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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017

OR

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

For the Transition Period from ___________ to ___________

Commission file number 001-35095

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

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

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

(706) 781-2265
(Telephone Number)

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

YES x NO ¨

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

YES x NO ¨

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

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

Emerging growth company ¨

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

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

YES ¨ NO x

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

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Part I – Financial Information

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States (“GAAP”) and reporting guidelines of banking regulatory authorities and regulators. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United’s accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

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

Note 2 –Accounting Standards Updates and Recently Adopted Standards

Accounting Standards Updates

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

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

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

<u>Recently Adopted Standards</u>

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

The following table presents a summary of amounts outstanding under reverse repurchase agreements and derivative financial instruments including those entered into in connection with the same counterparty under master netting agreements as of the dates indicated *(in thousands)*.

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

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

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

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

Note 4 – Securities

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

The following table summarizes available-for-sale securities in an unrealized loss position as of the dates indicated *(in thousands)*.

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

At June 30, 2017, there were 94 available-for-sale securities and 35 held-to-maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2017 were primarily attributable to changes in interest rates and spread relationships.

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. No impairment charges were recognized during the three or six months ended June 30, 2017 or 2016.

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

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The amortized cost and fair value of held-to-maturity and available-for-sale securities at June 30, 2017, by contractual maturity, are presented in the following table *(in thousands)*.

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 5 – Loans and Allowance for Credit Losses

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

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

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

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

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the balance and activity in the allowance for credit losses by portfolio segment for the periods indicated *(in thousands)*.

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

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

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table represents the recorded investment in loans by portfolio segment and the balance of the allowance for loan losses assigned to each segment based on the method of evaluating the loans for impairment as of the dates indicated *(in thousands)*.

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

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

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

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

Each quarter, management prepares an analysis of the allowance for credit losses to determine the appropriate balance that measures and quantifies the amount of probable incurred losses in the loan portfolio and unfunded loan commitments. The allowance is comprised of specific reserves on individually impaired loans, which are determined as described above, and general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions multiplied by a loss emergence period factor.

Management calculates the loss emergence period for each pool of loans based on the weighted average length of time between the date a loan first exceeds 30 days past due and the date the loan is charged off.

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

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

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Notes to Consolidated Financial Statements

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

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

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

Generally, closed-end retail loans (installment and residential mortgage loans) past due 90 cumulative days are written down to their collateral value less estimated selling costs. Open-end (revolving) unsecured retail loans which are past due 90 cumulative days from their contractual due date are generally charged-off.

The following table presents loans individually evaluated for impairment by class of loans as of the dates indicated *(in thousands)*.

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

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

As of June 30, 2017 and December 31, 2016, $3.23 million and $2.90 million, respectively, of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to $95,000 at both June 30, 2017 and December 31, 2016 to customers with outstanding loans that are classified as TDRs.

The modification of the TDR terms included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the amortization period that would not otherwise be considered in the current market for new debt with similar risk characteristics; a restructuring of the borrower's debt into an "A/B note structure" where the A note would fall within the borrower's ability to pay and the remainder would be included in the B note; a mandated bankruptcy restructuring; or interest-only payment terms greater than 90 days where the borrower is unable to amortize the loan. Modified PCI loans are not accounted for as TDRs because they are not separated from the pools, and as such are not classified as impaired loans.

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

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

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

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

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

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

Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans based on the size of the loan. United’s policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in full or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce the loan’s recorded investment.

PCI loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered to be performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or future period yield adjustments. The accrual of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at June 30, 2017 or December 31, 2016 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

The gross additional interest revenue that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $246,000 and $170,000 for the three months ended June 30, 2017 and 2016, respectively, and $523,000 and $425,000 for the six months ended June 30, 2017 and 2016, respectively.

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

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

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

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

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

Risk Ratings

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

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

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

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

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

Consumer Purpose Loans. United applies a pass / fail grading system to all consumer purpose loans. Under the pass / fail grading system, consumer purpose loans that become past due 90 days or are in bankruptcy are classified as “fail” and all other loans are classified as “pass”. For reporting purposes, consumer purpose loans classified as “fail” are reported in the substandard column and all other consumer purpose loans are reported in the “pass” column.

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

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

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

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

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Note 6 – Reclassifications Out of Accumulated Other Comprehensive Income

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

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

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

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

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

Amounts shown above in parentheses reduce earnings.

