UNITED COMMUNITY BANKS INC
Form 10-Q
November 10, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2014

OR

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

For the Transition Period from ___________ to ___________

Commission file number 001-35095

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

Georgia (State of Incorporation)	58-1807304 (I.R.S. Employer Identification No.)
125 Highway 515 East Blairsville, Georgia Address of Principal Executive Offices	30512 (Zip Code)

(706) 781-2265
(Telephone Number)

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

YES x NO o

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

YES x NO o

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

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

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

YES o NO x

Common stock, par value $1 per share 50,172,042 shares voting and 10,080,787 shares non-voting outstanding as of October 31, 2014.

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Part I – Financial Information

Item 1 – Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2014	2013	2014	2013
Interest revenue:				
Loans, including fees	$49,653	$50,162	$145,602	$151,827
Investment securities, including tax exempt of $177, $202, $558 and $624	12,346	9,887	36,118	29,905
Deposits in banks and short-term investments	934	1,007	2,757	2,793
Total interest revenue	62,933	61,056	184,477	184,525
Interest expense:				
Deposits:				
NOW	365	413	1,216	1,286
Money market	872	545	2,192	1,641
Savings	20	37	61	109
Time	1,721	2,630	5,510	8,871
Total deposit interest expense	2,978	3,625	8,979	11,907
Short-term borrowings	316	525	2,064	1,563
Federal Home Loan Bank advances	435	16	573	65
Long-term debt	2,642	3,003	7,914	8,331
Total interest expense	6,371	7,169	19,530	21,866
Net interest revenue	56,562	53,887	164,947	162,659
Provision for credit losses	2,000	3,000	6,700	62,500
Net interest revenue after provision for credit losses	54,562	50,887	158,247	100,159
Fee revenue:				
Service charges and fees	8,202	8,456	24,627	23,831
Mortgage loan and other related fees	2,178	2,554	5,409	8,212
Brokerage fees	1,209	1,274	3,631	3,104
Securities gains, net	11	—	4,663	116
Loss from prepayment of debt	—	—	(4,446)	—
Other	2,812	1,941	6,847	7,816
Total fee revenue	14,412	14,225	40,731	43,079
Total revenue	68,974	65,112	198,978	143,238
Operating expenses:				
Salaries and employee benefits	25,666	23,090	74,349	71,416
Communications and equipment	3,094	3,305	9,370	9,819
Occupancy	3,425	3,379	10,065	10,195
Advertising and public relations	894	962	2,659	2,937
Postage, printing and supplies	876	644	2,456	2,401

Professional fees	2,274	2,650	5,873	7,515
Foreclosed property	285	194	503	7,678
FDIC assessments and other regulatory charges	1,131	2,405	3,909	7,415
Amortization of intangibles	313	427	1,061	1,623
Other	3,406	3,041	10,701	11,691
Total operating expenses	41,364	40,097	120,946	132,690
Net income before income taxes	27,610	25,015	78,032	10,548
Income tax expense (benefit)	9,994	9,515	28,659	(246,681)
Net income	17,616	15,500	49,373	257,229
Preferred stock dividends and discount accretion	—	3,059	439	9,166
Net income available to common shareholders	$17,616	$12,441	$48,934	$248,063
Earnings per common share:				
Basic	$.29	$.21	$.81	$4.24
Diluted	.29	.21	.81	4.24
Weighted average common shares outstanding:				
Basic	60,776	59,100	60,511	58,443
Diluted	60,779	59,202	60,513	58,444

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
2014	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$ 27,610	$ (9,994)	$ 17,616	$ 78,032	$ (28,659)	$ 49,373
Other comprehensive income:						
Unrealized gains (losses) on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	(4,357)	1,626	(2,731)	10,696	(4,031)	6,665
Reclassification adjustment for gains included in net income	(11)	4	(7)	(4,663)	1,821	(2,842)
Net unrealized gains (losses)	(4,368)	1,630	(2,738)	6,033	(2,210)	3,823
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	468	(176)	292	1,207	(453)	754
Net unrealized gains	468	(176)	292	1,207	(453)	754
Amounts reclassified into net income on cash flow hedges	711	(277)	434	1,381	(538)	843
Unrealized gains (losses) on derivative financial instruments accounted for as cash flow hedges	412	(160)	252	(5,967)	2,322	(3,645)
Net unrealized gains (losses)	1,123	(437)	686	(4,586)	1,784	(2,802)
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	91	(36)	55	274	(107)	167

defined benefit pension plan						
Net defined benefit pension plan activity	91	(36)	55	570	(222)	348
Total other comprehensive income (loss)	(2,686)	981	(1,705)	3,224	(1,101)	2,123
Comprehensive income	$ 24,924	$ (9,013)	$ 15,911	$ 81,256	$ (29,760)	$ 51,496
2013						
Net income	$ 25,015	$ (9,515)	$ 15,500	$ 10,548	$ 246,681	$ 257,229
Other comprehensive loss:						
Unrealized losses on available-for-sale securities:						
Unrealized holding losses arising during period	(13,215)	4,971	(8,244)	(26,932)	10,148	(16,784)
Reclassification adjustment for gains included in net income	—	—	—	(116)	45	(71)
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available- for-sale securities and release of valuation allowance	—	—	—	—	(2,950)	(2,950)
Net unrealized losses	(13,215)	4,971	(8,244)	(27,048)	7,243	(19,805)
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	(214)	82	(132)	(804)	309	(495)
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	—	—	—	—	1,293	1,293
Net unrealized losses	(214)	82	(132)	(804)	1,602	798
	(58)	23	(35)	(902)	351	(551)

Amounts reclassified into net income on cash flow hedges						
Unrealized gains on derivative financial instruments accounted for as cash flow hedges	(3,369)	1,321	(2,048)	8,733	(3,386)	5,347
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
Net unrealized (losses) gains	(3,427)	1,344	(2,083)	7,831	10,663	18,494
Net actuarial loss on defined benefit pension plan	—	—	—	(415)	161	(254)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	133	(52)	81	398	(155)	243
Net defined benefit pension plan activity	133	(52)	81	(17)	6	(11)
Total other comprehensive loss	(16,723)	6,345	(10,378)	(20,038)	19,514	(524)
Comprehensive income	$ 8,292	$ (3,170)	$ 5,122	$ (9,490)	$ 266,195	$ 256,705

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	September 30, 2014	December 31, 2013	September 30, 2013
ASSETS			
Cash and due from banks	$75,268	$71,230	$70,986
Interest-bearing deposits in banks	117,399	119,669	131,147
Short-term investments	23,397	37,999	62,000
Cash and cash equivalents	216,064	228,898	264,133
Securities available for sale	1,789,667	1,832,217	1,963,424
Securities held to maturity (fair value $440,311, $485,585 and $214,651)	432,418	479,742	205,613
Mortgage loans held for sale	20,004	10,319	11,987
Loans, net of unearned income	4,568,886	4,329,266	4,267,067
Less allowance for loan losses	(71,928)	(76,762)	(80,372)
Loans, net	4,496,958	4,252,504	4,186,695
Assets covered by loss sharing agreements with the FDIC	3,253	22,882	31,207
Premises and equipment, net	160,454	163,589	165,993
Bank owned life insurance	81,101	80,670	80,537
Accrued interest receivable	19,908	19,598	18,199
Goodwill and core deposit intangibles	3,910	3,480	3,888
Foreclosed property	3,146	4,221	4,467
Net deferred tax asset	224,734	258,518	269,784
Derivative financial instruments	22,221	23,833	8,092
Other assets	52,051	44,948	29,274
Total assets	$7,525,889	$7,425,419	$7,243,293
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	$1,561,020	$1,388,512	$1,418,782
NOW	1,399,449	1,427,939	1,279,134
Money market	1,281,526	1,227,575	1,197,495
Savings	287,797	251,125	249,044
Time:			
Less than $100,000	774,201	892,961	925,089
Greater than $100,000	531,428	588,689	624,019
Brokered	405,308	424,704	419,344
Total deposits	6,240,729	6,201,505	6,112,907
Short-term borrowings	6,001	53,241	53,769
Federal Home Loan Bank advances	330,125	120,125	125
Long-term debt	129,865	129,865	129,865
Derivative financial instruments	36,171	46,232	37,269
Unsettled securities purchases	—	29,562	11,610
Accrued expenses and other liabilities	46,573	49,174	45,531
Total liabilities	6,789,464	6,629,704	6,391,076

Shareholders' equity:			
Preferred stock, $1 par value; 10,000,000 shares authorized;			
Series A; $10 stated value; 0, 0 and 21,700 shares issued and outstanding	—	—	217
Series B; $1,000 stated value; 0, 105,000 and 180,000 shares issued and outstanding	—	105,000	179,714
Series D; $1,000 stated value; 0, 16,613 and 16,613 shares issued and outstanding	—	16,613	16,613
Common stock, $1 par value; 100,000,000 shares authorized; 50,167,191, 46,243,345 and 45,222,839 shares issued and outstanding	50,167	46,243	45,223
Common stock, non-voting, $1 par value; 26,000,000 shares authorized; 10,080,787, 13,188,206 and 14,189,006 shares issued and outstanding	10,081	13,188	14,189
Common stock issuable; 354,961, 241,832 and 242,262 shares	5,116	3,930	3,979
Capital surplus	1,091,555	1,078,676	1,077,536
Accumulated deficit	(402,773)	(448,091)	(461,090)
Accumulated other comprehensive loss	(17,721)	(19,844)	(24,164)
Total shareholders' equity	736,425	795,715	852,217
Total liabilities and shareholders' equity	$7,525,889	$7,425,419	$7,243,293

