 million at December 31, 2014, compared with $26.8 million at December 31, 2013. There were no accruing loans more than 90 days past due at December 31, 2014 and 2013. At December 31, 2014 and 2013, the ratio of nonperforming loans to total loans was .38% and .62%, respectively. Nonperforming loans have steadily decreased in dollar amount and as a percentage of total loans since 2011. Nonperforming assets, which include nonperforming loans and foreclosed properties, totaled $19.6 million at December 31, 2014, compared with $31.0 million at December 31, 2013. United sold $12.5 million and $31.9 million respectively, of foreclosed properties during 2014 and 2013, which lowered the balance of foreclosed properties by 59% compared to December 31, 2013.

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 original contractual loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection or restructure. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied to reduce outstanding principal.

There were no commitments to lend additional funds to customers whose loans were on nonaccrual status at December 31, 2014, although in certain isolated cases, United executed forbearance agreements whereby United will continue to fund construction loans to completion or other lines of credit as long as the borrower meets the conditions of the forbearance agreement. United may also fund other amounts necessary to protect the Bank's collateral such as amounts to pay past due property taxes and insurance coverage. The table below summarizes nonperforming assets at year-end for the last five years. It excludes assets acquired through the acquisition of SCB in 2009 that are covered by loss-sharing agreements with the FDIC. These assets have been excluded from the review of nonperforming assets, as the loss-sharing agreements with the FDIC and purchase price adjustments to reflect credit losses, effectively eliminate the likelihood of recognizing losses on the covered assets.

Table 13 - Nonperforming Assets
As of December 31,
(in thousands)

	2014	2013	2012	2011	2010
Nonaccrual loans (NPLs)	$17,881	$26,819	$109,894	$127,479	$179,094
Foreclosed properties	1,726	4,221	18,264	32,859	142,208
Total nonperforming assets (NPAs)	$19,607	$31,040	$128,158	$160,338	$321,302
NPLs as a percentage of total loans	.38 %	.62 %	2.63 %	3.10 %	3.89 %
NPAs as a percentage of loans and foreclosed properties	.42	.72	3.06	3.87	6.77
NPAs as a percentage of total assets	.26	.42	1.88	2.30	4.42

At December 31, 2014 and 2013 United had $85.1 million and $87.0 million, respectively, in loans with terms that have been modified in a TDR. Included therein were $3.78 million and $8.25 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 $81.3 million and $78.7 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At December 31, 2014 and 2013, there were $106 million and $115 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 December 31, 2014 and 2013 were $25.5 million and $38.9 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at December 31, 2014 of $81.0 million had specific reserves that totaled $9.88 million and the balance of impaired loans at December 31, 2013 of $75.7 million had specific reserves that totaled $6.02 million. The average recorded investment in impaired loans for 2014, 2013 and 2012 was $109 million, $115 million and $276 million, respectively. During 2014, 2013 and 2012, United recognized $5.04 million, $6.72 million and $9.53 million in interest revenue on impaired loans. 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. Impaired loans decreased 7% from 2013 to 2014.

The following table summarizes nonperforming assets by category and market by quarter. Assets covered by the loss-sharing agreement with the FDIC related to the acquisition of SCB are not included in this table.

Table 14 - Nonperforming Assets by Quarter
(in thousands)

	December 31, 2014			September 30, 2014			June 30, 2014			March 31
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccru Loans
BY CATEGORY										
Owner occupied commercial real estate	$4,133	$355	$4,488	$2,156	$1,024	$3,180	$2,975	$653	$3,628	$3,868
Income producing commercial real estate	717	—	717	1,742	42	1,784	1,032	242	1,274	1,278
Commercial & industrial	1,571	—	1,571	1,593	—	1,593	1,102	—	1,102	822
Commercial construction	83	15	98	148	—	148	95	—	95	479
Total commercial	6,504	370	6,874	5,639	1,066	6,705	5,204	895	6,099	6,447
Residential mortgage	8,196	1,183	9,379	8,350	1,769	10,119	10,201	1,426	11,627	13,307
Home equity	695	40	735	720	90	810	510	128	638	1,106
Residential construction	2,006	133	2,139	3,543	221	3,764	4,248	520	4,768	3,805
Consumer installment	134	—	134	139	—	139	171	—	171	291
Indirect auto	346	—	346	354	—	354	390	—	390	294
Total NPAs	$17,881	$1,726	$19,607	$18,745	$3,146	$21,891	$20,724	$2,969	$23,693	$25,250
Balance as a % of Unpaid Principal	69.9 %	54.1 %	68.1 %	68.6 %	54.5 %	66.1 %	66.5 %	50.4 %	63.9 %	65.8 %
BY MARKET										
North Georgia	$5,669	$711	$6,380	$7,392	$1,717	$9,109	$8,216	$1,392	$9,608	$12,166
Atlanta MSA	1,837	372	2,209	1,724	364	2,088	3,883	510	4,393	2,916
North Carolina	5,221	234	5,455	4,919	398	5,317	5,314	615	5,929	6,501

Coastal Georgia	799	105	904	781	160	941	782	80	862	800
Gainesville MSA	1,310	81	1,391	1,403	85	1,488	921	49	970	1,145
East Tennessee	1,414	201	1,615	1,227	245	1,472	1,218	323	1,541	1,428
South Carolina / Specialized Lending	1,285	22	1,307	945	177	1,122	—	—	—	—
Indirect auto	346	—	346	354	—	354	390	—	390	294
Total NPAs	$17,881	$1,726	$19,607	$18,745	$3,146	$21,891	$20,724	$2,969	$23,693	$25,250

	December 31, 2013			September 30, 2013			June 30, 2013			March 31
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccru Loans
BY CATEGORY										
Owner occupied commercial real estate	$5,822	$832	$6,654	$6,358	$591	$6,949	$5,283	$547	$5,830	$8,142
Income producing commercial real estate	2,518	—	2,518	1,657	139	1,796	1,954	—	1,954	9,162
Commercial & industrial	427	—	427	609	—	609	548	—	548	29,545
Commercial construction	361	—	361	343	376	719	504	376	880	22,359
Total commercial	9,128	832	9,960	8,967	1,106	10,073	8,289	923	9,212	69,208
Residential mortgage	11,730	2,684	14,414	11,335	1,679	13,014	12,847	1,303	14,150	10,901
Home equity	1,448	389	1,837	1,169	475	1,644	1,491	140	1,631	916
Residential construction	4,264	316	4,580	4,097	1,207	5,304	4,838	1,570	6,408	14,592
Consumer installment	249	—	249	520	—	520	399	—	399	389
Indirect auto	—	—	—	—	—	—	—	—	—	—
Total NPAs	$26,819	$4,221	$31,040	$26,088	$4,467	$30,555	$27,864	$3,936	$31,800	$96,006
Balance as a % of Unpaid Principal	65.3 %	44.5 %	61.4 %	61.6 %	41.5 %	57.6 %	62.6 %	31.6 %	55.8 %	66.3 %
BY MARKET										
	$12,352	$2,494	$14,846	$13,652	$1,726	$15,378	$12,830	$1,617	$14,447	$63,210

North Georgia										
Atlanta MSA	2,830	684	3,514	3,096	1,026	4,122	3,803	1,197	5,000	17,380
North Carolina	6,567	683	7,250	5,680	762	6,442	6,512	295	6,807	8,519
Coastal Georgia	2,342	173	2,515	995	928	1,923	2,588	627	3,215	3,523
Gainesville MSA	928	—	928	1,036	—	1,036	1,008	—	1,008	911
East Tennessee	1,800	187	1,987	1,629	25	1,654	1,123	200	1,323	2,463
South Carolina / Specialized Lending	—	—	—	—	—	—	—	—	—	—
Indirect auto	—	—	—	—	—	—	—	—	—	—
Total NPAs	$26,819	$4,221	$31,040	$26,088	$4,467	$30,555	$27,864	$3,936	$31,800	$96,006

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

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The following table summarizes activity in nonperforming assets by year.

Table 15 - Activity in Nonperforming Assets
(in thousands)

	2014 [1]			2013 [1]			2012 [1]		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	$26,819	$4,221	$31,040	$109,894	$18,264	$128,158	$127,479	$32,859	$160,338
Loans placed on non-accrual	33,637	—	33,637	43,867	—	43,867	112,547	—	112,547
Payments received	(14,108)	—	(14,108)	(60,035)	—	(60,035)	(31,076)	—	(31,076)
Loan charge-offs	(19,374)	—	(19,374)	(44,444)	—	(44,444)	(65,064)	—	(65,064)
Foreclosures	(9,093)	9,093	—	(22,463)	22,463	—	(33,992)	33,992	—
Capitalized costs	—	209	209	—	116	116	—	1,047	1,047
Note / property sales	—	(12,501)	(12,501)	—	(31,915)	(31,915)	—	(40,759)	(40,759)
Write downs	—	(691)	(691)	—	(3,065)	(3,065)	—	(6,951)	(6,951)
Net gains (losses) on sales	—	1,395	1,395	—	(1,642)	(1,642)	—	(1,924)	(1,924)
Ending Balance	$17,881	$1,726	$19,607	$26,819	$4,221	$31,040	$109,894	$18,264	$128,158

(1) Excludes nonperforming loans and foreclosed property covered by loss sharing agreements with the FDIC related to the acquisition of SCB.

Foreclosed property is initially recorded at fair value, less estimated costs to sell. If the fair value, less estimated costs to sell at the time of foreclosure, is less than the loan balance, the deficiency is charged against the allowance for loan losses. If the lesser of fair value, less estimated costs to sell or the listed selling price, less the costs to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to foreclosed property expense. When the foreclosed property is sold, a gain or loss is recognized on the sale for the difference between the sales proceeds and the carrying amount of the property. Financed sales of foreclosed property are accounted for in accordance with ASC 360-20, Real Estate Sales.

In 2014, 2013 and 2012, United transferred $9.09 million, $22.5 million and $34.0 million, respectively, of loans into foreclosed property. During 2014, 2013 and 2012, proceeds from sales of foreclosed properties were $12.5 million, $31.9 million, and $40.8 million, respectively, which includes $2.50 million, $3.49 million, and $9.40 million, respectively, of sales that were financed by United.

The gross additional interest income that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $1.71 million, $2.11 million and $6.81 million in 2014, 2013 and 2012, respectively. The gross additional interest income that would have been earned in 2014, 2013 and 2012 had performing TDRs performed in accordance with the original terms is immaterial.

Investment Securities

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet, while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits and borrowings, including repurchase agreements. Total investment securities at December 31, 2014 decreased $114 million from a year ago.