Note 7 – Earnings Per Share

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

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

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

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

At June 30, 2017, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at $61.40 per share; 63,404 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $25.45; and 595,188 shares of common stock issuable upon the vesting of restricted stock unit awards.

At June 30, 2016, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at $61.40 per share; 187,541 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $77.65; and 581,760 shares of common stock issuable upon the vesting of restricted stock unit awards.

Note 8 – Derivatives and Hedging Activities

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

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

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

Derivatives designated as hedging instruments under ASC 815

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

Derivatives not designated as hedging instruments under ASC 815

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

Customer derivative positions are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap/cap program. United also has three interest rate swap contracts that are not designated as hedging instruments but are economic hedges of market-linked brokered certificates of deposit. The market-linked brokered certificates of deposit contain embedded derivatives that are bifurcated from the host instruments and are marked to market through earnings. The fair value marks on the market linked swaps and the bifurcated embedded derivatives tend to move in opposite directions with changes in 90-day LIBOR and therefore provide an economic hedge.

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

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

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

Cash Flow Hedges of Interest Rate Risk

At June 30, 2017 and December 31, 2016 United did not have any active cash flow hedges. Changes in balance sheet composition and interest rate risk position made cash flow hedges no longer necessary as protection against rising interest rates. The loss remaining in other comprehensive income on the de-designated swaps is being amortized into earnings over the original term of the swaps as the forecasted transactions that the swaps were originally designated to hedge are still expected to occur. United expects that $591,000 will be reclassified as an increase to interest expense over the next twelve months related to these cash flow hedges.

The table below presents the effect of cash flow hedges on the consolidated statement of income for the periods indicated *(in thousands)*.

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)			Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		
	2017	2016	Location	2017	2016	Location	2017	2016
Three Months Ended June 30,								
Interest rate swaps	$ -	$ -	Interest expense	$ (177)	$ (460)	Interest expense	$ -	$ -
Six Months Ended June 30,								
Interest rate swaps	$ -	$ -	Interest expense	$ (590)	$ (960)	Interest expense	$ -	$ -

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges of brokered deposits involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate swaps designated as fair value hedges of fixed-rate investments involve the receipt of variable-rate payments from a counterparty in exchange for United making fixed-rate payments over the life of the instrument without the exchange of the underlying notional amount. At June 30, 2017, United had four interest rate swaps with a notional amount of $40.7 million that were designated as fair value hedges of interest rate risk and were pay-variable / receive-fixed swaps hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates. Also at June 30, 2017, United had one interest rate swap with a notional value of $30 million that was designated as a pay-fixed / receive-variable fair value hedge of changes in the fair value of a fixed-rate corporate bond. At December 31, 2016, United had one interest rate swap with an aggregate notional amount of $12.8 million that was designated as a fair value hedge of interest rate risk and was pay-variable / receive-fixed, hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates. Also at December 31, 2016, United had one interest rate swap with a notional value of $30 million that was designated as a pay-fixed / receive-variable fair value hedge of changes in the fair value of a fixed-rate corporate bond.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same income statement line item as the offsetting loss or gain on the related derivatives. During the three and six months ended June 30, 2017, United recognized net losses of $327,000 and $452,000, respectively, related to ineffectiveness in the fair value hedging relationships. During the three and six months ended June 30, 2016, United recognized net gains of $216,000 and $854,000, respectively, related to ineffectiveness in the fair value hedging relationships. United also recognized net reductions of interest expense of $65,000 and $97,000, respectively, for the three and six months ended June 30, 2017 and net reductions of interest expense of $448,000 and $1.24 million, respectively, for the three and six months ended June 30, 2016 related to fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized reductions of interest revenue on securities during the three and six months ended June 30, 2017 of $80,000 and $173,000, respectively, and reductions of interest revenue on securities during the three and six months ended June 30, 2016 of $117,000 and $246,000, respectively, related to fair value hedges of corporate bonds.

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

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

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

Derivatives Not Designated as Hedging Instruments under ASC 815

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

	Location of Gain (Loss) Recognized	**Amount of Gain (Loss) Recognized in Income on Derivative**

	in Income on Derivative	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Customer derivatives and dealer offsets	Other fee revenue	$ 775	$ 1,082	$ 1,250	$ 1,837
Bifurcated embedded derivatives and dealer offsets	Other fee revenue	119	(120)	206	(416)
Interest rate caps	Other fee revenue	90	-	90	-
De-designated hedges	Other fee revenue	28	-	4	-
Mortgage banking derivatives	Mortgage loan revenue	(1,000)	-	(876)	-
Risk participations	Other fee revenue	1	-	5	-
		$ 13	$ 962	$ 679	$ 1,421

<u>Credit-Risk-Related Contingent Features</u>

United manages its credit exposure on derivatives transactions by entering into a bilateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. As of June 30, 2017, collateral totaling $19.1 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.