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the Nine Months Ended September 30,

(in thousands, except share and per share data)	Preferred Stock Series A	Series B	Series D	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Ac Ot Co Inc (L
Balance, December 31, 2012	$217	$178,557	$16,613	$42,424	$15,317	$3,119	$1,057,951	$(709,153)	$(
Net income								257,229	
Other comprehensive income									(
Common stock issued to dividend reinvestment plan and employee benefit plans (49,830 shares)				50			532		
Conversion of non-voting common stock to voting (1,127,788 shares)				1,128	(1,128)				
Warrant exercise (1,551,126 shares)				1,551			17,838		
Amortization of stock options and restricted stock awards							2,168		
Vesting of restricted stock (51,995 shares issued, 115,664 shares deferred)				52		1,693	(1,900)		
Deferred compensation plan, net, including dividend equivalents						132			
Shares issued from deferred compensation plan (18,230 shares)				18		(965)	947		
Preferred stock dividends:									
Series A								(9)	
Series B		1,157						(7,907)	
Series D								(1,250)	
Balance, September 30, 2013	$217	$179,714	$16,613	$45,223	$14,189	$3,979	$1,077,536	$(461,090)	$(
Balance, December 31, 2013	$—	$105,000	$16,613	$46,243	$13,188	$3,930	$1,078,676	$(448,091)	$(
Net income								49,373	
Other comprehensive income									2
Redemption of Series B preferred stock (105,000 shares)		(105,000)							
Redemption of Series D preferred stock (16,613 shares)			(16,613)						
Cash dividends declared on common stock ($.06 per share)								(3,616)	
Common stock issued at market (640,000 shares)				640			11,566		
Common stock issued to dividend reinvestment plan and to employee benefit plans (25,284 shares)				25			399		
				3,107	(3,107)				

Conversion of non-voting common stock to voting (3,107,419 shares)									
Amortization of stock options and restricted stock awards							3,315		
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (137,920 shares issued, 115,609 shares deferred)				138		1,275	(2,658)		
Deferred compensation plan, net, including dividend equivalents						182			
Shares issued from deferred compensation plan (13,223 shares)				14		(271)	257		
Preferred stock dividends:									
Series B								(159)	
Series D								(280)	
Balance, September 30, 2014	$—	$—	$—	$50,167	$10,081	$5,116	$1,091,555	$(402,773)	$(

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
(in thousands)	2014	2013
Operating activities:		
Net income	$49,373	$257,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	15,098	20,847
Provision for credit losses	6,700	62,500
Stock based compensation	3,315	2,168
Deferred income tax expense (benefit)	28,112	(250,054)
Securities gains, net	(4,663)	(116)
Loss on prepayment of borrowings	4,446	—
Net (gains) losses on sales of foreclosed property	(518)	5,141
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(12,334)	16,225
Accrued expenses and other liabilities	(16,813)	31,562
Mortgage loans held for sale	(9,685)	16,834
Net cash provided by operating activities	63,031	162,336
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	47,567	45,578
Purchases	(173)	(8,481)
Investment securities available-for-sale:		
Proceeds from sales	403,517	20,751
Proceeds from maturities and calls	176,423	399,304
Purchases	(552,025)	(574,020)
Net increase in loans	(220,061)	(288,514)
Proceeds from note sales	4,561	91,913
Cash paid for acquisition	(31,243)	—
Funds collected from FDIC under loss sharing agreements	2,890	5,121
Proceeds from sales of premises and equipment	2,488	3,550
Purchases of premises and equipment	(3,260)	(7,533)
Proceeds from sale of other real estate	7,920	24,049
Net cash used in investing activities	(161,396)	(288,282)
Financing activities:		
Net change in deposits	39,224	160,767
Net change in short-term borrowings	(51,686)	1,195
Proceeds from Federal Home Loan Bank advances	930,000	650,000
Repayment of Federal Home Loan Bank advances	(720,000)	(690,000)
Proceeds from issuance of senior debt	—	40,000
Repayment of subordinated debentures	—	(35,000)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	424	582
Retirement of preferred stock	(121,613)	—

Issuance of common stock	12,206	—
Proceeds from warrant exercise	—	19,389
Cash dividends on common stock	(1,810)	—
Cash dividends on preferred stock	(1,214)	(8,003)
Net cash provided by financing activities	85,531	138,930
Net change in cash and cash equivalents	(12,834)	12,984
Cash and cash equivalents at beginning of period	228,898	251,149
Cash and cash equivalents at end of period	$216,064	$264,133
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$20,598	$26,517
Income taxes	2,497	2,361
Unsettled securities purchases	—	11,610
Transfers of loans to foreclosed property	8,216	18,460

See accompanying notes to consolidated financial statements.

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

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. ("United") and its subsidiaries conform to accounting principles generally accepted in the United States of America ("GAAP") and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United's accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2013.

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

Reclassifications

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

Note 2 –Accounting Standards Updates and Recently Adopted Standards

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

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

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

In August 2014, the FASB issued ASU No. 2014-13, Consolidation, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. This ASU addresses measurement differences in practice in both the initial consolidation and subsequent measurement of the financial assets and financial liabilities of a collateralized financing entity for a reporting entity that consolidates a collateralized financing entity. Collateralized financing entities include collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"). This ASU becomes effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2015. Although United holds CLOs in its investment securities portfolio, United is not required to consolidate any of the CLOs it currently holds. Therefore this ASU is not currently applicable to United.

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.

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

In November 2014, the FASB issued ASU No. 2014-16, *Derivatives and Hedging – Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*. This ASU was issued to eliminate the use of different methods currently used in practice to account for hybrid financial instruments issued in the form of a share. The amendments in this ASU apply to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. The amendments in this ASU are to be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant periods. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. United is not an issuer of or an investor in hybrid financial instruments issued in the form of a share and therefore this ASU is not currently applicable to United.

Note 3 – Acquisition

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 $31.2 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 $1.49 million representing the premium paid over the fair value of the separately identifiable assets and liabilities acquired. United has not identified any material separately identifiable intangible assets resulting from the acquisition.

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

September 30, 2014	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet: Financial Instruments	Gross Amounts not Offset in the Balance Sheet: Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$392,000	$ (375,000)	$17,000	$—	$(17,985)	$—

Derivatives	22,221	—	22,221	(2,093)	(3,427)	16,701
Total	$414,221	$ (375,000)	$39,221	$(2,093)	$(21,412)	$16,701
Weighted average interest rate of reverse repurchase agreements	1.16 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Collateral Pledged	
Repurchase agreements / reverse repurchase agreements	$375,000	$ (375,000)	$—	$—	$—	$—
Derivatives	36,171	—	36,171	(2,093)	(38,195)	—
Total	$411,171	$ (375,000)	$36,171	$(2,093)	$(38,195)	$—
Weighted average interest rate of repurchase agreements	.31 %					

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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 %					

September 30, 2013 - Revised	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[1]**	**Collateral Received[2]**	Net Amount
Repurchase agreements / reverse repurchase agreements	$405,000	$ (350,000)	$55,000	$—	$(59,685)	$—
Derivatives	8,092	—	8,092	(3,765)	(2,205)	2,122
Total	$413,092	$ (350,000)	$63,092	$(3,765)	$(61,890)	$2,122
Weighted average interest rate of reverse repurchase agreements	1.13 %					

	Gross	Gross Amounts		Gross Amounts not Offset		

	Amounts of Recognized Liabilities	Offset on the Balance Sheet	Net Liability Balance	in the Balance Sheet Financial **Instruments**[1]	**Pledged**[2] Collateral	Net Amount
Repurchase agreements / reverse repurchase agreements	$350,000	$ (350,000)	$—	$—	$—	$—
Derivatives	37,269	—	37,269	(3,765)	(29,011)	4,493
Total	$387,269	$ (350,000)	$37,269	$(3,765)	$(29,011)	$4,493
Weighted average interest rate of repurchase agreements	.28 %					

(1) United's original filings for the third, second and first quarters of 2013 contained an error and did not include amounts available for offset under master netting agreements for derivative financial instruments. Those amounts were $3.77 million, $4.30 million and $57,000, respectively, for the third, second and first quarters of 2013 and have been added to the balance sheet offsetting table for each respective period. United considers these revisions to be immaterial to the presentation of the financial statements for those quarters.