At December 31, 2014 and December 31, 2013, United had securities held-to-maturity with a carrying value of $415 million and $480 million, respectively, and securities available-for-sale totaling $1.78 billion and $1.83 billion, respectively. At December 31, 2014 and 2013, the securities portfolio represented approximately 29% and 31%, respectively, of total assets. At December 31, 2014, the average life of the investment portfolio was shorter, with an effective duration of 2.46 years compared with 2.96 years at December 31, 2013.

The following table shows the carrying value of United's investment securities.

Table 16 - Carrying Value of Investment Securities
As of December 31,
(in thousands)

	December 31, 2014		
	Available-for-Sale	Held-to-Maturity	Total Securities
U.S. Treasuries	$105,709	$ —	$ 105,709
U.S. Government agencies	36,299	—	36,299
State and political subdivisions	20,233	48,157	68,390
Mortgage-backed securities	996,820	367,110	1,363,930
Corporate bonds	165,628	—	165,628
Asset-backed securities	455,928	—	455,928
Other	2,117	—	2,117
Total securities	$1,782,734	$ 415,267	$ 2,198,001

	December 31, 2013		
	Available-for-Sale	Held-to-Maturity	Total Securities
State and political subdivisions	$23,242	$ 51,733	$ 74,975
Mortgage-backed securities	1,145,347	428,009	1,573,356
Corporate bonds	250,296	—	250,296
Asset-backed securities	410,633	—	410,633
Other	2,699	—	2,699
Total securities	$1,832,217	$ 479,742	$ 2,311,959

The investment securities portfolio primarily consists of U.S. Treasury securities, U.S. Government agency securities, U.S. Government sponsored agency mortgage-backed securities, non-agency mortgage-backed securities, corporate securities, municipal securities and asset-backed securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because the loans underlying the security can prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining or prolonged low interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs. Prepayments tend to slow and the weighted average life extends. This is referred to as extension risk, which can lead to lower levels of liquidity due to the delay of cash receipts, and can result in the holding of a below market yielding asset for a longer period of time. United's asset-backed securities include securities that are backed by student loans and collateralized loan obligations.

Management evaluates its securities portfolio each quarter to determine if any security is considered to be other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. Losses on United's fixed income securities at December 31, 2014 primarily reflect the effect of changes in interest rates. United did not recognize any other than temporary impairment losses on its investment securities in 2014, 2013 or 2012.

At December 31, 2014, United had 62% of its total investment securities portfolio in mortgage backed securities, compared with 68% at December 31, 2013. United has continued to purchase mortgage-backed securities in order to obtain a favorable yield with low risk. United did not have securities of any issuer in excess of 10% of equity at year-end 2014 or 2013, excluding U.S. Government sponsored entities. Less than 1% of the securities portfolio is rated below “A” or unrated and 48% of securities, excluding non-government agency securities, are rated “Aaa”. See Note 6 to the consolidated financial statements for further discussion of investment portfolio and related fair value and maturity information.

Goodwill and Other Intangible Assets

United’s core deposit intangibles representing the value of United’s acquired deposit base, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that lead management to believe that any impairment exists in United’s other intangible assets.

United’s goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. United evaluates its goodwill annually, or more frequently if necessary, to determine if any impairment exists.

Deposits

United has initiated several deposit programs to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit accounts to improve its net interest margin and increase net interest revenue. The programs were successful in increasing core transaction deposit accounts and allowing for the reduction of more costly time deposit balances, as United's funding needs decreased due to lower loan demand. United's high level of service, as evidenced by its strong customer satisfaction scores, has been instrumental in attracting and retaining deposits.

Total customer deposits, excluding brokered deposits, as of December 31, 2014 were $5.90 billion, an increase of $125 million from December 31, 2013. Total core deposits (demand, NOW, money market and savings deposits, excluding public funds deposits) of $3.69 billion increased $252 million, or 7%, due to the success of core deposit incentive programs.

Total time deposits, excluding brokered deposits, as of December 31, 2014 were $1.26 billion, down $225 million from December 31, 2013. Time deposits less than $100,000 totaled $748 million, a decrease of $144 million, or 16%, from a year ago. Time deposits of $100,000 and greater totaled $508 million as of December 31, 2014, a decrease of $80 million, or 14%, from December 31, 2013. United continued to offer low rates on certificates of deposit, allowing balances to decline as United's funding needs declined due to weak loan demand and a shift to lower cost transaction account deposits.

Brokered deposits totaled $425 million as of December 31, 2014, equal to a year ago and included Now accounts, money market deposits and certificates of deposit. Brokered certificates of deposit account for $273 million of the balance at both December 31, 2014 and 2013. United has actively added long-term deposits to diversify our funding base. These are typically swapped to LIBOR minus a spread, which achieves low cost funding within our interest rate risk parameters.

The following table sets forth the scheduled maturities of time deposits of $100,000 and greater and brokered time deposits.

Table 17 - Maturities of Time Deposits of $100,000 and Greater and Brokered Time Deposits
As of December 31,
(in thousands)

	2014	2013
$100,000 and greater:		
Three months or less	$ 120,167	$ 116,875
Three to six months	98,443	100,425
Six to twelve months	182,936	195,064
Over one year	106,682	176,325
Total	$ 508,228	$ 588,689
Brokered time deposits:		
Three months or less	$ —	$ —
Three to six months	—	—
Six to twelve months	—	—
Over one year	272,834	273,166
Total	$ 272,834	$ 273,166

Wholesale Funding

The Bank is a shareholder in the Federal Home Loan Bank of Atlanta ("FHLB"). Through this affiliation, FHLB secured advances totaling $270 million and $120 million at December 31, 2014 and 2013, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at December 31, 2014 had fixed interest rates of .24% or less. United will prepay advances from time to time as funding needs change. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 12 to the consolidated financial statements.

At December 31, 2014 and 2013, United had $6.00 million and $53.2 million in repurchase agreements outstanding. During the second quarters of 2014 and 2012, United prepaid $44 million and $50 million, respectively, in structured repurchase agreements and incurred prepayment charges of $4.45 million and $4.48 million, respectively. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and the ability to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the daily cash flow requirements of the Bank's customers, both depositors and borrowers.

In addition, because United is a separate entity and apart from the Bank, it must provide for its own liquidity. United is responsible for the payment of dividends declared for its shareholders, and interest and principal on any outstanding debt or trust preferred securities. United currently has internal capital resources to meet these obligations. Substantially all of United's liquidity is obtained from subsidiary service fees and dividends from the Bank, which are limited by applicable law. Until 2013, the Bank was unable to pay dividends to United and liquidity was obtained from external sources (debt and equity issuances) to meet its needs. In 2014 and 2013, the Bank paid dividends of $129 million and $50 million, respectively, to United.

Two key objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities to optimize interest revenue. Daily monitoring of the sources and uses of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled $13.7 million at December 31, 2014, and typically turn over every 45 days as closed loans are sold to investors in the secondary market.

The liability section of the balance sheet provides liquidity through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, Federal Reserve short-term borrowings, FHLB advances, and securities sold under agreements to repurchase are additional sources of liquidity and represent United's incremental borrowing capacity. These sources of liquidity are generally short-term in nature are used as necessary to fund asset growth and meet other short-term liquidity needs.

The table below presents a summary of United's short-term borrowings over the last three years.

Table 18 - Short-Term Borrowings
As of December 31,
(in thousands)

December 31, 2014	Period-end balance	Period end weighted-average interest rate		Maximum outstanding at any month-end	Average amounts outstanding during the year	Weighted-average rate for the year	
Federal funds purchased	$ —	—	%	$ 65,000	$ 22,795	.32	%
Repurchase agreements	6,000	4.00		55,075	28,568	3.81	
Other	—	—		40,000	23,178	4.30	
	$ 6,000				$ 74,541		
December 31, 2013							
Federal funds purchased	$ —	—	%	$ 70,000	$ 13,327	.33	%
Repurchase agreements	53,241	4.00		54,164	53,234	3.81	
	$ 53,241				$ 66,561		
December 31, 2012							
Federal funds purchased	$ —	—	%	$ —	$ 5,000	.33	%

Repurchase agreements	52,574	4.00	103,551	75,593	3.93
	$ 52,574			$ 80,593	

At December 31, 2014, United had sufficient qualifying collateral to increase FHLB advances by $791 million and Federal Reserve discount window capacity of $753 million. United also has the ability to raise substantial funds through brokered deposits. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in United's consolidated statement of cash flows, net cash provided by operating activities was $102 million for the year ended December 31, 2014. Net income of $67.6 million for the year included the deferred income tax expense of $38.2 million, non-cash expenses for provision for credit losses of $8.50 million, non-cash depreciation, amortization and accretion of $20.0 million. Accrued expenses and other liabilities decreased $15.4 million, along with other assets and accrued interest receivable increase of $16.8 million. Net cash used in investing activities of $237 million consisted primarily of $611 million of purchases of securities, a net increase in loans of $326 million, purchases of premises and equipment of $5.05 million and net cash paid for the BCI acquisition of $31.3 million, that were offset by proceeds from sales of securities of $421 million, maturities and calls of investment securities of $295 million, proceeds from note sales of $4.56 million, and net proceeds from sales of other real estate of $10.2 million. The $99.4 million of net cash provided financing activities consisted primarily of a net increase in deposits of $125 million and a $150 million net increase in FHLB advances. Cash from financing activities was also increased by $12.2 million in proceeds from the issuance of common stock. This increase was offset by $122 million paid to retire preferred stock, a $51.7 million reduction in short-term borrowings and $12.0 million in cash used to repurchase an outstanding warrant. In the opinion of management, United's liquidity position at December 31, 2014 was sufficient to meet its expected cash flow requirements.

The following table shows United's contractual obligations and other commitments.