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Note 9 – 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). Through June 30, 2017, 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. As of June 30, 2017, 2.16 million additional shares remained available for grant under the plan.

The following table shows stock option activity for the first six months of 2017.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2016	72,665	$ 34.34		
Expired	(1,538)	147.60		
Cancelled	(7,723)	84.78		
Outstanding at June 30, 2017	63,404	25.45	3.5	$ 346
Exercisable at June 30, 2017	57,154	26.44	3.1	275

The fair value of each option is estimated on the date of grant using the Black-Scholes model. No stock options were granted during the six months ended June 30, 2017 and 2016.

United’s stock option exercise patterns were significantly impacted by the past economic downturn, which rendered most of United’s outstanding options 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 in ASC 718-10-S99 to determine the expected life of options.

United recognized $15,000 in compensation expense related to stock options during both the six months ended June 30, 2017 and 2016. 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. No options were exercised during the first six months of 2017 or 2016.

The table below presents restricted stock units activity for the first six months of 2017.

Restricted Stock Unit Awards	Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinisic Value ($000)
Outstanding at December 31, 2016	690,970	$ 18.60		
Granted	37,737	27.30		
Vested	(123,554)	17.08		$ 3,557
Cancelled	(9,965)	19.99		
Outstanding at June 30, 2017	595,188	19.58	2.5	16,546

Compensation expense for restricted stock units is based on the fair value of restricted stock unit awards at the time of grant, which is equal to the value of United's common stock on the date of grant. United recognizes the impact of forfeitures as they occur. The value of restricted stock unit awards is amortized into expense over the vesting period. For the six months ended June 30, 2017 and 2016, expense of $3.02 million and $1.76 million, respectively, was recognized related to employee restricted stock unit awards. Of the expense recognized related to restricted stock unit awards during the six months ended June 30, 2017, $696,000 relates to the modification of existing awards resulting from an acceleration of vesting of unvested awards due to retirement which was recognized in merger-related and other charges. The remaining expense of $2.33 million was recognized in compensation expense. In addition, for the six months ended June 30, 2017 and 2016, $113,000 and $51,000, respectively, was recognized in other operating expense for restricted stock unit awards granted to members of United's board of directors.

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As of June 30, 2017, there was $7.72 million of unrecognized expense related to non-vested stock options and restricted stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.51 years.

Note 10 – 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. In the six months ended June 30, 2017 and 2016, 1,714 shares and 1,775 shares, respectively, were issued through the DRIP.

In addition, United has an Employee Stock Purchase Program (“ESPP”) that allows eligible employees to purchase shares of common stock at a 10% discount, with no commission charges. During the first six months of 2017 and 2016, United issued 6,855 shares and 8,585 shares, respectively, through the ESPP.

United offers its common stock as an investment option in its deferred compensation plan. United also allows for the deferral of restricted stock unit awards. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. The deferred compensation plan does not allow for diversification once an election is made to invest in United’s common stock and settlement must be accomplished in shares at the time the deferral period is completed. At June 30, 2017 and December 31, 2016, 550,449 and 519,874 shares of common stock, respectively, were issuable under the deferred compensation plan.

On March 22, 2016, United announced that its Board of Directors had authorized a program to repurchase up to $50 million of United’s outstanding common stock through December 31, 2017. Under the program, the shares may be repurchased periodically in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program depends on a number of factors, including the market price of United’s common stock, general market and economic conditions, and applicable legal requirements. During the first six months of 2017, United did not repurchase any shares under the program. As of June 30, 2017, $36.3 million of United’s outstanding common stock may be repurchased under the program.

Note 11 – Income Taxes

The income tax provision for the three and six months ended June 30, 2017 was $16.5 million and $35.0 million, respectively, which represents an effective tax rate of 36.9% and 40.3%, respectively, for each period. The income tax provision for the three and six months ended June 30, 2016 was $15.4 million and $29.0 million, respectively, which represents an effective tax rate of 37.9% for both periods. Upon reversal of United’s former full deferred tax valuation allowance in 2013, certain disproportionate tax effects were retained in accumulated other comprehensive income (loss). During the first quarter of 2017, with the maturity and termination of certain dedesignated cash flow hedges, the disproportionate tax effect associated with these hedges was reversed and recorded as a tax expense of $3.40 million, which was the primary reason for the increase in the effective tax rate compared to the first six months of 2016.