(2) United's original filings for the third, second and first quarters of 2013 contained an error and did not include amounts pledged by counterparties as collateral on reverse repurchase agreement positions. Those amounts were $59.7 million, $53.7 million and $87.5 million, respectively, for the third, second and first quarters of 2013 and have been added to the balance sheet offsetting table for each respective period in the current year presentation. In addition, in the original filings for the third and second quarters of 2013, the amounts reported by United as collateral pledged on derivative financial positions were reported net of collateral received on asset derivative positions. The amounts for those periods have been reported separately as collateral received and collateral pledged in the current year presentation. Additionally, upon further analysis, United updated collateral balances for the third quarter 2013 resulting in a net increase in the collateral pledged position of $1.23 million. United considers these revisions to be immaterial to the presentation of the financial statements for those quarters.

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Note 5 – Securities

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

As of September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 50,248	$ 3,849	$ —	$ 54,097
Mortgage-backed securities (1)	382,170	7,299	3,255	386,214
Total	$ 432,418	$ 11,148	$ 3,255	$ 440,311
As of December 31, 2013				
State and political subdivisions	$ 51,733	$ 2,718	$ 42	$ 54,409
Mortgage-backed securities (1)	428,009	6,690	3,523	431,176
Total	$ 479,742	$ 9,408	$ 3,565	$ 485,585
As of September 30, 2013				
State and political subdivisions	$ 51,745	$ 2,723	$ 53	$ 54,415
Mortgage-backed securities (1)	153,868	6,767	399	160,236
Total	$ 205,613	$ 9,490	$ 452	$ 214,651

(1) All are residential type mortgage-backed securities

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

	Less than 12 Months		12 Months or More		Total	
As of September 30, 2014	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$ 189,223	$ 3,147	$ 2,798	$ 108	$ 192,021	$ 3,255
Total unrealized loss position	$ 189,223	$ 3,147	$ 2,798	$ 108	$ 192,021	$ 3,255
As of December 31, 2013						

State and political subdivisions	$	1,595	$	42	$	—	$	—	$	1,595	$	42
Mortgage-backed securities		259,870		3,523		—		—		259,870		3,523
Total unrealized loss position	$	261,465	$	3,565	$	—	$	—	$	261,465	$	3,565
As of September 30, 2013												
State and political subdivisions	$	4,825	$	53	$	—	$	—	$	4,825	$	53
Mortgage-backed securities		8,009		399		—		—		8,009		399
Total unrealized loss position	$	12,834	$	452	$	—	$	—	$	12,834	$	452

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 nine months ended September 30, 2014 or 2013.

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

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The cost basis, unrealized gains and losses, and fair value of securities available-for-sale at September 30, 2014, December 31, 2013 and September 30, 2013 are presented below (in thousands).

As of September 30, 2014	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value	
U.S. Treasury securities	$	105,385	$	245	$	608	$	105,022
State and political subdivisions		19,686		666		31		20,321
Mortgage-backed securities (1)		1,029,881		15,010		9,899		1,034,992
Corporate bonds		165,558		1,427		1,733		165,252
Asset-backed securities		458,569		3,629		154		462,044
Other		2,036		—		—		2,036
Total	$	1,781,115	$	20,977	$	12,425	$	1,789,667
As of December 31, 2013								
State and political subdivisions	$	22,558	$	823	$	139	$	23,242
Mortgage-backed securities (1)		1,145,800		13,296		13,749		1,145,347
Corporate bonds		255,316		1,304		6,324		250,296
Asset-backed securities		409,086		2,535		988		410,633
Other		2,699		—		—		2,699
Total	$	1,835,459	$	17,958	$	21,200	$	1,832,217
As of September 30, 2013								
State and political subdivisions	$	22,781	$	893	$	150	$	23,524
Mortgage-backed securities (1)		1,390,280		14,469		21,432		1,383,317
Corporate bonds		255,391		936		9,376		246,951
Asset-backed securities		306,961		1,836		1,559		307,238
Other		2,394		—		—		2,394
Total	$	1,977,807	$	18,134	$	32,517	$	1,963,424

(1) All are residential type mortgage-backed securities

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

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

U.S. Treasury securities	$104,777	$608	$—	$—	$104,777	$608
State and political subdivisions	—	—	3,638	31	3,638	31
Mortgage-backed securities	126,445	844	265,426	9,055	391,871	9,899
Corporate bonds	49,547	414	34,657	1,319	84,204	1,733
Asset-backed securities	57,716	137	9,952	17	67,668	154
Total unrealized loss position	$338,485	$2,003	$313,673	$10,422	$652,158	$12,425
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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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	Less than 12 Months		12 Months or More		Total	
As of September 30, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$4,533	$148	$10	$2	$4,543	$150
Mortgage-backed securities	533,681	17,958	100,534	3,474	634,215	21,432
Corporate bonds	115,511	6,463	53,042	2,913	168,553	9,376
Asset-backed securities	79,015	869	56,181	690	135,196	1,559
Total unrealized loss position	$732,740	$25,438	$209,767	$7,079	$942,507	$32,517

At September 30, 2014, there were 90 available-for-sale securities and 25 held-to-maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at September 30, 2014 and December 31, 2013 were primarily attributable to changes in interest rates. Unrealized losses at September 30, 2013 were primarily related to changes in interest rates; however, the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings since the time of acquisition. The bonds remain above investment grade and have recovered much of their initial market value loss. Therefore, United does not consider them to be impaired.

The amortized cost and fair value of held-to-maturity and available-for-sale securities at September 30, 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
U.S. Treasury Securities:				
1 to 5 years	$86,203	$85,841	$—	$—
5 to 10 years	19,182	19,181	—	—
	105,385	105,022	—	—
State and political subdivisions:				
Within 1 year	6,330	6,427	1,000	1,023
1 to 5 years	10,414	10,863	18,595	19,949
5 to 10 years	2,094	2,130	20,161	21,726
More than 10 years	848	901	10,492	11,399
	19,686	20,321	50,248	54,097
Corporate bonds:				
1 to 5 years	48,756	48,189	—	—
5 to 10 years	115,802	116,763	—	—
More than 10 years	1,000	300	—	—
	165,558	165,252	—	—
Asset-backed securities:				
Within 1 year	9,993	10,007	—	—
1 to 5 years	86,608	87,916	—	—

5 to 10 years	242,393	244,069	—	—
More than 10 years	119,575	120,052	—	—
	458,569	462,044	—	—
Other:				
More than 10 years	2,036	2,036	—	—
	2,036	2,036	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	16,323	16,434	1,000	1,023
1 to 5 years	231,981	232,809	18,595	19,949
5 to 10 years	379,471	382,143	20,161	21,726
More than 10 years	123,459	123,289	10,492	11,399
Mortgage-backed securities	1,029,881	1,034,992	382,170	386,214
	$1,781,115	$1,789,667	$432,418	$440,311

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

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three and nine months ended September 30, 2014 and 2013 (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Proceeds from sales	$ 13,290	$ 5,000	$ 403,517	$ 20,751
Gross gains on sales	$ 11	$ —	$ 5,795	$ 116
Gross losses on sales	—	—	(1,132)	—
Net gains on sales of securities	$ 11	$ —	$ 4,663	$ 116
Income tax expense attributable to sales	$ 4	$ —	$ 1,821	$ 45

Securities with a carrying value of $1.38 billion, $1.53 billion and $1.34 billion were pledged to secure public deposits and other secured borrowings at September 30, 2014, December 31, 2013 and September 30, 2013, respectively.

Note 6 – Loans and Allowance for Loan Losses

Major classifications of loans as of September 30, 2014, December 31, 2013 and September 30, 2013, are summarized as follows (in thousands).

	September 30, 2014	December 31, 2013	September 30, 2013
Owner occupied commercial real estate	$ 1,153,933	$ 1,133,543	$ 1,129,152
Income producing ommercial real estate	604,727	623,167	613,619
Commercial & industrial	649,853	471,961	457,414
Commercial construction	180,794	148,903	137,146
Total commercial	2,589,307	2,377,574	2,337,331
Residential mortgage	865,568	875,077	888,679
Home equity lines of credit	458,819	440,887	420,616
Residential construction	307,178	328,579	317,789
Consumer installment	105,345	111,045	116,535
Indirect auto	242,669	196,104	186,117
Total loans	4,568,886	4,329,266	4,267,067
Less allowance for loan losses	(71,928)	(76,762)	(80,372)
Loans, net	$ 4,496,958	$ 4,252,504	$ 4,186,695

At September 30, 2014, December 31, 2013 and September 30, 2013, loans with a carrying value of $2.21 billion, $1.77 billion and $1.94 billion, respectively, 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 the end of the period. In 2013, United established an allowance for unfunded commitments separate from the allowance for loan losses due to significant growth in unfunded loan commitments. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheet. Combined, the allowance for loan losses and allowance for unfunded commitments are referred to as the allowance for credit losses.