Table 19 - Contractual Obligations and Other Commitments
As of December 31, 2014
(in thousands)

	Maturity By Years				
	Total	1 or Less	1 to 3	3 to 5	Over 5
Contractual Cash Obligations					
FHLB advances	$ 270,125	$270,000	$125	$—	$—
Long-term debt	129,865	—	35,000	40,000	54,865
Operating leases	10,877	1,741	2,707	1,906	4,523
Total contractual cash obligations	$ 410,867	$271,741	$37,832	$41,906	$59,388
Other Commitments					
Lines of credit	$ 878,160	$240,137	$123,768	$190,398	$323,857
Commercial letters of credit	19,861	18,226	1,155	480	—
Uncertain tax positions	4,195	585	839	374	2,397
Total other commitments	$ 902,216	$258,948	$125,762	$191,252	$326,254

The following table presents the contractual maturity of investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis). The composition and maturity / repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

Table 20 - Expected Maturity of Available-for-Sale and Held-to-Maturity Investment Securities
As of December 31, 2014
(in thousands)

	Maturity By Years				
	1 or Less	1 to 5	5 to 10	Over 10	Total
Available for Sale					
U.S. Treasury securities	$—	$105,709	$—	$—	$105,709
U.S. government agency securities	—	—	36,299	—	36,299
State and political subdivisions	6,405	10,771	2,165	892	20,233
Corporate bonds	9,815	37,891	117,172	750	165,628
Asset-backed securities	9,505	257,886	58,966	129,571	455,928
Other securities [1]	8,204	582,576	214,909	193,248	998,937
Total securities available for sale	$33,929	$994,833	$429,511	$324,461	$1,782,734
Weighted average yield [2]	2.68 %	2.18 %	2.21 %	3.35 %	2.41 %
Held to Maturity					
State and political subdivisions	$1,000	$18,582	$19,573	$9,002	$48,157
Other securities [1]	—	249,815	111,603	5,692	367,110
Total securities available for sale	$1,000	$268,397	$131,176	$14,694	$415,267
Weighted average yield [2]	4.00 %	3.00 %	3.17 %	4.96 %	3.12 %
Combined Portfolio					

U.S. Treasury securities	$ —	$ 105,709	$ —	$ —	$ 105,709
U.S. governement agency securities	—	—	36,299	—	36,299
State and political subdivisions	7,405	29,353	21,738	9,894	68,390
Corporate bonds	9,815	37,891	117,172	750	165,628
Asset-backed securities	9,505	257,886	58,966	129,571	455,928
Other securities [1]	8,204	832,391	326,512	198,940	1,366,046
Total securities available for sale	$ 34,929	$ 1,263,230	$ 560,687	$ 339,155	$ 2,198,000
Weighted average yield [2]	2.71 %	2.41 %	2.42 %	3.42 %	2.58 %

[1] Includes mortgage-backed securities

[2] Based on amortized cost, taxable equivalent basis

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Off-Balance Sheet Arrangements

United is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers. These financial instruments include commitments to extend credit, letters of credit and financial guarantees.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Letters of credit and financial guarantees are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as extending loan facilities to customers. Those commitments are primarily issued to local businesses.

The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, letters of credit and financial guarantees is represented by the contractual amount of these instruments. United uses the same credit underwriting procedures for making commitments, letters of credit and financial guarantees, as it uses for underwriting on-balance sheet instruments. United evaluates each customer's creditworthiness on a case-by-case basis and the amount of the collateral, if deemed necessary, is based on the credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used. United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 20 to the consolidated financial statements for additional information on off-balance sheet arrangements.

At December 31, 2014 and 2013, United had $375 million and $350 million, respectively, in offsetting repurchase agreements / reverse repurchase agreements that were netted in the consolidated balance sheet. United enters into these collateral swap arrangements from time to time as a source of additional revenue.

Capital Resources and Dividends

Shareholders' equity at December 31, 2014 was $740 million, a decrease of $56.1 million from December 31, 2013. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available-for-sale, the unrealized gains and losses on derivatives qualifying as cash flow hedges, and unamortized prior service cost and actuarial gains and losses on United's modified retirement plan, is excluded in the calculation of regulatory capital ratios. Excluding the change in the accumulated other comprehensive income, shareholders' equity decreased $57.2 million, or 7%, from December 31, 2013. The decrease results from the redemption of $122 million in preferred stock in the first quarter of 2014. The preferred stock redemption was offset by 2014 earnings, net of dividend declared on common stock.

United accrued $439,000 and $12.1 million, respectively, in dividends, including discount accretion, on its Series A Preferred Stock, Series B Preferred Stock, and Series D Preferred Stock, for the years ended December 31, 2014 and 2013.

On December 31, 2013, United redeemed all of its outstanding Series A Preferred Stock in the principal amount of $217,000. The redemption price for shares of the Series A Preferred Stock was the stated value of $10 per share, plus any accrued and unpaid dividends that had been earned thereon through the redemption date. Following the redemption, there are no shares of United's Series A Preferred Stock outstanding.

On December 27, 2013, United redeemed $75 million of its $180 million in outstanding Series B Preferred Stock. The redemption price for shares of the Series B Preferred Stock called for redemption was the stated liquidation value of $1,000 per share, plus any accrued and unpaid dividends that had been earned thereon to, but not including, the redemption date. As of December 31, 2013, $105 million of United's Series B Preferred Stock was outstanding. The remaining $105 million of United's Series B Preferred Stock was redeemed on January 10, 2014 on comparable terms. On March 3, 2014, United redeemed all of its outstanding $16.6 million in Series D preferred stock at par. United funded the redemptions by utilizing cash on hand, cash dividends from the Bank and short-term debt.

In December, 2014, United repurchased an outstanding warrant from Fletcher International Ltd. ("Fletcher"), for $12.0 million, its estimated fair value.

On August 12, 2013, holders elected to exercise warrants to purchase an aggregate 1,551,126 shares of United's common stock at a price of 12.50 per share. United recognized net proceeds of approximately $19.4 million as a result of the exercises.

The Federal Reserve has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off balance sheet. Under the guidelines, capital strength is measured in two tiers which are used in conjunction with risk-weighted assets to determine the risk-based capital ratios. The guidelines require an 8% Total risk-based capital ratio, of which 4% must be Tier 1 capital. However, to be considered well-capitalized under the guidelines, a 10% Total risk-based capital ratio is required, of which 6% must be Tier 1 capital.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the Company’s total risk weighted assets. Risk-weighted assets for purposes of United’s capital ratios are calculated under these guidelines.

Tier 1 capital consists of shareholders’ equity, excluding accumulated other comprehensive income, intangible assets (goodwill and deposit-based intangibles), and disallowed deferred tax assets, plus qualifying capital securities. United’s Tier 1 capital totaled $643 million at December 31, 2014. Tier 2 capital components include supplemental capital such as the qualifying portion of the allowance for loan losses and qualifying subordinated debt. Tier 1 capital plus Tier 2 capital is referred to as Total risk-based capital and was $709 million at December 31, 2014. The ratios, as calculated under the guidelines, were 12.06% and 13.31% for Tier 1 and Total risk-based capital, respectively, at December 31, 2014.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier 1 capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required, the Federal Reserve requires a bank holding company to maintain a leverage ratio of greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The Federal Reserve uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies.

United has outstanding junior subordinated debentures related to trust preferred securities totaling $54.9 million at December 31, 2014. The related trust preferred securities of $53.2 million (excluding common securities) qualify as Tier 1 capital under risk-based capital guidelines provided that total trust preferred securities do not exceed certain quantitative limits. At December 31, 2014, all of United’s trust preferred securities qualified as Tier 1 capital. Further information on United’s trust preferred securities is provided in Note 13 to the consolidated financial statements.

The following table shows United’s capital ratios, as calculated under regulatory guidelines, at December 31, 2014 and 2013:

Table 21 - Capital Ratios
(dollars in thousands)

	Regulatory Guidelines		United Community Banks, Inc. (Consolidated)		United Community Bank	
			As of December 31,		As of December 31,	
	Minimum	Well Capitalized	2014	2013	2014	2013

Risk-based ratios:						
Tier 1 capital	4.0%	6.0 %	12.05 %	12.74 %	12.84 %	13.55 %
Total capital	8.0	10.0	13.30	13.99	14.09	14.80
Leverage ratio	3.0	5.0	8.69	9.08	9.25	9.61
Tier 1 capital			$ 642,663	$ 649,162	$683,332	$686,687
Total capital			709,408	713,063	749,927	750,216
Risk-weighted assets			5,332,822	5,097,091	5,320,615	5,066,948
Average total assets			7,396,450	7,150,360	7,385,048	7,142,050

Effect of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature, with relatively little investment in fixed assets or inventories. Inflation has an important effect on the growth of total assets and the resulting need to increase equity capital at higher than nominal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the effect of inflation on financial results depends on United's ability to react to changes in interest rates and, by such reaction, reduce the inflationary effect on performance. United has an asset/liability management program to monitor and manage United's interest rate sensitivity position. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Sensitivity Management

The absolute level and volatility of interest rates can have a significant effect on United's profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve United's overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

United's net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United limits its exposure to fluctuations in interest rates through policies established by its Asset/Liability Management Committee ("ALCO") and approved by the Board of Directors. ALCO meets periodically and has responsibility for formulating and recommending asset/liability management policies to the Board of Directors, formulating and implementing strategies to improve balance sheet positioning and/or earnings and reviewing United's interest rate sensitivity.

One of the tools management uses to estimate and manage the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, loan and deposit re-pricing characteristics and the rate of prepayments. ALCO periodically reviews the assumptions for accuracy based on historical data and future expectations, however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared to in order to measure the change in net interest revenue. Policy limits are based on immediate rate shock scenarios, as well as gradually rising and falling rate scenarios, which are compared to the base scenario. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the forward yield curve. Other scenarios analyzed may include delayed rate shocks, yield curve steepening or flattening or other variations in rate movements. While the primary policy scenarios focus on a twelve month time frame, longer time horizons are also modeled. All policy scenarios assume a static balance sheet.

United's policy is based on the 12-month impact on net interest revenue of interest rate shocks and ramps that increase or decrease from 100 to 300 basis points from the base scenario. In the shock scenarios, rates immediately change the full amount at the scenario onset. In the ramp scenarios, rates change by 25 basis points per month. United's policy limits the change in net interest revenue over the first 12 months to a 5% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. Historically low rates on December 31, 2014 and 2013 made use of the down scenarios problematic. The following table presents United's interest sensitivity position at December 31, 2014 and 2013.

Table 22 - Interest Sensitivity

	Increase (Decrease) in Net Interest Revenue from Base Scenario at December 31,			
	2014		2013	
Change in Rates	Shock	Ramp	Shock	Ramp

200 basis point increase	1.7%	2.0%	4.4%	5.4%

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-earning assets and interest-bearing liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate changes on net interest revenue.

United may have some discretion in the extent and timing of deposit repricing depending upon the competitive pressures in the markets in which it operates. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices. This is commonly referred to as basis risk.

In order to manage its interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate, (or fixed rate, as the case may be) and receives a fixed rate (or variable rate, as the case may be).

