

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

OR

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

For the Transition Period from _____ to _____

Commission file number 001-35095

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

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

125 Highway 515 East
Blairsville, Georgia 30512
Address of Principal Executive Offices (Zip Code)

(706) 781-2265
(Telephone Number)

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

YES NO

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

YES NO

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

Large accelerated filer

Accelerated filer

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

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

YES NO

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

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Part I – Financial Information**UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Income (Unaudited)**

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

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

See accompanying notes to consolidated financial statements.

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

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

2014

Net income	\$25,984	\$ (9,627)	\$ 16,357	\$ 50,422	\$ (18,665)	\$ 31,757
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	11,184	(4,216)	6,968	15,053	(5,657)	9,396
Reclassification adjustment for gains included in net income	(4,435)	1,725	(2,710)	(4,652)	1,817	(2,835)
Net unrealized gains	6,749	(2,491)	4,258	10,401	(3,840)	6,561
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	409	(154)	255	739	(277)	462
Net unrealized gains	409	(154)	255	739	(277)	462

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Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	573	(223)	350	670	(261)	409
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	(3,547)	1,380	(2,167)	(6,379)	2,482	(3,897)
Net unrealized losses	(2,974)	1,157	(1,817)	(5,709)	2,221	(3,488)
Net actuarial gain on defined benefit pension plan	-	-	-	296	(115)	181
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	92	(36)	56	183	(71)	112
Net defined benefit pension plan activity	92	(36)	56	479	(186)	293
Total other comprehensive income	4,276	(1,524)	2,752	5,910	(2,082)	3,828
Comprehensive income	\$30,260	\$ (11,151)	\$ 19,109	\$ 56,332	\$ (20,747)	\$ 35,585

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)

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

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

See accompanying notes to consolidated financial statements.

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

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United’s accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

Note 2 – Accounting Standards Updates and Recently Adopted Standards

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

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct

deduction from the carrying amount of that debt liability consistent with debt discounts. The standard will be effective for the United's fiscal year beginning after December 15, 2015 and subsequent interim periods. The adoption of ASU 2015-03 is not expected to have a material effect on the United's consolidated financial statements.

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 3 – Acquisitions

Acquisition of MoneyTree Corporation

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Acquisition of Palmetto Bancshares, Inc.

On April 22, 2015, United announced that it had reached a definitive agreement to acquire Palmetto Bancshares, Inc. ("Palmetto") and its wholly-owned bank subsidiary The Palmetto Bank. The Palmetto Bank is the third largest banking

institution headquartered in South Carolina with total assets of \$1.16 billion, loans of \$824 million and deposits of \$977 million as of June 30, 2015. It is a 108-year old community bank that serves Upstate South Carolina through 25 branch locations in nine counties along the Interstate 85 corridor. The Palmetto Bank will merge into and operate under the brand of United Community Bank.

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

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

Acquisition of Business Carolina, Inc.

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 4 – Balance Sheet Offsetting

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

The following table presents a summary of amounts outstanding under reverse repurchase agreements and derivative financial instruments including those entered into in connection with the same counterparty under master netting agreements as of June 30, 2015, December 31, 2014 and June 30, 2014 (*in thousands*).

	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
June 30, 2015						
Repurchase agreements / reverse repurchase agreements	\$ 330,000	\$(300,000)	\$30,000	\$ -	\$(31,679)	\$-
Derivatives	21,728	-	21,728	(1,881)	(3,978)	15,869
Total	\$ 351,728	\$(300,000)	\$51,728	\$(1,881)	\$(35,657)	\$15,869
Weighted average interest rate of reverse repurchase agreements	1.17	%				

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

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Weighted average interest rate of repurchase agreements .31 %

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

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet	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	%				

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Note 5 – Securities

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

<u>As of June 30, 2015</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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State and political subdivisions	\$47,116	\$ 3,103	\$ -	\$50,219
Mortgage-backed securities ⁽¹⁾	332,641	6,899	1,693	337,847
Total	\$379,757	\$ 10,002	\$ 1,693	\$388,066
As of December 31, 2014				
State and political subdivisions	\$48,157	\$ 3,504	\$ -	\$51,661
Mortgage-backed securities ⁽¹⁾	367,110	7,716	1,254	373,572
Total	\$415,267	\$ 11,220	\$ 1,254	\$425,233
As of June 30, 2014				
State and political subdivisions	\$50,669	\$ 3,872	\$ -	\$54,541
Mortgage-backed securities ⁽¹⁾	398,083	8,257	2,017	404,323
Total	\$448,752	\$ 12,129	\$ 2,017	\$458,864