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

Three Months Ended September 30,	2014 Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$17,804	$(832)	$86	$—	(1,758)	$15,300
Income producing commercial real estate	11,761	(598)	494	—	(866)	10,791
Commercial & industrial	3,885	(30)	372	—	(1,009)	3,218
Commercial construction	4,067	(104)	1	—	1,686	5,650
Residential mortgage	16,763	(1,357)	240	—	1,940	17,586
Home equity lines of credit	6,338	(405)	50	—	(1,144)	4,839
Residential construction	11,208	(753)	41	—	2,358	12,854
Consumer installment	599	(449)	256	—	333	739
Indirect auto	823	(178)	11	—	295	951
Unallocated	—	—	—	—	—	—
Total allowance for loan losses	73,248	(4,706)	1,551	—	1,835	71,928
Allowance for unfunded commitments	2,165	—	—	—	165	2,330
Total allowance for credit losses	$75,413	$(4,706)	$1,551	$—	$2,000	$74,258

Nine Months Ended September 30,	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$17,164	$(2,116)	$2,929	$1,278	$(3,955)	$15,300
Income producing commercial real estate	7,174	(1,435)	691	688	3,673	10,791
Commercial & industrial	6,527	(2,005)	1,263	318	(2,885)	3,218
Commercial construction	3,669	(236)	1	388	1,828	5,650
Residential mortgage	15,446	(5,738)	597	1,452	5,829	17,586
Home equity lines of credit	5,528	(2,032)	218	391	734	4,839
Residential construction	12,532	(3,004)	410	1,728	1,188	12,854
Consumer installment	1,353	(1,580)	974	—	(8)	739
Indirect auto	1,126	(344)	38	—	131	951
Unallocated	6,243	—	—	(6,243)	—	—

Total allowance for loan losses	76,762	(18,490)	7,121	—	6,535	71,928
Allowance for unfunded commitments	2,165	—	—	—	165	2,330
Total allowance for credit losses	$78,927	$(18,490)	$7,121	$—	$6,700	$74,258

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.

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2013

Three Months Ended September 30,	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Owner occupied commercial real estate	$15,785	$(1,712)	$71	$(78)	$14,066
Income producing commercial real estate	7,023	(216)	—	3,262	10,069
Commercial & industrial	8,054	(826)	690	14	7,932
Commercial construction	4,275	(134)	1	(324)	3,818
Residential mortgage	14,498	(918)	229	1,335	15,144
Home equity lines of credit	5,529	(388)	2	415	5,558
Residential construction	17,322	(1,096)	24	(1,908)	14,342
Consumer installment	1,515	(345)	210	(31)	1,349
Indirect auto	875	(74)	9	258	1,068
Unallocated	6,969	—	—	57	7,026
Total allowance for loan losses	81,845	(5,709)	1,236	3,000	80,372
Allowance for unfunded commitments	—	—	—	—	—
Total allowance for credit losses	$81,845	$(5,709)	$1,236	$3,000	$80,372

Nine Months Ended September 30,	Beginning Balance	Charge-Offs	Recoveries	Provision	Ending Balance
Owner occupied commercial real estate	$17,265	$(23,444)	$1,296	$18,949	$14,066
Income producing commercial real estate	10,582	(10,678)	260	9,905	10,069
Commercial & industrial	5,537	(18,581)	1,368	19,608	7,932
Commercial construction	8,389	(6,484)	60	1,853	3,818
Residential mortgage	19,117	(8,272)	479	3,820	15,144
Home equity lines of credit	7,525	(2,108)	170	(29)	5,558
Residential construction	26,662	(22,608)	57	10,231	14,342
Consumer installment	2,527	(1,521)	891	(548)	1,349
Indirect auto	220	(170)	20	998	1,068
Unallocated	9,313	—	—	(2,287)	7,026
Total allowance for loan losses	107,137	(93,866)	4,601	62,500	80,372
Allowance for unfunded commitments	—	—	—	—	—
Total allowance for credit losses	$107,137	$(93,866)	$4,601	$62,500	$80,372

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

	September 30, 2014			December 31, 2013			Septe
Allowance for Loan Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance	Indivi Evalu for Impai
Owner occupied commercial real estate	$2,125	$13,175	$15,300	$1,023	$16,141	$17,164	$770
Income producing commercial real estate	2,380	8,411	10,791	990	6,184	7,174	1,20
Commercial & industrial	26	3,192	3,218	66	6,461	6,527	546
Commercial construction	1,164	4,486	5,650	112	3,557	3,669	150
Residential mortgage	3,501	14,085	17,586	2,914	12,532	15,446	2,00
Home equity lines of credit	51	4,788	4,839	5	5,523	5,528	—
Residential construction	1,037	11,817	12,854	688	11,844	12,532	662
Consumer installment	23	716	739	224	1,129	1,353	11
Indirect auto	—	951	951	—	1,126	1,126	—
Unallocated	—	—	—	—	6,243	6,243	—
Total allowance for loan losses	10,307	61,621	71,928	6,022	70,740	76,762	5,35
Allowance for unfunded commitments	—	2,330	2,330	—	2,165	2,165	—
Total allowance for credit losses	$10,307	$63,951	$74,258	$6,022	$72,905	$78,927	$5,35
Loans Outstanding							
Owner occupied commercial real estate	$33,635	$1,120,298	$1,153,933	$32,969	$1,100,574	$1,133,543	$31,1
Income producing commercial real estate	26,120	578,607	604,727	27,239	595,928	623,167	23,3
Commercial & industrial	4,540	645,313	649,853	4,217	467,744	471,961	4,10
Commercial construction	12,127	168,667	180,794	13,715	135,188	148,903	13,4
Residential mortgage	18,778	846,790	865,568	20,167	854,910	875,077	18,9
Home equity lines of credit	531	458,288	458,819	505	440,382	440,887	—
Residential construction	13,055	294,123	307,178	14,808	313,771	328,579	14,1
Consumer installment	245	105,100	105,345	999	110,046	111,045	204
Indirect auto	—	242,669	242,669	—	196,104	196,104	—
Total loans	$109,031	$4,459,855	$4,568,886	$114,619	$4,214,647	$4,329,266	$105,

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

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

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

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

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

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

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

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

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

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

	September 30, 2014			December 31, 2013			September 30, 20	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recor Inves
With no related allowance recorded:								
Owner occupied commercial real estate	$11,370	$10,370	$—	$17,717	$14,458	$—	$18,423	$15,0
Income producing commercial real estate	9,872	9,872		12,644	9,747	—	6,643	5,32
Commercial & industrial	2,178	1,560	—	2,252	2,252	—	235	235
Commercial construction	—	—	—	974	974	—	1,127	1,12
Total commercial	23,420	21,802	—	33,587	27,431	—	26,428	21,7
Residential mortgage	1,319	954	—	4,496	3,634	—	4,768	3,72
Home equity lines of credit	—	—	—	—	—	—	—	—
Residential construction	5,460	4,172	—	9,462	7,807	—	9,101	7,36
Consumer installment	—	—	—	—	—	—	—	—
Indirect auto	—	—	—	—	—	—	—	—
Total with no related allowance recorded	30,199	26,928	—	47,545	38,872	—	40,297	32,8
With an allowance recorded:								
Owner occupied commercial real estate	24,828	23,265	2,125	18,595	18,513	1,023	16,163	16,0
Income producing commercial real estate	16,797	16,248	2,380	17,490	17,490	990	20,020	18,0
Commercial & industrial	2,980	2,980	26	2,248	1,965	66	4,002	3,87
Commercial construction	12,281	12,127	1,164	12,821	12,741	112	12,430	12,3
Total commercial	56,886	54,620	5,695	51,154	50,709	2,191	52,615	50,3
Residential mortgage	18,657	17,824	3,501	17,119	16,533	2,914	15,598	15,2
Home equity lines of credit	531	531	51	505	505	5	—	—
Residential construction	9,427	8,883	1,037	8,469	7,001	688	7,257	6,75
Consumer installment	245	245	23	999	999	224	214	204
Indirect auto	—	—	—	—	—	—	—	—
Total with an allowance recorded	85,746	82,103	10,307	78,246	75,747	6,022	75,684	72,5
Total	$115,945	$109,031	$10,307	$125,791	$114,619	$6,022	$115,981	$105.

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

The gross additional interest revenue that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $705,000 and $346,000 for the three months ended September 30, 2014 and 2013, respectively, and $1.37 million and $1.69 million for the nine months ended September 30, 2014 and 2013, respectively. The gross additional interest revenue that would have been earned for the three and nine months ended September 30, 2014 and 2013 had performing TDRs performed in accordance with the original terms is immaterial.