United's derivative financial instruments that are designated as accounting hedges are classified as either cash flow or fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize in earnings both the effect of the change in the fair value of the derivative financial instrument and the offsetting effect of the change in fair value of the hedged asset or liability associated with the particular risk of that asset or liability being hedged. United has other derivative financial instruments that are not designated as accounting hedges but are used for interest rate risk management purposes and as an effective economic hedge. Derivative financial instruments that are not accounted for as an accounting hedge are marked to market through earnings.

In addition to derivative instruments, United uses a variety of balance sheet instruments to manage interest rate risk such as Investment Portfolio holdings, wholesale funding and bank-issued deposits.

From time to time, United will terminate hedging positions when conditions change and the position is no longer necessary to manage United's overall sensitivity to changes in interest rates. In those situations where the terminated contract was in an effective cash flow hedging relationship at the time of termination, the resulting gain or loss is amortized over the remaining life of the original contract as long as the forecasted hedged cash flows are expected to remain probable. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. At December 31, 2014, United had $4.74 million in losses from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. In addition, United's one active cash flow hedge of floating rate liabilities that will begin interest settlements over the next twelve months. United expects that $3.34 million will be reclassified as an increase to deposit and wholesale borrowings interest expense over the next twelve months related to these terminated derivative positions and active cash flow hedges.

During the fourth quarter 2013, United reclassified hedge ineffectiveness gains and losses from other fee revenue to net interest revenue. This reclassification has been reflected in all prior period results.

United's policy requires all non-customer derivative financial instruments be used only for asset/liability management through the hedging of specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate risk sensitivity is minimal and should not have any material unintended effect on our financial condition or results of operations. In order to mitigate potential credit risk, from time to time United may require the counterparties to derivative contracts to pledge securities as collateral to cover the net exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the registrant and report of independent registered public accounting firm are included herein as follows:

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of United Community Banks, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company’s principal executive and principal financial officers and affected by the company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the internal control over financial reporting as of December 31, 2014. In making this assessment, we used the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, management concluded that as of December 31, 2014, United Community Banks, Inc.’s internal control over financial reporting is effective based on those criteria.

Our independent registered public accountants have audited the effectiveness of the company’s internal control over financial reporting as stated in their report, which is included in Item 8 of this Annual Report on Form 10-K.

/s/ Jimmy C. Tallent	/s/ Rex S. Schuette
Jimmy C. Tallent	Rex S. Schuette
Chairman and Chief Executive Officer	Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of United Community Banks, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income, of comprehensive income (loss), of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of United Community Banks, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

February 27, 2015

PricewaterhouseCoopers LLP, 1075 Peachtree St, Suite 2600, Atlanta, GA 30309
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
United Community Banks, Inc.
Blairsville, Georgia

We have audited the accompanying consolidated statement of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year ended December 31, 2012 of United Community Banks, Inc. and subsidiaries (the "Company"). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of United Community Banks, Inc. and subsidiaries for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Atlanta, Georgia
March 1, 2013

235 Peachtree Street NE | Suite 1800 | Atlanta, Georgia 30303 | Phone 404.588.4200 | Fax 404.588.4222

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Income
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands, except per share data)

	2014	2013	2012
Interest revenue:			
Loans, including fees	$196,279	$200,893	$217,378
Investment securities:			
Taxable	47,755	40,331	43,657
Tax exempt	738	827	956
Deposits in banks and short-term investments	3,660	3,789	3,986
Total interest revenue	248,432	245,840	265,977
Interest expense:			
Deposits:			
NOW	1,651	1,759	2,049
Money market	3,060	2,210	2,518
Savings	81	133	150
Time	7,133	10,464	19,097
Total deposit interest expense	11,925	14,566	23,814
Short-term borrowings	2,160	2,071	2,987
Federal Home Loan Bank advances	912	68	907
Long-term debt	10,554	10,977	10,201
Total interest expense	25,551	27,682	37,909
Net interest revenue	222,881	218,158	228,068
Provision for credit losses	8,500	65,500	62,500
Net interest revenue after provision for credit losses	214,381	152,658	165,568
Fee revenue:			
Service charges and fees	33,073	31,997	31,670
Mortgage loan and other related fees	7,520	9,925	10,483
Brokerage fees	4,807	4,465	3,082
Securities gains, net	4,871	186	7,078
Losses on prepayment of borrowings	(4,446)	—	(6,681)
Other	9,729	10,025	10,480
Total fee revenue	55,554	56,598	56,112
Total revenue	269,935	209,256	221,680
Operating expenses:			
Salaries and employee benefits	100,941	96,233	96,026
Occupancy	13,513	13,930	14,304
Communications and equipment	12,523	13,233	12,940
FDIC assessments and other regulatory charges	4,792	9,219	10,097
Professional fees	7,907	9,617	8,792
Postage, printing and supplies	3,542	3,283	3,899
Advertising and public relations	3,461	3,718	3,855
Amortization of intangibles	1,348	2,031	2,917
Foreclosed property	634	7,869	13,993
Other	14,204	15,171	19,951

Total operating expenses	162,865	174,304	186,774
Income before income taxes	107,070	34,952	34,906
Income tax expense (benefit)	39,450	(238,188)	1,050
Net income	67,620	273,140	33,856
Preferred stock dividends	439	12,078	12,148
Net income available to common shareholders	$67,181	$261,062	$21,708
Income per common share:			
Basic	$1.11	$4.44	$.38
Diluted	1.11	4.44	.38
Weighted average common shares outstanding:			
Basic	60,588	58,787	57,857
Diluted	60,590	58,845	57,857

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Comprehensive Income (Loss)
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands, except per share data)

	2014			2013			2012		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$107,070	$(39,450)	$67,620	$34,952	$238,188	$273,140	$34,906	$(1,050)	$33,856
Other comprehensive income (loss):									
Unrealized (losses) gains on available-for-sale securities:									
Unrealized holding gains (losses) arising during period	12,550	(4,676)	7,874	(22,421)	8,475	(13,946)	748	(273)	475
Reclassification of securities from available-for-sale to held-to-maturity	—	—	—	8,306	(3,119)	5,187	—	—	—
Reclassification adjustment for gains included in net income	(4,871)	1,902	(2,969)	(186)	72	(114)	(7,078)	2,753	(4,325)
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities and release of valuation allowance	—	—	—	—	(2,963)	(2,963)	-	(2,480)	(2,480)
Net unrealized gains (losses)	7,679	(2,774)	4,905	(14,301)	2,465	(11,836)	(6,330)	—	(6,330)
Amortization of gains included in net income (loss) on available-for-sale securities transferred to held to maturity	1,656	(622)	1,034	(731)	282	(449)	(1,988)	773	(1,215)
Reclassification of securities from available- for-sale to held-to-maturity	—	—	—	(8,306)	3,119	(5,187)	—	—	—
	—	—	—	—	1,293	1,293	—	(773)	(773)

Adjustment of valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity and release of valuation allowance									
Net unrealized gains (losses)	1,656	(622)	1,034	(9,037)	4,694	(4,343)	(1,988)	-	(1,988)
Amounts reclassified into net income on cash flow hedges	2,010	(782)	1,228	(904)	352	(552)	(3,712)	1,444	(2,268)
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	(8,437)	3,282	(5,155)	10,084	(3,923)	6,161	(8,739)	3,400	(5,339)
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges and release of valuation allowance	—	—	—	—	13,698	13,698	—	(4,844)	(4,844)
Net unrealized gains (losses)	(6,427)	2,500	(3,927)	9,180	10,127	19,307	(12,451)	—	(12,451)
Net actuarial gain (loss) on defined benefit pension plan	(1,933)	752	(1,181)	561	(218)	343	(177)	69	(108)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	365	(142)	223	532	(207)	325	615	(240)	375
Adjustment of valuation allowance for the change in deferred taxes arising from reclassification	—	—	—	—	—	—	—	171	171

of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses and release of valuation allowance									
Net defined benefit pension plan activity	(1,568)	610	(958)	1,093	(425)	668	438	—	438
Total other comprehensive income (loss)	1,340	(286)	1,054	(13,065)	16,861	3,796	(20,331)	—	(20,331)
Comprehensive income (loss)	$108,410	$(39,736)	$68,674	$21,887	$255,049	$276,936	$14,575	$(1,050)	$13,525

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Balance Sheet
As of December 31, 2014 and 2013
(in thousands, except share data)

Assets

	2014	2013
Cash and due from banks	$77,180	$71,230
Interest-bearing deposits in banks	89,074	119,669
Short-term investments	26,401	37,999
Cash and cash equivalents	192,655	228,898
Securities available-for-sale	1,782,734	1,832,217
Securities held-to-maturity (fair value $425,233 and $485,585)	415,267	479,742
Mortgage loans held for sale	13,737	10,319
Loans, net of unearned income	4,672,119	4,329,266
Less allowance for loan losses	(71,619)	(76,762)
Loans, net	4,600,500	4,252,504
Assets covered by loss sharing agreements with the FDIC	3,315	22,882
Premises and equipment, net	159,390	163,589
Bank owned life insurance	81,294	80,670
Accrued interest receivable	20,103	19,598
Net deferred tax asset	215,503	258,518
Derivative financial instruments	20,599	23,833
Other assets	61,889	52,649
Total assets	$7,566,986	$7,425,419

Liabilities and Shareholders' Equity

Liabilities:		
Deposits:		
Demand	$1,574,317	$1,388,512
NOW	1,504,887	1,427,939
Money market	1,273,283	1,227,575
Savings	292,308	251,125
Time:		
Less than $100,000	748,478	892,961
Greater than $100,000	508,228	588,689
Brokered	425,011	424,704
Total deposits	6,326,512	6,201,505
Repurchase agreements	6,000	53,241
Federal Home Loan Bank advances	270,125	120,125
Long-term debt	129,865	129,865
Derivative financial instruments	31,997	46,232
Unsettled securities purchases	5,425	29,562
Accrued expenses and other liabilities	57,485	49,174

Total liabilities	6,827,409	6,629,704
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1 par value; 10,000,000 shares authorized;		
Series B, $1,000 stated value; 0 and 105,000 shares issued and outstanding	—	105,000
Series D, $1,000 stated value; 0 and 16,613 shares issued and outstanding	—	16,613
Common stock, $1 par value; 100,000,000 shares authorized;		
50,178,605 and 46,243,345 shares issued and outstanding	50,178	46,243
Common stock, non-voting, $1 par value; 26,000,000 shares authorized;		
10,080,787 and 13,188,206 shares issued and outstanding	10,081	13,188
Common stock issuable; 357,983 and 241,832 shares	5,168	3,930
Capital surplus	1,080,508	1,078,676
Accumulated deficit	(387,568)	(448,091)
Accumulated other comprehensive loss	(18,790)	(19,844)
Total shareholders' equity	739,577	795,715
Total liabilities and shareholders' equity	$7,566,986	$7,425,419