At June 30, 2017 and December 31, 2016, United maintained a valuation allowance on its net deferred tax asset of $4.09 million and $3.88 million, respectively. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

United evaluated the need for a valuation allowance at June 30, 2017. 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 $4.09 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at June 30, 2017 that it was more likely than not that the net deferred tax asset of $120 million will be realized is based upon 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.

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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 2013. Although it is not possible to know the ultimate outcome of future examinations, management believes that the liability recorded for uncertain tax positions is appropriate. At June 30, 2017 and December 31, 2016, unrecognized income tax benefits totaled $4.11 million and $3.89 million, respectively.

Note 12 – Assets and Liabilities Measured at Fair Value

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

<u>Fair Value Hierarchy</u>

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, United States Department of Treasury ("Treasury") securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds, corporate debt securities and asset-backed securities and are valued based on observable inputs that include: quoted market prices for similar assets, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. Securities classified as Level 3 are valued based on estimates obtained from broker-dealers and are not directly observable.

Deferred Compensation Plan Assets and Liabilities

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

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Mortgage Loans Held for Sale

Beginning in the third quarter of 2016, United elected the fair value option for newly originated mortgage loans held for sale. United elected the fair value option for its portfolio of mortgage loans held for sale in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the value of derivative instruments used to economically hedge them. The fair value of mortgage loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Loans

United does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral.

Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, *Fair Value Measures and Disclosures*, 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.

Derivative Financial Instruments

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

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

Although management has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2017, management had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. Derivatives classified as Level 3 included structured derivatives for which broker quotes, used as a key valuation input, were not observable consistent with a Level 2 disclosure. The fair value of risk participations incorporates Level 3 inputs to evaluate the likelihood of customer default. The fair value of interest rate lock commitments, which is related to mortgage loan commitments, is categorized as Level 3 based on unobservable inputs for commitments that United does not expect to fund.

Servicing Rights for SBA/USDA Loans

United recognizes servicing rights upon the sale of Small Business Administration and United States Department of Agriculture ("SBA/USDA") loans sold with servicing retained. Management has elected to carry this asset at fair value. Given the nature of the asset, the key valuation inputs are unobservable and management classifies this asset as Level 3.

Residential Mortgage Servicing Rights

United recognizes servicing rights upon the sale of residential mortgage loans sold with servicing retained. Effective January 1, 2017, management has elected to carry this asset at fair value. Given the nature of the asset, the key valuation inputs are unobservable and management classifies this asset as Level 3. The cumulative effect adjustment of this election to retained earnings, net of income tax effect, was $437,000.

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Pension Plan Assets

For information on the fair value of pension plan assets, see Note 18 in the Annual Report on Form 10-K for the year ended December 31, 2016.

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 the dates indicated, aggregated by the level in the fair value hierarchy within which those measurements fall *(in thousands)*.

June 30, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Treasuries	$170,919	$-	$-	$170,919
U.S. Government agencies	-	37,619	-	37,619
State and political subdivisions	-	113,135	-	113,135
Mortgage-backed securities	-	1,505,186	-	1,505,186
Corporate bonds	-	307,668	810	308,478
Asset-backed securities	-	338,073	-	338,073
Other	-	1,182	-	1,182
Mortgage loans held for sale	-	24,109	-	24,109
Deferred compensation plan assets	5,149	-	-	5,149
Servicing rights for SBA/USDA loans	-	-	6,640	6,640
Residential mortgage servicing rights	-	-	6,499	6,499
Derivative financial instruments	-	9,784	11,856	21,640
Total assets	$176,068	$2,336,756	$25,805	$2,538,629
Liabilities:				
Deferred compensation plan liability	$5,149	$-	$-	$5,149
Derivative financial instruments	-	8,169	16,091	24,260
Total liabilities	$5,149	$8,169	$16,091	$29,409