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

	2014			2013		
Three Months Ended September 30,	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Owner occupied commercial real estate	$33,715	$430	$448	$31,695	$737	$861
Income producing commercial real estate	26,622	325	341	23,608	599	600
Commercial & industrial	4,698	43	85	4,189	114	104
Commercial construction	12,203	119	96	13,501	244	246
Total commercial	77,238	917	970	72,993	1,694	1,811
Residential mortgage	19,235	215	215	18,548	425	435
Home equity lines of credit	538	6	5	522	11	11
Residential construction	13,146	130	130	14,136	346	307
Consumer installment	251	4	5	214	7	7
Indirect auto	—	—	—	—	—	—
Total	$110,408	$1,272	$1,325	$106,413	$2,483	$2,571
Nine Months Ended September 30,						
Owner occupied commercial real estate	$31,460	$1,191	$1,219	$37,732	$1,836	$2,049
Income producing commercial real estate	26,299	953	991	38,328	1,077	1,077
Commercial & industrial	4,314	135	186	8,821	333	803
Commercial construction	12,086	335	338	14,620	509	593
Total commercial	74,159	2,614	2,734	99,501	3,755	4,522
Residential mortgage	20,384	672	670	19,382	860	841
Home equity lines of credit	531	16	17	524	22	21
Residential construction	13,315	452	455	14,219	850	882
Consumer installment	345	16	19	228	17	17
Indirect auto	—	—	—	—	—	—
Total	$108,734	$3,770	$3,895	$133,854	$5,504	$6,283

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

	Loans Past Due				Loans Not	
	30 - 59	60 - 89				
As of September 30, 2014	Days	Days	> 90 Days	Total	Past Due	Total
Owner occupied commercial real estate	$2,769	$257	$947	$3,973	$1,149,960	$1,153,933
Income producing commercial real estate	417	991	$226	1,634	603,093	604,727
Commercial & industrial	900	103	861	1,864	647,989	649,853
Commercial construction	123	182	—	305	180,489	180,794
Total commercial	4,209	1,533	2,034	7,776	2,581,531	2,589,307
Residential mortgage	6,985	3,136	2,563	12,684	852,884	865,568
Home equity lines of credit	1,566	373	375	2,314	456,505	458,819
Residential construction	1,262	329	2,803	4,394	302,784	307,178
Consumer installment	995	322	191	1,508	103,837	105,345
Indirect auto	278	83	200	561	242,108	242,669
Total loans	$15,295	$5,776	$8,166	$29,237	$4,539,649	$4,568,886
As of December 31, 2013						
Owner occupied commercial real estate	$1,845	$705	$2,017	$4,567	$1,128,976	$1,133,543
Income producing commercial real estate	3,879	2,092	530	6,501	616,666	623,167
Commercial & industrial	2,349	223	88	2,660	469,301	471,961
Commercial construction	94	190	235	519	148,384	148,903
Total commercial	8,167	3,210	2,870	14,247	2,363,327	2,377,574
Residential mortgage	9,011	2,832	4,140	15,983	859,094	875,077
Home equity lines of credit	2,056	430	941	3,427	437,460	440,887
Residential construction	1,335	588	1,375	3,298	325,281	328,579
Consumer installment	1,058	358	24	1,440	109,605	111,045
Indirect auto	185	65	42	292	195,812	196,104
Total loans	$21,812	$7,483	$9,392	$38,687	$4,290,579	$4,329,266
As of September 30, 2013						
Owner occupied commercial real estate	$1,332	$910	$1,896	$4,138	$1,125,014	$1,129,152
Income producing commercial real estate	694	373	533	1,600	612,019	613,619
Commercial & industrial	763	191	93	1,047	456,367	457,414
Commercial construction	16	—	235	251	136,895	137,146
Total commercial	2,805	1,474	2,757	7,036	2,330,295	2,337,331
Residential mortgage	7,672	2,467	4,279	14,418	874,261	888,679
Home equity lines of credit	1,177	610	373	2,160	418,456	420,616

Residential construction	3,705	418	924	5,047	312,742	317,789
Consumer installment	633	19	94	746	115,789	116,535
Indirect auto	220	84	55	359	185,758	186,117
Total loans	$16,212	$5,072	$8,482	$29,766	$4,237,301	$4,267,067

As of September 30, 2014, December 31, 2013, and September 30, 2013, $9.82 million, $5.64 million and $4.72 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 $38,000, $6,000 and $3,000 as of September 30, 2014, December 31, 2013 and September 30, 2013, respectively, to customers with outstanding loans that are classified as TDRs.

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

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

	September 30, 2014			December 31, 2013			September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Owner occupied commercial real estate	52	$27,811	$26,248	45	$24,064	$22,399	45	$25,829	$24,368
Income producing commercial real estate	32	19,652	19,104	32	20,900	18,268	32	22,134	18,795
Commercial & industrial	33	2,941	2,941	36	3,527	3,245	34	3,051	2,919
Commercial construction	14	11,238	11,084	13	13,122	13,042	12	12,904	12,825
Total commercial	131	61,642	59,377	126	61,613	56,954	123	63,918	58,907
Residential mortgage	160	19,555	18,356	133	20,117	18,852	115	18,511	17,408
Home equity lines of credit	4	531	531	3	505	505	5	521	521
Residential construction	50	10,916	10,084	57	12,459	10,452	55	12,360	10,290
Consumer installment	20	245	245	26	203	203	36	214	204
Indirect auto	—	—	—	—	—	—	—	—	—
Total loans	365	92,889	88,593	345	94,897	$86,966	334	95,524	87,330

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

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

2014	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	Three Months Ended September 30, 2014 Number of Contracts	Recorded Investment	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	Months Ended September 30, 2014 Number of Contracts	Recorded Investment
Owner occupied commercial real estate	2	$747	$747	—	$—	9	$4,139	$4,139	$1	$104
Income producing commercial real estate	—	—	—	—	—	5	1,992	1,992	—	—
Commercial & industrial	6	452	452	—	—	10	782	782	2	54
Commercial construction	—	—	—	—	—	2	471	471	—	—
Total commercial	8	1,199	1,199	—	—	26	7,384	7,384	3	158
Residential mortgage	10	778	673	2	139	33	2,924	2,778	8	871
Home equity lines of credit	—	—	—	—	—	1	36	36	—	—
Residential construction	—	—	—	—	—	3	1,124	1,124	—	—
Consumer installment	—	—	—	—	—	5	226	226	—	—
Indirect auto	—	—	—	—	—	—	—	—	—	—
Total loans	18	$1,977	$1,872	2	$139	68	$11,694	$11,548	11	$1,029

2013	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended September 30, 2013 Number of Contracts	Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Nine Months Ended September 30, 2013 Number of Contracts	Recorded Investment
Owner occupied commercial real estate	1	$1,841	$741	—	$—	11	$5,923	$4,823	$1	$432
Income producing commercial real estate	—	—	—	—	—	7	6,009	6,009	—	—
Commercial & industrial	1	68	68	—	—	10	883	777	1	35
Commercial construction	—	—	—	—	—	—	—	—	2	1,454
Total commercial	2	1,909	809	—	—	28	12,815	11,609	4	1,921
Residential mortgage	16	2,365	2,207	1	533	29	5,129	4,827	3	641
Home equity lines of credit	—	—	—	—	—	—	—	—	—	—
Residential construction	3	727	727	1	414	10	1,850	1,721	3	531
Consumer installment	1	7	7	2	9	5	28	28	5	29
Indirect auto	—	—	—	—	—	—	—	—	—	—

Total loans	22	$5,008	$3,750	4	$956	72	$19,822	$18,185	15	$3,122

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

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

As of September 30, 2014	Pass	Watch	Substandard Performing	Nonaccrual	Doubtful / Loss	Total
Owner occupied commercial real estate	$1,076,822	$25,098	$49,857	$2,156	$—	$1,153,933
Income producing commercial real estate	563,451	17,319	22,215	1,742	—	604,727
Commercial & industrial	637,160	3,602	7,498	1,593	—	649,853
Commercial construction	174,443	2,356	3,847	148	—	180,794
Total commercial	2,451,876	48,375	83,417	5,639	—	2,589,307
Residential mortgage	803,937	10,300	42,981	8,350	—	865,568
Home equity lines of credit	450,026	—	8,073	720	—	458,819
Residential construction	284,491	7,389	11,755	3,543	—	307,178
Consumer installment	102,460	—	2,746	139	—	105,345
Indirect auto	242,315	—	—	354	—	242,669
Total loans	$4,335,105	$66,064	$148,972	$18,745	$—	$4,568,886
As of December 31, 2013						
Owner occupied commercial real estate	$1,054,924	$29,714	$43,083	$5,822	$—	$1,133,543
Income producing commercial real estate	575,597	10,410	34,642	2,518		623,167
Commercial & industrial	456,563	5,382	9,589	427	—	471,961
Commercial construction	120,852	10,932	16,758	361	—	148,903
Total commercial	2,207,936	56,438	104,072	9,128	—	2,377,574
Residential mortgage	793,381	25,944	44,022	11,730	—	875,077
Home equity lines of credit	426,052	5,420	7,967	1,448		440,887
Residential construction	298,685	11,526	14,104	4,264	—	328,579
Consumer installment	107,029	1,229	2,538	249	—	111,045
Indirect auto	196,104	—	—	—	—	196,104
Total loans	$4,029,187	$100,557	$172,703	$26,819	$—	$4,329,266
As of September 30, 2013						
Owner occupied commercial real estate	$1,046,900	$35,948	$39,946	$6,358	$—	$1,129,152
Income producing commercial real estate	556,963	19,403	35,596	1,657	—	613,619
Commercial & industrial	436,401	10,062	10,342	609	—	457,414
Commercial construction	109,332	10,560	16,911	343	—	137,146
Total commercial	2,149,596	75,973	102,795	8,967	—	2,337,331