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Shareholders' Equity
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands except share data)

	Preferred Stock Series A	Series B	Series D	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2011	$217	$177,092	$16,613	$41,647	$15,914	$3,233	$1,054,940	$(730,861)	$(3,309)	$575,486
Net income								33,856		33,856
Other comprehensive loss									(20,331)	(20,331
Common stock issued to Dividend Reivnestment Plan and employee benefit plans (109,905 common shares)				110			790			900
Conversion of non-voting common stock to voting common stock (597,415 shares)				597	(597)					—
Amortization of stock options and restricted stock							1,976			1,976
Vesting of restricted stock awards (64,839 common shares issued, 36,673 common shares deferred)				65		155	(220)			—
Deferred compensation plan, net						201				201

Shares issued from deferred compensation plan (4,611 common shares)				5		(470)	465			—
Preferred stock dividends:										
Series A								(12)		(12
Series B, including accretion		1,465						(10,465)		(9,000
Series D								(1,671)		(1,671
Balance, December 31, 2012	217	178,557	16,613	42,424	15,317	3,119	1,057,951	(709,153)	(23,640)	581,405
Net income								273,140		273,140
Other comprehensive income									3,796	3,796
Redemption of Series A preferred stock (21,700 shares)	(217)									(217
Redemption of Series B preferred stock (75,000 shares)		(75,000)								(75,000
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (62,978 common shares)				63			733			796
Conversion of non-voting common stock to voting common stock (2,128,588 shares)				2,129	(2,129)					
Warrant exercise (1,551,126 shares)				1,551			17,838			19,389
Amortization of stock options							3,045			3,045

and restricted stock										
Vesting of restricted stock awards, net of shares surrendered to cover payroll taxes (55,328 common shares issued, 115,664 common shares deferred)				55		1,693	(1,929)			(181
Deferred compensation plan, net						177				177
Shares issued from deferred compensation plan (21,455 common shares)				21		(1,059)	1,038			—
Preferred stock dividends:										
Series A								(12)		(12
Series B, including accretion		1,443						(10,401)		(8,958
Series D								(1,665)		(1,665
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								67,620		67,620
Other comprehensive income									1,054	1,054
Redemption of Series B preferred stock (105,000 shares)		(105,000)								(105,00
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
				28			441			469

Common stock issued to Dividend Reinvestment Plan and employee benefit plans (28,070 common shares)						
Conversion of non-voting common stock to voting common stock (3,107,419 shares)	3,107	(3,107)				—
Warrant repurchase at fair value				(12,000)		(12,000
Amortization of stock options and restricted stock				4,304		4,304
Vesting of restricted stock awards, net of shares surrendered to cover payroll taxes (146,548 common shares issued, 115,609 common shares deferred)	147		1,274	(2,736)		(1,315
Deferred compensation plan, net, including dividend equivalents			234			234
Shares issued from deferred compensation plan (13,223 common shares)	13		(270)	257		—
Common stock dividends ($.11 per share)					(6,658)	(6,658

Preferred stock dividends:										
Series B								(159)		(159
Series D								(280)		(280
Balance, December 31, 2014	$—	$—	$—	$50,178	$10,081	$5,168	$1,080,508	$(387,568)	$(18,790)	$739,577

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands)

	2014	2013	2012
Operating activities:			
Net income	$67,620	$273,140	$33,856
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	19,952	26,388	32,562
Provision for credit losses	8,500	65,500	62,500
Stock based compensation	4,304	3,045	1,976
Deferred income tax expense (benefit)	38,226	(241,655)	—
Securities gains, net	(4,871)	(186)	(7,078)
Losses on prepayment of borrowings	4,446	—	6,681
Net (gains) losses on sales and write downs of other real estate owned	(704)	4,706	8,875
Change in assets and liabilities:			
(Increase) decrease in other assets and accrued interest receivable	(16,774)	(293)	43,738
(Decrease) increase in accrued expenses and other liabilities	(15,385)	42,505	4,908
(Increase) decrease in mortgage loans held for sale	(3,418)	18,502	(4,940)
Net cash provided by operating activities	101,896	191,652	183,078
Investing activities:			
Investment securities held-to-maturity:			
Proceeds from maturities and calls	64,791	63,985	82,801
Purchases	(173)	(8,481)	—
Investment securities available-for-sale:			
Proceeds from sales	419,201	39,731	469,167
Proceeds from maturities and calls	224,302	477,060	629,896
Purchases	(603,384)	(818,256)	(1,166,653)
Net increase in loans	(326,452)	(358,858)	(159,814)
Proceeds from loan sales	4,561	91,913	—
Net cash paid for acquisition	(31,261)	—	—
Proceeds collected from FDIC under loss sharing agreements	2,662	5,882	14,292
Purchases of premises and equipment	(5,054)	(8,143)	(4,117)
Proceeds from sales of premises and equipment	3,137	3,946	1,059
Proceeds from sale of other real estate owned	10,175	28,430	31,356
Net cash used in investing activities	(237,495)	(482,791)	(102,013)
Financing activities:			
Net increase (decrease) in deposits	125,007	249,365	(145,843)
Net increase (decrease) in short-term borrowings	(51,687)	667	(54,483)
Proceeds from Federal Home Loan Bank advances	1,230,000	770,000	1,789,000
Repayment of Federal Home Loan Bank advances	(1,080,000)	(690,000)	(1,791,701)

Repayment of long-term debt	—	(35,000)	(30,500)
Proceeds from issuance of long-term debt	—	40,000	35,000
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	469	796	894
Proceeds from issuance of common stock, net of offering costs	12,206	—	—
Proceeds from warrant exercise	—	19,389	—
Repurchase of outstanding warrant at fair value	(12,000)	—	—
Retirement of preferred stock	(121,613)	(75,217)	—
Cash dividends on common stock	(1,810)	—	—
Cash dividends on Series A preferred stock	—	(15)	(12)
Cash dividends on Series B preferred stock	(802)	(9,440)	(9,000)
Cash dividends on Series D preferred stock	(412)	(1,657)	(1,687)
Net cash provided by (used in) financing activities	99,358	268,888	(208,332)
Net change in cash and cash equivalents	(36,241)	(22,251)	(127,267)
Cash and cash equivalents at beginning of year	228,898	251,149	378,416
Cash and cash equivalents at end of year	$192,657	$228,898	$251,149
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$25,669	$26,139	$42,107
Income taxes paid (refunds received)	3,046	2,362	(26,164)

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

The accounting principles followed by United Community Banks, Inc. (“United”) and its subsidiaries and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (“GAAP”) and with general practices within the banking industry. The following is a description of the significant policies.

Organization and Basis of Presentation
At December 31, 2014, United was a bank holding company subject to the regulation of the Board of Governors of the Federal Reserve System (the “Federal Reserve”) whose principal business was conducted by its wholly-owned commercial bank subsidiary, United Community Bank (the “Bank”). United is subject to regulation under the Bank Holding Company Act of 1956. The consolidated financial statements include the accounts of United, the Bank and other wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Bank is a Georgia state chartered commercial bank that serves markets throughout north Georgia, coastal Georgia, the Atlanta, Georgia MSA, the Gainesville, Georgia MSA, western North Carolina, the Greenville, South Carolina MSA and east and central Tennessee and provides a full range of banking services. The Bank is insured and subject to the regulation of the Federal Deposit Insurance Corporation (“FDIC”) and is also subject to the regulation of the Georgia Department of Banking and Finance.

Use of Estimates
In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheet and revenue and expenses for the years then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change are the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of goodwill and separately identifiable intangible assets associated with mergers and acquisitions, and the valuation of deferred tax assets.

Operating Segments
Operating segments are components of a business about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. Public companies are required to report certain financial information about operating segments in interim and annual financial statements. United’s community banking operations are divided among geographic regions and local community banks within those regions, those regions and banks have similar economic characteristics and are therefore aggregated into one operating segment for purposes of segment reporting.

Additionally United assessed other operating units to determine if they should be classified and reported as segments. They include Mortgage, Advisory Services and Specialized Lending. Each was assessed for separate reporting on both a qualitative and a quantitative basis in accordance with Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification Topic 280 Segment Reporting (“ASC 280”). Qualitatively, these business units are currently operating in the same geographic footprint as the community banks and face many of the same customers as the community banks. While the chief operating decision maker does have some separate financial information for these entities, for much of 2014 they were viewed more as a product line extension of the community banks.

However, management will continue to evaluate these business units for separate reporting as facts and circumstances change. On a quantitative basis, ASC 280 provides a threshold of 10% of Revenue, Net Income or Assets where a breach of any of these thresholds would trigger segment reporting. Under this requirement none of the entities reached the threshold.

Based on this analysis, United concluded that it has only one operating and reportable segment.

Cash and Cash Equivalents

Cash equivalents include amounts due from banks, interest-bearing deposits in banks, federal funds sold, commercial paper, reverse repurchase agreements and short-term investments and are carried at cost. Federal funds are generally sold for one-day periods, interest-bearing deposits in banks are available on demand and commercial paper investments and reverse repurchase agreements mature within a period of less than 90 days. A portion of the cash on hand and on deposit with the Federal Reserve Bank of Atlanta was required to meet regulatory reserve requirements.

Investment Securities

United classifies its securities in one of three categories: trading, held-to-maturity or available-for-sale. United does not hold any trading securities that are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities for which United has the ability and intent to hold until maturity. All other securities are classified as available-for-sale.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Investment Securities, continued
Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported in other comprehensive income as a separate component of shareholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from available-for-sale to held-to-maturity are included in the balance of accumulated other comprehensive income in the consolidated balance sheet. These unrealized holding gains or losses are amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

Management evaluates investment securities for other than temporary impairment on a quarterly basis. A decline in the fair value of available-for-sale and held-to-maturity securities below cost that is deemed other than temporary is charged to earnings for a decline in value deemed to be credit related. The decline in value attributed to non credit related factors is recognized in other comprehensive income and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in net income and derived using the specific identification method for determining the cost of the securities sold.

Federal Home Loan Bank ("FHLB") stock is included in other assets at its original cost basis, as cost approximates fair value as there is no ready market for such investments.

Mortgage Loans Held for Sale
Mortgage loans held for sale are carried at the lower of aggregate cost or fair value. The amount by which cost exceeds fair value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net income for the period in which the change occurs. No valuation allowances were required at December 31, 2014 or 2013 since those loans have fair values that exceeded the recorded cost basis.