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

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

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>As of June 30, 2015</u>						
Mortgage-backed securities	\$ 130,980	\$ 1,268	\$ 19,359	\$ 425	\$ 150,339	\$ 1,693
Total unrealized loss position	\$ 130,980	\$ 1,268	\$ 19,359	\$ 425	\$ 150,339	\$ 1,693
<u>As of December 31, 2014</u>						
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
<u>As of June 30, 2014</u>						
Mortgage-backed securities	\$ 194,724	\$ 1,898	\$ 2,955	\$ 119	\$ 197,679	\$ 2,017
Total unrealized loss position	\$ 194,724	\$ 1,898	\$ 2,955	\$ 119	\$ 197,679	\$ 2,017

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. No impairment charges were recognized during the three or six months ended June 30, 2015 or 2014.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

<u>As of June 30, 2015</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	\$ 127,962	\$ 360	\$ 421	\$ 127,901
U.S. Government agencies	110,710	126	525	110,311
State and political subdivisions	30,489	416	141	30,764
Mortgage-backed securities ⁽¹⁾	989,636	14,852	6,372	998,116
Corporate bonds	208,114	1,611	2,701	207,024
Asset-backed securities	462,702	3,938	308	466,332
Other	1,871	-	-	1,871
Total	\$ 1,931,484	\$ 21,303	\$ 10,468	\$ 1,942,319
 <u>As of December 31, 2014</u>				
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
 <u>As of June 30, 2014</u>				
U.S. Treasuries	\$ 15,579	\$ -	\$ 71	\$ 15,508
State and political subdivisions	21,080	773	38	21,815
Mortgage-backed securities ⁽¹⁾	1,068,593	17,470	8,623	1,077,440
Corporate bonds	175,975	1,426	1,430	175,971
Asset-backed securities	444,910	3,664	251	448,323
Other	2,211	-	-	2,211
Total	\$ 1,728,348	\$ 23,333	\$ 10,413	\$ 1,741,268

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>As of June 30, 2015</u>						
U.S. Treasuries	\$49,830	\$ 421	\$-	\$ -	\$49,830	\$ 421
U.S. Government agencies	85,769	525	-	-	85,769	525
State and political subdivisions	13,441	141	-	-	13,441	141
Mortgage-backed securities	145,477	1,283	198,067	5,089	343,544	6,372
Corporate bonds	119,690	2,701	-	-	119,690	2,701
Asset-backed securities	49,294	261	14,899	47	64,193	308
Total unrealized loss position	\$463,501	\$ 5,332	\$212,966	\$ 5,136	\$676,467	\$ 10,468
<u>As of December 31, 2014</u>						
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
<u>As of June 30, 2014</u>						
U.S. Treasuries	\$10,508	\$ 71	\$-	\$ -	\$10,508	\$ 71
State and political subdivisions	-	-	3,634	38	3,634	38
Mortgage-backed securities	100,949	519	277,556	8,104	378,505	8,623
Corporate bonds	19,130	114	46,010	1,316	65,140	1,430
Asset-backed securities	83,620	166	11,486	85	95,106	251
Total unrealized loss position	\$214,207	\$ 870	\$338,686	\$ 9,543	\$552,893	\$ 10,413

At June 30, 2015, there were 142 available-for-sale securities and 23 held-to-maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2015, December 31, 2014 and June 30, 2014 were primarily attributable to changes in interest rates and therefore, United does not consider them to be impaired.

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Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three and six months ended June 30, 2015 and 2014 (*in thousands*).

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Note 6 – Loans and Allowance for Credit Losses

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

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

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

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

Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
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Balance at beginning of period		
	\$-	\$-
Additions due to acquisitions	1,029	1,029
Accretion	(83)	(83)
Balance at end of period	\$946	\$946

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

The allowance for loan losses represents management's estimate of probable incurred losses in the loan portfolio as of the end of the period. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheet. Combined, the allowance for loan losses and allowance for unfunded commitments are referred to as the allowance for credit losses.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the balance and activity in the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2015 and 2014 (*in thousands*).