Residential mortgage	808,574	23,277	45,493	11,335	—	888,679
Home equity lines of credit	406,575	5,193	7,679	1,169	—	420,616
Residential construction	283,197	14,943	15,552	4,097	—	317,789
Consumer installment	112,706	1,162	2,147	520	—	116,535
Indirect auto	186,117	—	—	—	—	186,117
Total loans	$3,946,765	$120,548	$173,666	$26,088	$—	$4,267,067

Risk Ratings

United categorizes commercial loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current industry and economic trends, among other factors. United analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continual basis. United uses the following definitions for its risk ratings:

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

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

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

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

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

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

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

	Nonaccrual Loans		
	September 30, 2014	December 31, 2013	September 30, 2013
Owner occupied commercial real estate	$ 2,156	$ 5,822	$ 6,358
Income producing commercial real estate	1,742	2,518	1,657
Commercial & industrial	1,593	427	609
Commercial construction	148	361	343
Total commercial	5,639	9,128	8,967
Residential mortgage	8,350	11,730	11,335
Home equity lines of credit	720	1,448	1,169
Residential construction	3,543	4,264	4,097
Consumer installment	139	249	520
Indirect auto	354	—	—
Total	$ 18,745	$ 26,819	$ 26,088
Balance as a percentage of unpaid principal	68.6 %	65.3 %	61.6 %

Note 7 – Foreclosed Property

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

	September 30, 2014	December 31, 2013	September 30, 2013
Commercial real estate	$ 1,350	$ 1,287	$ 1,130
Commercial construction	—	—	376
Total commercial	1,350	1,287	1,506
Residential mortgage	1,954	3,380	2,420
Residential construction	588	736	1,981
Total foreclosed property	3,892	5,403	5,907
Less valuation allowance	(746)	(1,182)	(1,440)
Foreclosed property, net	$ 3,146	$ 4,221	$ 4,467
Balance as a percentage of original loan unpaid principal	54.5 %	44.5 %	41.5 %

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	$ 741	$ 3,602	$ 1,182	$ 6,954
Additions charged to expense	108	329	690	2,739
Disposals	(103)	(2,491)	(1,126)	(8,253)
Balance at end of period	$ 746	$ 1,440	$ 746	$ 1,440

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net (gain)/loss on sales	$ (264)	$ 513	$ (1,208)	$ 3,563
Provision for unrealized losses	108	329	690	2,739
Operating expenses	441	(648)	1,021	1,376
Total foreclosed property expense	$ 285	$ 194	$ 503	$ 7,678

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Note 8 – Reclassifications Out of Accumulated Other Comprehensive Income

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

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income: For the three months ended September 30, 2014	2013	For the nine months ended September 30, 2014	2013	Affected Line Item in the Statement Where Net Income is Presented
Realized gains on sales of available-for-sale securities:					
	$ 11	$ —	$ 4,663	$ 116	Securities gains, net
	(4)	—	(1,821)	(45)	Tax expense
	$ 7	$ —	$ 2,842	$ 71	Net of tax
Amortization of (losses) gains included in net income on available-for-sale securities transferred to held to maturity:					
	$ (468)	$ 214	$ (1,207)	$ 803	Investment securities interest revenue
	176	(83)	453	(310)	Tax benefit (expense)
	$ (292)	$ 131	$ (754)	$ 493	Net of tax
Amounts included in net income on derivative financial instruments accounted for as cash flow hedges:					
Effective portion of interest rate contracts	$ —	$ 10	$ —	$ 850	Loan interest revenue
Ineffective portion of interest rate contracts	—	48	—	52	Loan interest revenue
Effective portion of interest rate contracts	(317)	—	(764)	—	Brokered deposit interest expense
Amortization of losses on de-designated positions	(81)	—	(105)	—	

					Money market deposit interest expense
Amortization of losses on de-designated positions	(313)	—	(512)	—	Brokered deposit interest expense
	(711)	58	(1,381)	902	Total before tax
	277	(23)	538	(351)	Tax or benefit (expense)
	$ (434)	$ 35	$ (843)	$ 551	Net of tax
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan					
Prior service cost	$ (91)	$ (91)	$ (274)	$ (273)	Salaries and employee benefits expense
Actuarial losses	—	(42)	—	(126)	Salaries and employee benefits expense
	(91)	(133)	(274)	(399)	Total before tax
	36	52	107	155	Tax benefit
	$ (55)	$ (81)	$ (167)	$ (244)	Net of tax
Total reclassifications for the period	$ (774)	$ 85	$ 1,078	$ 871	Net of tax

Amounts shown above in parentheses reduce earnings

Note 9 – Earnings Per Share

United is required to report on the face of the consolidated statement of income, earnings per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share.

During the three and nine months ended September 30, 2014 and 2013, United accrued dividends on preferred stock, including accretion of discounts, as shown in the following table (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Series A - 6% fixed	$ —	$ 3	$ —	$ 9
Series B - 5% fixed until December 6, 2013, 9% thereafter	—	2,641	159	7,907

Series D - LIBOR plus 9.6875%, resets quarterly		—		415		280		1,250
Total preferred stock dividends	$	—	$	3,059	$	439	$	9,166

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

The preferred stock dividends were subtracted from net income in order to arrive at net income available to common shareholders. All of United’s preferred stock was redeemed during the fourth quarter of 2013 and the first quarter of 2014.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income available to common shareholders	$17,616	$12,441	$48,934	$248,063
Weighted average shares outstanding:				
Basic	60,776	59,100	60,511	58,443
Effect of dilutive securities				
Stock options	3	1	2	1
Warrants	—	101	—	—
Diluted	60,779	59,202	60,513	58,444
Income per common share:				
Basic	$.29	$.21	$.81	$4.24
Diluted	$.29	$.21	$.81	$4.24

At September 30, 2014, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at $61.40 per share originally issued to the U.S. Treasury; 305,291 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $95.98; 801,334 shares issuable upon completion of vesting of restricted stock awards; and warrants to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at $21.25 per share granted to Fletcher International Ltd. ("Fletcher") in connection with a 2010 asset purchase and sale agreement. On March 5, 2014, United announced that it and the Chapter 11 Trustee for Fletcher had agreed to settle all potential claims and counterclaims between them relating to or arising out of, among other things, their respective rights and obligations under such warrants. Pursuant to the settlement agreement with Fletcher, United has agreed to repurchase the warrants and resolve all claims between the parties. The settlement agreement and the transactions contemplated thereby have been approved by the bankruptcy court and are no longer subject to appeal. As noted in Note 12, in November 2014, the settlement was completed and the net proceeds were paid to Fletcher.

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At September 30, 2013, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at $61.40 per share originally issued to the U.S. Treasury; 371,449 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of $98.54; 1,073,259 shares issuable upon completion of vesting of restricted stock awards; warrants to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at $21.25 per share granted to Fletcher in connection with a 2010 asset purchase and sale agreement.

Note 10 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives
United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and wholesale funding and through the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. United's derivative financial instruments are used to manage differences in the amount, timing, and duration of United's known or expected cash receipts and its known or expected cash payments principally related to United's loans, investment securities, wholesale borrowings and deposits.

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

The table below presents the fair value of United's derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2014, December 31, 2013 and September 30, 2013 (in thousands).

Derivatives designated as hedging instruments under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value September 30, 2014	December 31, 2013	September 30, 2013
Cash flow hedge of money market deposits	Other assets	$ 1,349	$ 4,782	$ 3,580
Fair value hedge of corporate bonds	Other assets	—	3,939	2,709
		$ 1,349	$ 8,721	$ 6,289
Cash flow hedge of short-term debt	Other liabilities	$ —	$ 3,368	$ 3,247
Cash flow hedge of money market deposits	Other liabilities	—	—	431
Fair value hedge of brokered CD's	Other liabilities	10,201	19,970	28,748

Fair value hedge of corporate bonds	Other liabilities	—	2,308	3,025
		$ 10,201	$ 25,646	$ 35,451

Derivatives not designated as hedging instruments under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value September 30, 2014	December 31, 2013	September 30, 2013
Customer swap positions	Other assets	$ 2,067	$ 898	$ 1,096
Dealer offsets to customer swap positions	Other assets	475	1,347	707
Bifurcated embedded derivatives	Other assets	14,780	12,867	—
Offsetting positions for de-designated cash flow hedges	Other assets	3,550	—	—
		$ 20,872	$ 15,112	$ 1,803
Customer swap positions	Other liabilities	$ 475	$ 1,347	$ 707
Dealer offsets to customer swap positions	Other liabilities	2,087	915	1,111
Dealer offsets to bifurcated embedded derivatives	Other liabilities	19,858	18,324	—
De-designated cash flow hedge of brokered CDs	Other liabilities	2,645	—	—
De-designated cash flow hedge of money market deposits	Other liabilities	905	—	—
		$ 25,970	$ 20,586	$ 1,818