Loans
With the exception of purchased loans that are recorded at fair value on the date of acquisition, loans are stated at principal amount outstanding, net of any unearned revenue and net of any deferred loan fees and costs. Interest on loans is primarily calculated by using the simple interest method on daily balances of the principal amount outstanding.

The accrual of interest is discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged against interest revenue on loans. Interest payments are applied to reduce the principal balance on nonaccrual loans. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance and future payments are reasonably assured. Nonaccrual loans include smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Individually impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest revenue on impaired loans is discontinued when the loans meet the criteria for nonaccrual status. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not considered impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Concentration of Credit Risk: Most of United's business activity is with customers located within the markets where it has banking operations. Therefore, United's exposure to credit risk is significantly affected by changes in the economy within its markets. More than 80% of United's loan portfolio is secured by real estate and is therefore susceptible to changes in real estate valuations.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Loans, continued

Certain Purchased Loans: United from time to time purchases loans, primarily through business combination transactions. Some of those purchased loans show evidence of credit deterioration since origination. Purchased loans are recorded at their estimated fair value at date of purchase. After acquisition, further losses evidenced by decreases in expected cash flows are recognized by an increase in the allowance for loan losses.

Purchased loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as the type of loan, payment status, or collateral type. United estimates the amount and timing of expected cash flows for each purchased loan or pool and the expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan’s or pool’s contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest revenue.

Allowance for Credit Losses

The allowance for credit losses includes the allowance for loan losses and the allowance for unfunded commitments included in other liabilities). Increases to the allowance for loan losses and allowance for unfunded commitments are established through a provision for credit losses charged to income. Loans are charged against the allowance for loan losses when available information confirms that the collectability of the principal is unlikely. The allowance for loan losses represents an amount, which, in management’s judgment, is adequate to absorb probable losses on existing loans as of the date of the balance sheet. The allowance for unfunded commitments represents expected losses on unfunded commitments and is reported in the consolidated balance sheet in other liabilities.

The allowance for loan losses is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to the individual loan categories that are based on actual historical loss experience. United uses an eight-quarter weighted average annualized historical loss rate for each major loan category, weighted toward the most recent quarters’ losses and multiplied by the estimated loss emergence period for each loan type. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal and external credit reviews and results from external bank regulatory examinations are considered in this evaluation. The need for specific reserves is evaluated on nonaccrual loan relationships greater than $500,000, accruing relationships rated substandard that are greater than $2 million and all troubled debt restructurings (“TDRs”). The specific reserves are determined on a loan-by-loan basis based on management’s evaluation of United’s exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. Loans for which specific reserves are provided are excluded from the calculation of general reserves.

The allocation of the allowance for loan losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur.

For purposes of determining general reserves, United segments the loan portfolio into broad categories with similar risk elements. Those categories and their specific risks are described below.

Owner occupied commercial real estate – Loans in this category are susceptible to declined in occupancy rates, business failure and general economic conditions are common risks for this segment of the loan portfolio.

Income producing commercial real estate – Common risks for this loan category are declines in general economic conditions, declines in real estate value and lack of suitable alternative use for the property.

Commercial & industrial – Risks to this loan category include industry concentrations and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable and other non real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

Commercial construction – Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Allowance for Credit Losses, continued

Residential mortgage – Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values.

Home equity lines of credit – Risks common to home equity lines of credit are general economic conditions and declining real estate values which reduce or eliminate the borrower's home equity.

Residential construction – Residential construction loans are susceptible to the same risks as commercial construction loans. Changes in market demand for property leads to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Consumer installment – Risks common to consumer installment loans include regulatory risks, unemployment and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

Indirect auto - Risks common to indirect auto loans include unemployment and changes in local economic conditions as well as the inability to monitor collateral.

Management outsources a significant portion of its loan review to ensure objectivity in the loan review process and to challenge and corroborate the loan grading system. The loan review function provides additional analysis used in determining the adequacy of the allowance for loan losses. To supplement the outsourced loan review, management also has an internal loan review department that is independent of the lending function.

Management believes the allowance for loan losses is appropriate at December 31, 2014. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review United's allowance for loan losses.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the related assets. Costs incurred for maintenance and repairs are expensed as incurred. The range of estimated useful lives for buildings and improvements is 15 to 40 years, for land improvements, 10 to 35 years, and for furniture and equipment, 3 to 10 years.

Foreclosed Properties

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from United, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets and United does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Small Business Administration ("SBA") Servicing Rights

United records a separate servicing asset for the SBA loans where the servicing is retained. This asset represents the right or obligation to service the SBA loans and receive a fee in compensation. Typically that fee is 1% of the loan balance being serviced. Servicing assets are initially recorded at their fair value as a component of the sale proceeds. The fair value of the servicing assets is based on an analysis of discounted cash flows that incorporates estimates of (1) market servicing costs (typically 40 basis points), (2) market-based prepayment rates, and (3) market profit margins.

United has elected to subsequently measure the servicing assets at fair value. There is no aggregation of the loans into pools for the valuation of the servicing asset, but the servicing asset value is measured at a loan level.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Small Business Administration ("SBA") Servicing Rights, continued

The rate of prepayment of loans serviced is the most significant estimate involved in the measurement process. Estimates of prepayment rates are based on market participant's expectations of future prepayment rates, reflecting the company's historical rate of loan repayments if consistent with market participant assumptions, industry trends, and other considerations. Actual prepayment rates differ from those projected by management due to changes in a variety of economic factors, including prevailing interest rates and the availability of alternative financing sources to borrowers. If actual prepayments of the loans being serviced were to occur more quickly than projected, the carrying value of servicing assets might have to be written down through a charge to earnings in the current period. If actual prepayments of the loans being serviced were to occur more slowly than had been projected, the carrying value of servicing assets could increase, and servicing income would exceed previously projected amounts. Accordingly, the servicing assets actually realized, could differ from the amounts initially recorded.

Bank Owned Life Insurance

United has purchased life insurance policies on certain key executives and members of management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other changes or other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income taxes during the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of United's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable earnings and prudent and feasible tax planning strategies. Management weighs both the positive and negative evidence, giving more weight to evidence that can be objectively verified.

The income tax benefit or expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

United recognizes interest and / or penalties related to income tax matters in income tax expense.

Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. United enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into in order to hedge the change in interest rates resulting from its commitments to fund the loans. United’s forward commitments for the future delivery of mortgage loans are based on United’s “best efforts” and therefore United is not penalized if a loan is not delivered to the investor if the loan did not get originated. Changes in the fair values of these derivatives generally offset each other and are included in “mortgage loan and other related fees” in the consolidated statement of operations.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Derivative Instruments and Hedging Activities
United's interest rate risk management strategy incorporates the use of derivative instruments to minimize fluctuations in net income that are caused by interest rate volatility. United's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. United views this strategy as a prudent management of interest rate risk, such that net income is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk management strategy, United uses interest rate derivative contracts. The primary type of derivative contract used by United to manage interest rate risk is interest rate swaps. Interest rate swaps generally involve the exchange of fixed- and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date.

United classifies its derivative financial instruments as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability ("fair value hedge"), (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction ("cash flow hedge"), or (3) derivatives not designated as accounting hedges. Changes in the fair value of derivatives not designated as hedges are recognized in current period earnings. United has master netting agreements with the derivatives dealers with which it does business, but reflects gross assets and liabilities on the consolidated balance sheet.

United uses the long-haul method to assess hedge effectiveness. United documents, both at inception and over the life of the hedge, at least quarterly, its analysis of actual and expected hedge effectiveness. This analysis includes techniques such as regression analysis and hypothetical derivatives to demonstrate that the hedge has been, and is expected to be, highly effective in offsetting corresponding changes in the fair value or cash flows of the hedged item. For a qualifying fair value hedge, changes in the value of derivatives that have been highly effective as hedges are recognized in current period earnings along with the corresponding changes in the fair value of the designated hedged item attributable to the risk being hedged. For a qualifying cash flow hedge, the portion of changes in the fair value of the derivatives that have been highly effective are recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings.

For fair value hedges and cash flow hedges, ineffectiveness is recognized in the same income statement line as interest accruals on the hedged item to the extent that changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. If the hedge ceases to be highly effective, United discontinues hedge accounting and recognizes the changes in fair value in current period earnings. If a derivative that qualifies as a fair value or cash flow hedge is terminated or the designation removed, the realized or then unrealized gain or loss is recognized into income over the life of the hedged item (fair value hedge) or over the time when the hedged item was forecasted to impact earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge) or if it is probable that the hedged cash flows will not occur (cash flow hedge).

By using derivative instruments, United is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the fair value gain in a derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay United, and, therefore, creates a repayment risk for United. When the fair value of a derivative contract is negative, United is obligated to pay the counterparty and, therefore, has no repayment risk. United minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by United. United also requires the counterparties to pledge securities as collateral to cover the net exposure.

United's derivative activities are monitored by its Asset/Liability Management Committee ("ALCO") as part of that committee's oversight of United's asset/liability and treasury functions. ALCO is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest-rate risk management process.

United recognizes the fair value of derivatives as assets or liabilities in the financial statements. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of instruments used as fair value hedges is accounted for in the net income of the period simultaneous with accounting for the fair value change of the item being hedged. The change in fair value of the effective portion of cash flow hedges is accounted for in other comprehensive income rather than net income. Changes in fair value of derivative instruments that are not designated as a hedge are accounted for in the net income of the period of the change.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Earnings Per Common Share
Basic earnings per common share is net income available to common shareholders divided by the weighted average number of shares of common stock outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Additionally, shares issuable to participants in United's deferred compensation plan are considered to be participating securities for purposes of calculating basic earnings per share. Diluted earnings per common share includes the dilutive effect of additional potential shares of common stock issuable under stock options, warrants and securities convertible into common stock.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Dividend Restrictions
Banking regulations require maintaining certain capital levels and may limit dividends paid by the Bank to United or by United to shareholders. Due to its accumulated deficit, the Bank is currently required to obtain approval of the Georgia Department of Banking and Finance before declaring any dividends to United.

Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in Note 23. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Stock-Based Compensation
United uses the fair value method of recognizing expense for stock-based compensation based on the fair value of option and restricted stock awards at the date of grant.

Reclassifications
Certain 2013 and 2012 amounts have been reclassified to conform to the 2014 presentation. During the fourth quarter of 2013, United reclassified hedge ineffectiveness gains and losses from other fee revenue to net interest revenue. The impact of the reclassification has been reflected in all periods and was not material to any period.