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

Charge-Offs Recoveries Provision

Charge-Offs Recoveries

Provision

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

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

The following table represents the recorded investment in loans by portfolio segment and the balance of the allowance for loan losses assigned to each segment based on the method of evaluating the loans for impairment as of June 30, 2015, December 31, 2014 and June 30, 2014 (*in thousands*).

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

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Owner occupied commercial real estate Income producing commercial real estate Commercial & industrial Commercial construction Residential mortgage Home equity lines of credit Residential construction Consumer installment Indirect auto	\$1,592	\$14,747	\$-	\$16,339	\$2,737	\$13,304	\$16,041	\$2,483	\$15,321
	782	7,418	-	8,200	1,917	8,379	10,296	1,404	10,357
	137	4,591	-	4,728	15	3,240	3,255	399	3,486
	530	4,365	-	4,895	729	4,018	4,747	412	3,655
	3,107	15,945	-	19,052	3,227	17,084	20,311	3,117	13,646
	26	5,453	-	5,479	47	4,527	4,574	115	6,223
	506	8,831	-	9,337	1,192	9,411	10,603	1,054	10,154
	6	682	-	688	18	713	731	33	566
	-	1,411	-	1,411	-	1,061	1,061	-	823
Total allowance for loan losses	6,686	63,443	-	70,129	9,882	61,737	71,619	9,017	64,231
Allowance for unfunded commitments	-	2,580	-	2,580	-	1,930	1,930	-	2,165
Total allowance for credit losses	\$6,686	\$66,023	\$-	\$72,709	\$9,882	\$63,667	\$73,549	\$9,017	\$66,396

Loans Outstanding

Owner occupied commercial real estate Income producing commercial real estate Commercial & industrial Commercial construction Residential mortgage Home equity lines of credit	\$37,547	\$1,225,779	\$2,457	\$1,265,783	\$34,654	\$1,128,826	\$1,163,480	\$31,952	\$1,131,375
	21,926	661,988	4,854	688,768	24,484	574,053	598,537	26,045	572,273
	5,023	787,247	521	792,791	3,977	706,279	710,256	3,641	550,448
	12,123	223,631	2,066	237,820	12,321	183,709	196,030	11,214	148,541
	20,538	914,981	127	935,646	18,775	847,014	865,789	20,455	840,070
	551	490,132	70	490,753	478	465,394	465,872	540	450,895
	8,631	290,289	-	298,920	11,604	287,023	298,627	13,320	288,417

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Excluding loans accounted for under ASC Topic 310-30, management considers all loans that are on nonaccrual with a balance of \$500,000 or greater and all troubled debt restructurings (“TDRs”) to be impaired. In addition, management reviews all accruing substandard loans greater than \$2 million to determine if the loan is impaired. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due according to the original contractual terms of the loan will not be collected. All TDRs are considered impaired regardless of accrual status. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. For TDRs less than \$500,000, impairment is estimated based on the average impairment of TDRs greater than \$500,000 by loan category. For loan types that do not have TDRs greater than \$500,000, the average impairment for all TDR loans is used to quantify the amount of required specific reserve. A specific reserve is established for impaired loans for the amount of calculated impairment. Interest payments received on impaired nonaccrual loans are applied as a reduction of the outstanding principal balance. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Loans are evaluated for impairment quarterly and specific reserves are established in the allowance for loan losses for any measured impairment.

Each quarter, United’s management prepares an analysis of the allowance for credit losses to determine the appropriate balance that measures and quantifies the amount of probable incurred losses in the loan portfolio and unfunded loan commitments. The allowance is comprised of specific reserves on individually impaired loans, which are determined as described above, and general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions multiplied by a loss emergence period factor. Management uses eight quarters of historical loss experience to determine the loss factors to be used in the reserve calculation for loans evaluated in the aggregate. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to minimize distortions caused by nonrecurring and unusual activity that might otherwise influence a shorter time period. In previous years, the loss rates were weighted toward more recent quarters by multiplying each quarter’s annualized historical net charge-off rate by 1 through 8, with 8 representing the most recent quarter and 1 representing the oldest quarter. Management adopted this method of weighting quarterly loss rates to capture the rapidly deteriorating credit conditions in its loss factors during the financial crisis. In the first quarter of 2014, in light of stabilizing credit conditions, management concluded that it was appropriate to apply a more level weighting to capture the full range and impacts of credit losses experienced during the most recent economic and credit cycle. For the four quarters of 2014, management applied a weighting factor of 1.75 to the most recent four quarters and a weighting of 1.00 for the four oldest quarters. Beginning with the first quarter of 2015, management began applying equal weight to all eight quarters to capture the full range of the loss cycle. Management believes the current weightings are more appropriate to measure the probable losses incurred within the loan portfolio.