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense when the swaps become effective, as interest payments are made on United’s LIBOR based, variable-rate wholesale borrowings and indexed deposit accounts. United’s active forward starting cash flow hedges of floating rate liabilities began interest settlements in the first quarter of 2014. United recognized $12,000 in hedge ineffectiveness gains and $73,000 in hedge ineffectiveness losses, respectively, in interest expense on active cash flow hedges during the third quarter and first nine months of 2014. United recognized $33,000 in hedge ineffectiveness gains during the third quarter and first nine months of 2013. United expects that $3.77 million will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

During the three and nine months ended September 30, 2013, United accelerated the reclassification of $48,000 and $53,000, respectively, in gains from terminated positions, as a result of the forecasted transactions becoming probable not to occur. These amounts were recognized in loan interest revenue as hedge ineffectiveness.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed rate investments and obligations due to changes in interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges of brokered deposits involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate swaps designated as fair value hedges of fixed rate investments involve the receipt of variable-rate amounts from a counterparty in exchange for United making fixed rate payments over the life of the instrument without the exchange of the underlying notional amount. At September 30, 2014, United had 16 interest rate swaps with an aggregate notional amount of $199 million that were designated as fair value hedges of interest rate risk. These contracts were pay-variable / receive-fixed swaps hedging changes in the fair value of fixed rate brokered time deposits resulting from changes in interest rates. At September 30, 2013, United had 27 interest rate swaps with an aggregate notional amount of $387 million that were designated as fair value hedges. At September 30, 2013, eight of the interest rate swaps with an aggregate notional amount of $86 million were receive-variable / pay-fixed swaps that were used for the purpose of hedging changes in the fair value of corporate bonds resulting from changes in interest rates. These swaps were cancelled and the bonds were sold in the second quarter of 2014. The other 19 were pay-variable / receive-fixed swaps hedging changes in fair value of fixed rate brokered time deposits resulting from changes in interest rates.

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For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same income statement line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2014 United recognized net losses of $312,000 and $937,000, respectively, and during the three and nine months ended September 30, 2013, United recognized net gains of $38,000 and $241,000, respectively, related to ineffectiveness of the fair value hedging relationships. United also recognized net reductions of interest expense of $1.04 million and $3.47 million, respectively, for the three and nine months ended September 30, 2014 and net reductions of interest expense of $2.47 million and $4.73 million, respectively, for the three and nine months ended September 30, 2013 related to United's fair value hedges of brokered time deposits, which include net settlements on the derivatives. United recognized reductions of interest revenue on securities during the nine months ended September 30, 2014 in the amount of $955,000 related to United's fair value hedges of corporate bonds that were terminated in the second quarter of 2014. For the three and nine months ended September 30, 2013, United recognized reductions of interest revenue on securities in the amounts of $516,000 and $811,000, respectively related to United's fair value hedges of corporate bonds.

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of United's derivative financial instruments on the consolidated statement of operations for the three and nine months ended September 30, 2014 and 2013.

Derivatives in Fair Value Hedging Relationships (in thousands).

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative 2014	2013	Amount of Gain (Loss) Recognized in Income on Hedged Item 2014	2013
Three Months Ended September 30,					
Fair value hedges of brokered CD's	Interest expense	$ (37)	$ (2,849)	$ (275)	$ 2,872
Fair value hedges of corporate bonds	Interest revenue	—	109	—	(94)
		$ (37)	$ (2,740)	$ (275)	$ 2,778
Nine Months Ended September 30,					
Fair value hedges of brokered CD's	Interest expense	$ 10,078	$ (20,134)	$ (10,691)	$ 19,988
Fair value hedges of corporate bonds	Interest revenue	(2,487)	4,338	2,163	(3,951)
		$ 7,591	$ (15,796)	$ (8,528)	$ 16,037

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

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Derivatives in Cash Flow Hedging Relationships (in thousands).

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
	2014	2013	Location	2014	2013	Location	2014	2013
Three Months Ended September 30,								
			Interest revenue	$ —	$ 58			
			Interest expense	(711)	—			
Interest rate swaps	$ 412	$ (3,507)	Total	$ (711)	$ 58	Interest expense	$ 12	$ (33)
Nine Months Ended September 30,								
			Interest revenue	$ —	$ 902			
			Interest expense	(1,381)	—			
Interest rate swaps	$ (5,967)	$ 8,595	Total	$ (1,381)	$ 902	Interest expense	$ (73)	$ 46

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Credit-Risk-Related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bilateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. As of September 30, 2014, collateral totaling $38.2 million was pledged toward derivatives in a liability position.

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

Note 11 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards (also referred to as "nonvested stock" awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years) with an exercisable period not to exceed ten years. Certain options, restricted stock and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the plan). As of September 30, 2014, 529,000 additional awards could be granted under the plan. Through September 30, 2014, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards have been granted under the plan.

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

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2013	350,772	$ 97.87		
Expired	(45,481)	110.57		
Outstanding at September 30, 2014	305,291	95.98	2.9	$59
Exercisable at September 30, 2014	299,041	97.70	2.8	41

The fair value of each option is estimated on the date of grant using the Black-Scholes model. Key assumptions used to determine the fair value of options granted to employees during the first nine months of 2013 are shown below. No stock options were granted during the nine months ended September 30, 2014.

	Nine Months Ended September 30,	
	2014	2013
Expected volatility	NA	30.00%
Expected dividend yield	NA	0.00%
Expected life (in years)	NA	6.25
Risk-free rate	NA	2.01%

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

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United recognized $5,000 in compensation expense related to stock options during the nine months ended September 30, 2014. Compensation expense relating to stock options for the nine months ended September 30, 2013 was a reduction of expense of $56,000 due to the reversal of previously recognized expense on grants that did not vest. The amount of compensation expense was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for new options issued is estimated to be approximately 3% per year. No options were exercised during the first nine months of 2014 or 2013.

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

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2013	1,073,676	$ 13.73
Granted	55,066	17.73
Excercised	(324,108)	12.24
Cancelled	(3,300)	13.18
Outstanding at September 30, 2014	801,334	14.61
Vested at September 30, 2014	7,580	9.90

Compensation expense for restricted stock is based on the fair value of restricted stock awards at the time of grant, which is equal to the value of United's common stock on the date of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting period. For the nine months ended September 30, 2014 and 2013, compensation expense of $3.23 million and $2.01 million, respectively, was recognized related to restricted stock awards. In addition, for the nine months ended September 30, 2014 and 2013, $76,000 and $118,000, respectively, was recognized in other operating expense for restricted stock units granted to members of United's board of directors. The total intrinsic value of outstanding restricted stock awards was $13.2 million at September 30, 2014.

As of September 30, 2014, there was $10.0 million of unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 3.0 years. The aggregate grant date fair value of options and restricted stock awards that vested during the nine months ended September 30, 2014, was $3.83 million.

Note 12 – Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan ("DRIP") that allows participants who already own United's common stock to purchase additional shares directly from United. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. No shares were issued through the DRIP in 2013 as the DRIP was suspended during that time. The DRIP was re-activated following United's reinstatement of its quarterly dividend in the second quarter of 2014. In the third quarter of 2014, no shares were issued through the DRIP.

United's 401(k) retirement plan regularly purchases shares of United's common stock directly from United. In addition, United has an Employee Stock Purchase Program that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. For the nine months ended September 30, 2014 and 2013, United issued 25,284 and 49,830 shares, respectively, and increased capital by $424,000 and $582,000, respectively, through these programs.

United offers its common stock as an investment option in its deferred compensation plan. United also allows for the deferral of restricted stock awards. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. The deferred compensation plan does not allow for diversification once an election is made to invest in United's common stock and settlement must be accomplished in shares at the time the deferral period is completed. At September 30, 2014 and 2013, 354,961 and 242,262 shares of common stock, respectively, were issuable under the deferred compensation plan.

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

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Pursuant to its settlement agreement with Fletcher, United agreed to deliver 640,000 shares of its common stock and cash that, together with the common stock, would have a combined fair value of $12 million. On March 25, 2014, to satisfy its obligations under the settlement agreement, United completed the sale of 640,000 shares of common stock and received approximately $12.2 million in net proceeds after discounts and expenses, $12.0 million of which is payable to Fletcher once the settlement is completed. In November 2014, the settlement was completed and the net proceeds were paid to Fletcher.

Note 13 – Income Taxes

The income tax provision for the three and nine months ended September 30, 2014 was $9.99 million and $28.7 million, respectively, which represents effective tax rates of 36.2% and 36.7%, respectively. The income tax provision for the three and nine months ended September 30, 2013 was $9.52 million and a net benefit of $247 million, respectively. The net income tax benefit for the first nine months of 2013 reflects the reversal of a $272 million valuation allowance on United’s net deferred tax asset. At September 30, 2014, December 31, 2013 and September 30, 2013, the valuation allowance on United’s net deferred tax asset was $4.45 million, $4.10 million and $4.61 million, respectively. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

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

United evaluated the need for a valuation allowance again at September 30, 2014. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of its net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of $4.45 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused. The positive evidence considered by management in arriving at the conclusion that a full valuation allowance is not necessary included consecutive profitable quarters beginning with the fourth quarter of 2011, United’s strong pre-crisis earnings history and growth in pre-tax, pre-credit earnings, which demonstrate demand for United’s products and services, and United’s significant improvement in credit measures, which improve both the sustainability of profitability and management’s ability to forecast future credit losses. The negative evidence previously considered by management included a three-year cumulative loss position and United’s and United Community Bank’s informal memorandums of understanding with the bank regulatory agencies. The informal memorandums of understanding were terminated in the fourth quarter of 2013 and first quarter of 2014 and United was no longer in a three-year cumulative loss position effective with the first quarter of 2014, based on a rolling twelve quarters.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management’s conclusion at September 30, 2014 that it was more likely than not that United’s net deferred tax asset of $225 million will be realized is based upon management’s estimate of future taxable income. Management’s estimate of future taxable income is based on internal forecasts that consider historical performance, various internal estimates and assumptions, as well as certain external data all of which management believes to be reasonable although inherently subject to significant judgment. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the valuation allowance may need to be increased for some or all of its net deferred tax asset. Such an increase to the net deferred tax asset valuation allowance could have a material adverse effect on United's financial condition and results of operations.