(2) Accounting Standards Updates

In January 2014, the FASB issued Accounting Standards Update ("ASU ") No. 2014-1, Accounting for Investments in Qualified Affordable Housing Projects. This ASU is expected to enable more entities to qualify for the proportional amortization method to account for affordable housing project investments than the number of entities that currently qualify for the effective yield method. The guidance is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. United has investments in affordable housing projects and is currently evaluating the impact to its disclosures. It is not expected to have a material impact in

United's financial position or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This ASU clarifies when an in substance repossession or foreclosure has occurred and when a creditor should derecognize the associated loan receivable and recognize the real estate property. The amendments in this update are effective for annual periods, and interim periods within those years, beginning after December 15, 2014. United does not expect the impact of this guidance to be material to United's financial position, results of operations or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU provides guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and will be applied retrospectively either to each prior reporting period or with a cumulative effect recognized at the date of initial application. United is in the process of evaluating this guidance.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Accounting Standards Updates, continued

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

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

In August 2014, the FASB issued ASU No. 2014-14, Receivables – Troubled Debt Restructurings by Creditors, Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure. This ASU addresses diversity in practice related to how creditors classify government-guaranteed mortgage loans, including Federal Housing Administration or U.S. Department of Veterans Affairs guaranteed loans upon foreclosure. The amendments in this ASU require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) The loan has a government guarantee that is not separable from the loan before foreclosure, 2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and 3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This guidance is not expected to have a material impact on United's financial position, results of operations or disclosures.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This ASU eliminates the concept of an extraordinary item from GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, the standard will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. The standard will be effective for the United's fiscal year beginning after December 15, 2015 and subsequent interim periods. The adoption of ASU 2015-015 is not expected to have a material effect on the United's consolidated financial statements.

(3) Mergers and Acquisitions

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 SBA 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. The valuation approach to the servicing asset is discussed in Note 10 to the financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash Flows

During 2014, 2013 and 2012, non-accrual loans having a value of $9.09 million, $22.5 million and $34.0 million, respectively, were transferred to foreclosed property. Also, during 2014, 2013 and 2012, United financed the sale of foreclosed properties with loans totaling $2.50 million, $3.49 million and $9.40 million, respectively.

United accounts for securities transactions on the trade date. At December 31, 2014, United had purchased $5.43 million in securities that had not settled. At December 31, 2013, United had sold $4.60 million in securities and purchased $29.6 million in securities that had not settled.

(5) 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 and offsetting securities lending transactions 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, securities lending transactions and derivative financial instruments including those entered into in connection with the same counterparty under master netting agreements as of December 31, 2014 and 2013 (in thousands).

				Gross Amounts not Offset in the Balance Sheet		
December 31, 2014	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Financial Instruments	Collateral Received	Net Amount
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 not Offset in the Balance Sheet
	Gross Amounts of	Gross Amounts Offset on the	Net	

	Recognized Liabilities	Balance Sheet	Liability Balance	Financial Instruments	Collateral Pledged	Net Amount
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 %					

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

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

At both December 31, 2014 and 2013, securities with a carrying value of $1.51 billion and $1.53 billion, respectively, were pledged to secure public deposits, derivatives and other secured borrowings.

The cost basis, unrealized gains and losses, and fair value of securities held-to-maturity at December 31, 2014 and 2013 are listed below (in thousands):

As of December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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 December 31, 2013				
State and political subdivisions	$ 51,733	$ 2,718	$ 42	$ 54,409
Mortgage-backed securities [1]	428,009	6,690	3,523	431,176
Total	$ 479,742	$ 9,408	$ 3,565	$ 485,585

[1] All are residential type mortgage-backed securities

The cost basis, unrealized gains and losses, and fair value of securities available-for-sale at December 31, 2014 and 2013 are listed below (in thousands):

As of December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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 December 31, 2013				
State and political subdivisions	$ 22,558	$ 823	$ 139	$ 23,242
Mortgage-backed securities [1]	1,145,800	13,296	13,749	1,145,347
Corporate bonds	255,316	1,304	6,324	250,296
Asset-backed securities	409,086	2,535	988	410,633

Other	2,699	—	—	2,699
Total	$1,835,459	$ 17,958	$ 21,200	$1,832,217

(1) *All are residential type mortgage-backed securities*

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Investment Securities, continued

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of 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 December 31, 2013						
State and political subdivisions	$1,595	$ 42	$—	$ —	$1,595	$ 42
Mortgage-backed securities	259,870	3,523	—	—	259,870	3,523
Total unrealized loss position	$261,465	$ 3,565	$—	$ —	$261,465	$ 3,565

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of 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 December 31, 2013						
State and political subdivisions	$4,539	$ 139	$—	$ —	$4,539	$ 139
Mortgage-backed securities	334,996	6,480	175,865	7,269	510,861	13,749
Corporate bonds	137,318	4,494	54,130	1,830	191,448	6,324
Asset-backed securities	164,933	722	22,370	266	187,303	988
Total unrealized loss position	$641,786	$ 11,835	$252,365	$ 9,365	$894,151	$ 21,200

At December 31, 2014, there were 113 available-for-sale securities and 21 held-to-maturity securities that were in an unrealized loss position. Management does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of its amortized cost basis. Unrealized losses at December 31, 2014 and 2013 were primarily attributable to changes in interest rates.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analyst's reports. No impairment charges were recognized during 2014, 2013 or 2012.

Realized gains and losses are derived using the specific identification method for determining the cost of the securities sold.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Investment Securities, continued

The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2014, 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	$105,540	$105,709	$—	$—
	105,540	105,709	—	—
US Government agencies:				
5 to 10 years	36,474	36,299	—	—
	36,474	36,299	—	—
State and political subdivisions:				
Within 1 year	6,369	6,405	1,000	1,013
1 to 5 years	10,430	10,771	18,582	19,812
5 to 10 years	2,101	2,165	19,573	21,033
More than 10 years	848	892	9,002	9,803
	19,748	20,233	48,157	51,661
Corporate bonds:				
Within 1 year	9,980	9,815	—	—
1 to 5 years	38,262	37,891	—	—
5 to 10 years	115,776	117,172	—	—
More than 10 years	1,000	750	—	—
	165,018	165,628	—	—
Asset-backed securities:				
Within 1 year	9,590	9,505	—	—
1 to 5 years	256,986	257,886	—	—
5 to 10 years	58,581	58,966	—	—
More than 10 years	130,469	129,571	—	—
	455,626	455,928	—	—
Other:				
Within 1 year	62	62	—	—
More than 10 years	2,055	2,055	—	—
	2,117	2,117	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	26,001	25,787	1,000	1,013
1 to 5 years	411,218	412,257	18,582	19,812
5 to 10 years	212,932	214,602	19,573	21,033
More than 10 years	134,372	133,268	9,002	9,803
Mortgage-backed securities	988,012	996,820	367,110	373,572
	$1,772,535	$1,782,734	$415,267	$425,233

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
(6) Investment Securities, continued
The following summarizes securities sales activities for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Proceeds from sales	$419,201	$39,731	$469,167
Gross gains on sales	$6,003	$264	$7,364
Gross losses on sales	(1,132)	(78)	(286)
Net gains on sales of securities	$4,871	$186	$7,078
Income tax expense attributable to sales	$1,902	$72	$2,753

At year-end 2014 and 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

(7) Loans and Allowance for Credit Losses

Major classifications of loans at December 31, 2014 and 2013 are summarized as follows (in thousands):

	2014	2013
Owner occupied commercial real estate	$1,163,480	$1,133,543
Income producing commercial real estate	598,537	623,167
Commercial & industrial	710,256	471,961
Commercial construction	196,030	148,903
Total commercial	2,668,303	2,377,574
Residential mortgage	865,789	875,077
Home equity lines of credit	465,872	440,887
Residential construction	298,627	328,579
Consumer installment	104,899	111,045
Indirect auto	268,629	196,104
Total loans	4,672,119	4,329,266
Less allowance for loan losses	(71,619)	(76,762)
Loans, net	$4,600,500	$4,252,504

At December 31, 2014 and 2013, $1.05 million and $977,000, respectively, in overdrawn deposit accounts were reclassified as commercial and industrial loans. No specific allowance for loan losses was deemed necessary for these accounts at December 31, 2014 and 2013.

At December 31, 2014 and 2013, loans with a carrying value of $2.35 billion and $1.77 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

The following table presents the balance and activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2014, 2013 and 2012 (in thousands):

Year Ended December 31, 2014	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$ 17,164	$ (3,136)	$ 3,056	$ 1,278	$ (2,321)	$ 16,041
Income producing commercial real estate	7,174	(1,611)	725	688	3,320	10,296
Commercial & industrial	6,527	(2,145)	1,698	318	(3,143)	3,255
Commercial construction	3,669	(235)	6	388	919	4,747
Residential mortgage	15,446	(7,502)	1,110	1,452	9,805	20,311
Home equity lines of credit	5,528	(2,314)	287	391	682	4,574
Residential construction	12,532	(3,176)	627	1,728	(1,108)	10,603
Consumer installment	1,353	(2,008)	1,226	—	160	731
Indirect auto	1,126	(540)	54	—	421	1,061
Unallocated	6,243	—	—	(6,243)	—	—
Total allowance for loan losses	76,762	(22,667)	8,789	—	8,735	71,619
Allowance for unfunded commitments	2,165	—	—	—	(235)	1,930
Total allowance for credit losses	$ 78,927	$ (22,667)	$ 8,789	$ —	$ 8,500	$ 73,549

Year Ended December 31, 2013	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$ 17,265	$ (24,965)	$ 1,305	$ —	$ 23,559	$ 17,164
Income producing commercial real estate	10,582	(11,505)	640	—	7,457	7,174
Commercial & industrial	5,537	(18,914)	1,888	—	18,016	6,527
Commercial construction	8,389	(6,483)	69	—	1,694	3,669
Residential mortgage	19,117	(8,840)	611	—	4,558	15,446
Home equity lines of credit	7,525	(3,437)	104	—	1,336	5,528
Residential construction	26,662	(23,049)	173	—	8,746	12,532
Consumer installment	2,527	(2,184)	1,114	—	(104)	1,353
Indirect auto	220	(277)	40	—	1,143	1,126
Unallocated	9,313	—	—	—	(3,070)	6,243
Total allowance for loan losses	107,137	(99,654)	5,944	—	63,335	76,762
Allowance for unfunded commitments	—	—	—	—	2,165	2,165
Total allowance for credit losses	$ 107,137	$ (99,654)	$ 5,944	$ —	$ 65,500	$ 78,927

Year Ended December 31, 2012	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$ 19,310	$ (10,280)	$ 557	$ —	$ 7,678	$ 17,265
Income producing commercial real estate	12,334	(12,782)	135	—	10,895	10,582