Also, beginning in the first quarter of 2014, management updated its method for measuring the loss emergence period in the calculation of the allowance for credit losses. The rapidly deteriorating credit conditions during the peak of the credit cycle shortened the length of time between management’s estimation of the incurrence of a loss and its recognition as a charge-off. In most cases, the loss emergence period was within a twelve month period which made the use of annualized loss factors appropriate for measuring the amount of incurred yet unconfirmed credit losses

within the loan portfolio. As United has moved out beyond the peak of the financial crisis, management has observed that the loss emergence period has extended. Management calculates the loss emergence period for each pool of loans based on the average length of time between the date a loan first exceeds 30 days past due and the date the loan is charged off.

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

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

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

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

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

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

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

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

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

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

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

Excluding loans accounted for under ASC Topic 310-30, there were no loans more than 90 days past due and still accruing interest at June 30, 2015, December 31, 2014 or June 30, 2014. Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans. United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce outstanding principal.

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

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

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

The average balances of impaired loans and income recognized on impaired loans while they were considered impaired are presented below for the three and six months ended June 30, 2015 and 2014 (*in thousands*).

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

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Loans Past Due			Total	Loans Not	
	30 - 59 Days	60 - 89 Days	>90 Days		Past Due	Total
<u>As of June 30, 2015</u>						
Owner occupied commercial real estate	\$2,789	\$337	\$1,646	\$4,772	\$1,261,011	\$1,265,783
Income producing commercial real estate	726	313	440	1,479	687,289	688,768
Commercial & industrial	810	87	1,278	2,175	790,616	792,791
Commercial construction	626	-	44	670	237,150	237,820
Total commercial	4,951	737	3,408	9,096	2,976,066	2,985,162
Residential mortgage	4,888	1,568	1,615	8,071	927,575	935,646
Home equity lines of credit	1,268	528	279	2,075	488,678	490,753
Residential construction	2,110	269	429	2,808	296,112	298,920
Consumer installment	444	188	23	655	105,276	105,931
Indirect auto	276	132	402	810	356,295	357,105
Total loans	\$13,937	\$3,422	\$6,156	\$23,515	\$5,150,002	\$5,173,517
<u>As of December 31, 2014</u>						
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
<u>As of June 30, 2014</u>						
Owner occupied commercial real estate	\$448	\$1,239	\$762	\$2,449	\$1,160,878	\$1,163,327
Income producing commercial real estate	2,030	-	242	2,272	596,046	598,318
Commercial & industrial	930	101	405	1,436	552,653	554,089
Commercial construction	116	-	50	166	159,589	159,755
Total commercial	3,524	1,340	1,459	6,323	2,469,166	2,475,489
Residential mortgage	7,372	1,404	3,150	11,926	848,599	860,525
Home equity lines of credit	1,609	193	79	1,881	449,554	451,435
Residential construction	1,246	584	1,331	3,161	298,576	301,737
Consumer installment	677	80	1	758	104,402	105,160

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Indirect auto	258	99	193	550	215,389	215,939
Total loans	\$14,686	\$3,700	\$6,213	\$24,599	\$4,385,686	\$4,410,285

As of June 30, 2015, December 31, 2014, and June 30, 2014, \$6.24 million, \$9.72 million and \$8.98 million, respectively, of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to \$75,000, \$51,000 and \$44,000 as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively, to customers with outstanding loans that are classified as TDRs.

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

June 30, 2015		December 31, 2014		June 30, 2014	
Pre-Modification	Post-Modification	Pre-Modification	Post-Modification	Pre-Modification	Post-Modification
Number of Outstanding Contracts	Number of Outstanding Contracts	Number of Outstanding Contracts	Number of Outstanding Contracts	Number of Outstanding Contracts	Number of Outstanding Contracts
Recorded Investment	Recorded Investment	Recorded Investment	Recorded Investment	Recorded Investment	Recorded Investment