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

At September 30, 2014, December 31, 2013 and September 30, 2013, unrecognized income tax benefits totaled $4.10 million, $4.50 million and $4.45 million, respectively. In the first quarter of 2014, United adopted the provisions of ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires unrecognized tax benefits to be presented as a reduction of a deferred tax asset unless certain conditions are present. Prior to adoption, unrecognized tax benefits were presented as a component of the current tax liability payable. Upon adoption, United reclassified $4.59 million in unrecognized tax benefits from other liabilities to its net deferred tax asset. The reclassification resulted in decreases in United's net deferred tax asset and other liabilities.

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Note 14 – Assets and Liabilities Measured at Fair Value

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

Fair Value Hierarchy

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

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

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

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

Securities Available-for-Sale

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

Deferred Compensation Plan Assets and Liabilities

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

Mortgage Loans Held for Sale

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

Loans

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

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Foreclosed Assets

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

Derivative Financial Instruments

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

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates fell below the strike rate of the floors. The variable interest rates used in the calculation of projected receipts on the floor are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820, United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although United has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2014, United had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, United has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of September 30, 2014, December 31, 2013 and September 30, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

September 30, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Treasury securities	$—	$105,022	$—	$105,022
State and political subdivisions	—	20,321	—	20,321
Mortgage-backed securities	—	1,034,992	—	1,034,992
Corporate bonds	—	164,952	300	165,252
Asset-backed securities	—	462,044	—	462,044
Other	—	2,036	—	2,036
Deferred compensation plan assets	3,734	—	—	3,734
Derivative financial instruments	—	22,221	—	22,221
Total assets	$3,734	$1,811,588	$300	$1,815,622
Liabilities:				
Deferred compensation plan liability	$3,734	$—	$—	$3,734
Brokered certificates of deposit	—	175,053	—	175,053
Derivative financial instruments	—	36,171	—	36,171
Total liabilities	$3,734	$211,224	$—	$214,958

December 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale				
State and political subdivisions	$—	$23,242	$—	$23,242
Mortgage-backed securities	—	1,145,347	—	1,145,347
Corporate bonds	—	249,946	350	250,296
Asset-backed securities	—	410,633	—	410,633
Other	—	2,699	—	2,699
Deferred compensation plan assets	3,496	—	—	3,496
Derivative financial instruments	—	23,833	—	23,833
Total assets	$3,496	$1,855,700	$350	$1,859,546
Liabilities:				
Deferred compensation plan liability	$3,496	$—	$—	$3,496
Brokered certificates of deposit	—	173,657	—	173,657
Derivative financial instruments	—	46,232	—	46,232
Total liabilities	$3,496	$219,889	$—	$223,385

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September 30, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
State and political subdivisions	$—	$23,524	$—	$23,524
Mortgage-backed securities	—	1,383,317	—	1,383,317
Corporate bonds	—	246,601	350	246,951
Asset-backed securities	—	307,238	—	307,238
Other	—	2,394	—	2,394
Deferred compensation plan assets	3,203	—	—	3,203
Derivative financial instruments	—	8,092	—	8,092
Total assets	$3,203	$1,971,166	$350	$1,974,719
Liabilities:				
Deferred compensation plan liability	$3,203	$—	$—	$3,203
Brokered certificates of deposit	—	273,282	—	273,282
Derivative financial instruments	—	37,269	—	37,269
Total liabilities	$3,203	$310,551	$—	$313,754

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Securities Available for Sale	2014	2013	2014	2013
Balance at beginning of period	$ 300	$ 350	$ 350	$ 350
Amounts included in earnings	—	—	—	—
Paydowns / sales	—	—	(50)	—
Balance at end of period	$ 300	$ 350	$ 300	$ 350

At September 30, 2014, United had one security that has a Level 3 valuation. It is a trust preferred security in a community bank that has shown deteriorating financial condition during the financial crisis, and is currently deferring interest payments. Since the investment is not actively traded, there is no recent trade activity upon which to assess value. The value assigned to the investment is based on a sales price estimate from a broker. The investment has a par amount of $1 million. The investment is carried at its original cost basis of $1 million with a $700,000 negative mark to fair value through other comprehensive income. United does not consider this investment to be other-than-temporarily impaired, as the community bank was recapitalized by a private equity investment that management believes will result in full payment at maturity.

United had a second trust preferred security in another community bank that was acquired by United through an acquisition of another financial institution. The investment was recorded at its par amount of $1 million at the time of the acquisition which was estimated to be its fair value. During the financial crisis, the community bank discontinued the payment of interest. United considered the investment to be other than temporarily impaired and recorded a $950,000 impairment charge to write the asset down to its estimated value of $50,000. In the second quarter of 2014, United sold the investment for $200,000 and recorded a gain from the sale of $150,000.

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents United's assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2014, December 31, 2013 and September 30, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands).

September 30, 2014	Level 1	Level 2	Level 3	Total
Assets				
Loans	$—	$—	$85,827	$85,827
Foreclosed properties	—	—	2,204	2,204
Total	$—	$—	$88,031	$88,031
December 31, 2013				
Assets				
Loans	$—	$—	$82,798	$82,798
Foreclosed properties	—	—	3,747	3,747
Total	$—	$—	$86,545	$86,545
September 30, 2013				
Assets				
Loans	$—	$—	$76,393	$76,393
Foreclosed properties	—	—	3,898	3,898
Total	$—	$—	$80,291	$80,291

Loans that are reported above as being measured at fair value on a non-recurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows. Foreclosed properties that are included above as measured at fair value on a nonrecurring basis are those properties that resulted from a loan that had been charged down or have been written down subsequent to foreclosure. Foreclosed properties are generally recorded at the lower of 80% of appraised value or 90% of the asking price which considers the estimated cost to sell.

Assets and Liabilities Not Measured at Fair Value

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

The short maturity of United's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates carrying value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale and short-term borrowings. The fair value of securities available-for-sale equals the balance sheet value. Due to the short-term settlement of accrued interest receivable and payable, the carrying amount closely approximates fair value.

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

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

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

The carrying amount and fair values for other financial instruments that are not measured at fair value on a recurring basis in United's balance sheet at September 30, 2014, December 31, 2013, and September 30, 2013 are as follows (in thousands).

	Carrying	Fair Value Level			
September 30, 2014	Amount	Level 1	Level 2	Level 3	Total
Assets:					
Securities held to maturity	$432,418	$—	$440,311	$—	$440,311
Loans, net	4,496,958	—	—	4,437,039	4,437,039
Mortgage loans held for sale	20,004	—	20,253	—	20,253
Liabilities:					
Deposits	6,240,729	—	6,228,804	—	6,228,804
Federal Home Loan Bank advances	330,125	—	330,134	—	330,134
Long-term debt	129,865	—	—	132,636	132,636
December 31, 2013					
Assets:					
Securities held to maturity	479,742	—	485,585	—	485,585
Loans, net	4,252,504	—	—	4,165,591	4,165,591
Mortgage loans held for sale	10,319	—	10,529	—	10,529
Liabilities:					
Deposits	6,201,505	—	6,204,815	—	6,204,815
Federal Home Loan Bank advances	120,125	—	120,125	—	120,125
Long-term debt	129,865	—	—	130,262	130,262
September 30, 2013					
Assets:					
Securities held to maturity	205,613	—	214,651	—	214,651
Loans, net	4,186,695	—	—	4,095,666	4,095,666
Mortgage loans held for sale	11,987	—	11,979	—	11,979
Liabilities:					
Deposits	6,112,907	—	6,117,769	—	6,117,769
Federal Home Loan Bank advances	125	—	125	—	125

Long-term debt	129,865	—	—	129,197	129,197

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Note 15 – Commitments and Contingencies

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

The following table summarizes, as of September 30, 2014, December 31, 2013 and September 30, 2013, the contractual amount of off-balance sheet instruments (in thousands):

	September 30, 2014		December 31, 2013		September 30, 2013	
Financial instruments whose contract amounts represent credit risk:						
Commitments to extend credit	$	852,635	$	747,170	$	677,891
Letters of credit		20,534		19,846		9,818

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