Commercial & industrial	5,681	(2,424)	1,104	—	1,176	5,537
Commercial construction	6,097	(5,411)	111	—	7,592	8,389
Residential mortgage	21,386	(12,885)	675	—	9,941	19,117
Home equity lines of credit	7,690	(4,377)	124	—	4,088	7,525
Residential construction	30,379	(24,260)	1,272	—	19,271	26,662
Consumer installment	2,124	(2,198)	824	—	1,777	2,527
Indirect auto	—	(16)	—	—	236	220
Unallocated	9,467	—	—	—	(154)	9,313
Total allowance for loan losses	114,468	(74,633)	4,802	—	62,500	107,137
Allowance for unfunded commitments	—	—	—	—	—	—
Total allowance for credit losses	$114,468	$(74,633)	$4,802	$—	$62,500	$107,137

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(7) Loans and Allowance for Credit Losses, continued
The following table presents 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 December 31, 2014 and December 31, 2013 (in thousands):

	Allowance for Loan Losses					
	December 31, 2014			December 31, 2013		
	Individually evaluated for impairment	Collectively evaluated for impairment	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	Ending Balance
Owner occupied commercial real estate	$2,737	$13,304	$16,041	$1,023	$16,141	$17,164
Income producing commercial real estate	1,917	8,379	10,296	990	6,184	7,174
Commercial & industrial	15	3,240	3,255	66	6,461	6,527
Commercial construction	729	4,018	4,747	112	3,557	3,669
Residential mortgage	3,227	17,084	20,311	2,914	12,532	15,446
Home equity lines of credit	47	4,527	4,574	5	5,523	5,528
Residential construction	1,192	9,411	10,603	688	11,844	12,532
Consumer installment	18	713	731	224	1,129	1,353
Indirect auto	—	1,061	1,061	—	1,126	1,126
Unallocated	—	—	—	—	6,243	6,243
Total allowance for loan losses	9,882	61,737	71,619	6,022	70,740	76,762
Allowance for unfunded commitments	—	1,930	1,930	—	2,165	2,165
Total allowance for credit losses	$9,882	$63,667	$73,549	$6,022	$72,905	$78,927

	Loans Outstanding					
	December 31, 2014			December 31, 2013		
	Individually evaluated for impairment	Collectively evaluated for impairment	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	Ending Balance
Owner occupied commercial real estate	$34,654	$1,128,826	$1,163,480	$32,969	$1,100,574	$1,133,543
Income producing commercial real estate	24,484	574,053	598,537	27,239	595,928	623,167
Commercial & industrial	3,977	706,279	710,256	4,217	467,744	471,961
Commercial construction	12,321	183,709	196,030	13,715	135,188	148,903
Residential mortgage	18,775	847,014	865,789	20,167	854,910	875,077
Home equity lines of credit	478	465,394	465,872	505	440,382	440,887
Residential construction	11,604	287,023	298,627	14,808	313,771	328,579
Consumer installment	179	104,720	104,899	999	110,046	111,045
Indirect auto	—	268,629	268,629	—	196,104	196,104
Total loans	$106,472	$4,565,647	$4,672,119	$114,619	$4,214,647	$4,329,266

Management considers all loans that are on nonaccrual with a balance of $500,000 or greater and all 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

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. 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 weighted toward the most recent four quarters to determine the loss factors to be used in the reserve calculation for loans evaluated in the aggregate. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to minimize distortions caused by nonrecurring and unusual activity that might otherwise influence a shorter time period. In previous years, the weighted average was calculated by multiplying each quarter's annualized historical net charge-off rate by 1 through 8, with 8 representing the most recent quarter and 1 representing the oldest quarter. Management adopted this method of weighting quarterly loss rates to capture the rapidly deteriorating credit conditions in its loss factors during the financial crisis. Now that credit conditions have begun to stabilize, management concluded in the first quarter of 2014 that it was appropriate to apply a more level weighting moving forward to capture the full range and impacts of credit losses experienced during the most recent economic and credit cycle. For the four most recent quarters, management applied a weighting factor of 1.75. For the four oldest quarters, management applied a weighting of 1.00 for each quarterly loss factor. 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 measurement of the loss emergence period in the calculation of the allowance for credit losses. The rapidly deteriorating credit conditions during the peak of the credit cycle shortened the length of time between management's estimation of the incurrence of a loss and its recognition as a charge-off. In most cases, the loss emergence period was within a twelve month period which made the use of annualized loss factors appropriate for measuring the amount of incurred yet unconfirmed credit losses within the loan portfolio. As United has moved out beyond the peak of the financial crisis, management has observed that the loss emergence period has extended. 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 for 2014. These updates resulted in the full allocation of the previously unallocated portion of the allowance for loan losses.

On junior lien home equity loans, 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.

A committee consisting of the Chief Credit Officer, Senior Risk Officer and the Senior Credit Officers meets 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) retail loans which are past due 90 cumulative days from their contractual due date are generally charged off.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

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

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

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

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

In the ordinary course of business, the Bank grants loans to executive officers, and directors of the holding company and the Bank, including their immediate families and companies with which they are associated. Management believes that such loans are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other customers. The following is a summary of such loans outstanding and the activity in these loans for the year ended December 31, 2014 (in thousands):

Balances at December 31, 2013	$ 2,898
New loans and advances	400
Repayments	(94)
Balances at December 31, 2014	$ 3,204

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired is presented below for the last three years (in thousands):

2014		2013		2012	
	Interest		Interest		Interest

	Average Balance	Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Owner occupied commercial real estate	$32,748	$ 1,647	$1,712	$31,935	$ 1,923	$2,044	$56,374	$ 2,602	$2,773
Income producing commercial real estate	25,920	1,270	1,311	27,789	1,630	1,763	58,182	2,392	2,497
Commercial & industrial	4,290	175	231	4,609	401	865	45,233	1,051	2,523
Commercial construction	12,156	455	458	13,946	633	720	45,489	875	1,268
Total commercial	75,114	3,547	3,712	78,279	4,587	5,392	205,278	6,920	9,061
Residential mortgage	20,132	873	869	20,906	1,091	1,066	22,923	1,032	1,158
Home equity lines of credit	518	21	22	507	23	22	1,003	26	32
Residential construction	13,058	576	575	14,558	993	1,023	46,410	1,527	2,054
Consumer installment	305	19	22	383	21	21	564	26	27
Indirect auto	—	—	—	—	—	—	—	—	—
Total	$109,127	$ 5,036	$5,200	$114,633	$ 6,715	$7,524	$276,178	$ 9,531	$12,332

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014			December 31, 2013		
	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	$12,025	$ 11,325	$ —	$17,717	$ 14,458	$ —
Income producing commercial real estate	8,311	8,311	—	12,644	9,747	—
Commercial & industrial	1,679	1,042	—	2,252	2,252	—
Commercial construction	—	—	—	974	974	—
Total commercial	22,015	20,678	—	33,587	27,431	—
Residential mortgage	2,569	1,472	—	4,496	3,634	—
Home equity lines of credit	—	—	—	—	—	—
Residential construction	4,338	3,338	—	9,462	7,807	—
Consumer installment	—	—	—	—	—	—
Indirect auto	—	—	—	—	—	—
Total with no related allowance recorded	28,922	25,488	—	47,545	38,872	—
With an allowance recorded:						
Owner occupied commercial real estate	24,728	23,329	2,737	18,595	18,513	1,023
Income producing commercial real estate	16,352	16,173	1,917	17,490	17,490	990
Commercial & industrial	2,936	2,935	15	2,248	1,965	66
Commercial construction	12,401	12,321	729	12,821	12,741	112
Total commercial	56,417	54,758	5,398	51,154	50,709	2,191
Residential mortgage	17,732	17,303	3,227	17,119	16,533	2,914
Home equity lines of credit	478	478	47	505	505	5
Residential construction	8,962	8,266	1,192	8,469	7,001	688
Consumer installment	179	179	18	999	999	224
Indirect auto	—	—	—	—	—	—
Total with an allowance recorded	83,768	80,984	9,882	78,246	75,747	6,022
Total	$112,690	$ 106,472	$ 9,882	$125,791	$ 114,619	$ 6,022

There were no loans more than 90 days past due and still accruing interest at December 31, 2014 and 2013. Nonaccrual loans at December 31, 2014 and 2013 were $17.9 million and $26.8 million, respectively. 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

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

	2014	2013
Owner occupied commercial real estate	$4,133	$5,822
Income producing commercial real estate	717	2,518
Commercial & industrial	1,571	427
Commercial construction	83	361
Total commercial	6,504	9,128
Residential mortgage	8,196	11,730
Home equity lines of credit	695	1,448
Residential construction	2,006	4,264
Consumer installment	134	249
Indirect auto	346	—
Total	$17,881	$26,819

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

	Loans Past Due				Loans Not	
	30 - 59	60 - 89	> 90			
As of December 31, 2014	Days	Days	Days	Total	Past Due	Total
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 December 31, 2013						
Owner occupied commercial real estate	$1,845	$705	$2,017	$4,567	$1,128,976	$1,133,543
Income producing commercial real estate	3,879	2,092	530	6,501	616,666	623,167
Commercial & industrial	2,349	223	88	2,660	469,301	471,961
Commercial construction	94	190	235	519	148,384	148,903
Total commercial	8,167	3,210	2,870	14,247	2,363,327	2,377,574

Residential mortgage	9,011	2,832	4,140	15,983	859,094	875,077
Home equity lines of credit	2,056	430	941	3,427	437,460	440,887
Residential construction	1,335	588	1,375	3,298	325,281	328,579
Consumer installment	1,058	358	24	1,440	109,605	111,045
Indirect auto	185	65	42	292	195,812	196,104
Total loans	$21,812	$7,483	$9,392	$38,687	$4,290,579	$4,329,266

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

Loans modified under the terms of a TDR during the twelve months ended December 31, 2014, 2013 and 2012 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 twelve months ended December 31, 2014, 2013 and 2012, that were initially restructured within one year prior to becoming delinquent (dollars in thousands):

				Troubled Debt Restructurings That Have Subsequently Defaulted Within the Previous Twelve Months	
Troubled Debt Restructurings for the Year ended December 31, 2014	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Recorded Investment
Owner occupied commercial real estate	12	$ 4,793	$ 4,793	1	$ 104
Income producing commercial real estate	3	1,459	1,459	—	—
Commercial & industrial	9	1,185	1,185	2	54
Commercial construction	6	829	829	—	—
Total commercial	30	8,266	8,266	3	158
Residential mortgage	39	3,622	3,445	9	