December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Securities available for sale				
U.S. Treasuries	$169,616	$-	$-	$169,616
U.S. Agencies	-	20,820	-	20,820
State and political subdivisions	-	74,177	-	74,177
Mortgage-backed securities	-	1,391,682	-	1,391,682
Corporate bonds	-	304,717	675	305,392
Asset-backed securities	-	469,569	-	469,569
Other	-	1,182	-	1,182
Mortgage loans held for sale	-	27,891	-	27,891
Deferred compensation plan assets	4,161	-	-	4,161
Servicing rights for SBA/USDA loans	-	-	5,752	5,752
Derivative financial instruments	-	11,911	11,777	23,688
Total assets	$173,777	$2,301,949	$18,204	$2,493,930
Liabilities:				
Deferred compensation plan liability	$4,161	$-	$-	$4,161
Derivative financial instruments	-	11,301	16,347	27,648
Total liabilities	$4,161	$11,301	$16,347	$31,809

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

	2017					2016			
	Derivative Asset	Derivative Liability	Servicing rights for SBA/USDA loans	**Residential mortgage servicing rights**	Securities Available-for-Sale	Derivative Asset	Derivative Liability	Servicing rights for SBA/USDA loans	Securities Available-for-Sale
Three Months Ended June 30,									
Balance at beginning of period	$ 12,649	$ 16,580	$ 5,997	$ 5,971	$ 675	$ 3,915	$ 10,151	$ 3,898	$ 650
Additions	-	-	668	947	-	-	-	801	-
Sales and settlements	(702)	(964)	(36)	(74)	-	-	-	(73)	-
Other comprehensive income	-	-	-	-	135	-	-	-	(150)
Amounts included in earnings - fair value adjustments	(91)	475	11	(345)	-	(1,258)	(2,620)	(11)	-
Balance at end of period	$ 11,856	$ 16,091	$ 6,640	$ 6,499	$ 810	$ 2,657	$ 7,531	$ 4,615	$ 500
Six Months Ended June 30,									
Balance at beginning of period	$ 11,777	$ 16,347	$ 5,752	$ -	$ 675	$ 9,418	$ 15,794	$ 3,712	$ 750
Transfer from amortization method to fair value	-	-	-	5,070	-	-	-	-	-
Additions	-	-	1,221	1,813	-	-	-	1,100	-
Sales and settlements	(1,086)	(1,514)	(299)	(114)	-	-	-	(171)	-
Other comprehensive income	-	-	-	-	135	-	-	-	(250)
Amounts included in earnings - fair value adjustments	1,165	1,258	(34)	(270)	-	(6,761)	(8,263)	(26)	-

Balance at end of period	$11,856	$16,091	$6,640	$6,499	$810	$2,657	$7,531	$4,615	$500

The following table presents quantitative information about Level 3 fair value measurements for fair value on a recurring basis as of the dates indicated *(in thousands)*.

	Fair Value				Weighted Average			
Level 3 Assets	June 30, 2017	December 31, 2016	Valuation Technique	Unobservable Inputs	June 30, 2017		December 31, 2016	
Servicing rights for SBA/USDA loans	$6,640	$ 5,752	Discounted cash flow	Discount rate Prepayment rate	12.1 7.7	% %	11.0 7.12	% %
Residential mortgage servicing rights	6,499	-	Discounted cash flow	Discount rate Prepayment rate	10.0 10.1	% %	N/A N/A	
Corporate bonds	810	675	Indicative bid provided by a broker	Multiple factors, including but not limited to, current operations, financial condition, cash flows, and recently executed financing transactions related to the company	N/A		N/A	
Derivative assets - mortgage	1,424	1,552	Internal model	Pull through rate	80	%	80	%
Derivative assets - other	10,432	10,225	Dealer priced	Dealer priced	N/A		N/A	
Derivative liabilities - risk participations	21	26	Internal model	Probable exposure rate Probability of default rate	.32 1.80	% %	.35 1.80	% %
Derivative liabilities - other	16,070	16,321	Dealer priced	Dealer priced	N/A		N/A	

Fair Value Option

At June 30, 2017, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of $24.1 million and $23.3 million, respectively. At December 31, 2016, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of $27.9 million and $27.6 million, respectively. Interest income on these loans is calculated based on the note rate of the loan and is recorded in interest revenue. During the three and six months ended June 30, 2017, net gains resulting from changes in fair value of these loans of $192,000 and $444,000, respectively, were recorded in mortgage loan and other related fees. These changes in fair value were mostly offset by hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk. During the three and six months ended June 30, 2016, no such gains were recorded.

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Notes to Consolidated Financial Statements

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 adjustments to fair value usually result from the application of the lower of the amortized cost or fair value accounting or write-downs of individual assets due to impairment. The following table presents the fair value hierarchy and carrying value of all assets that were still held as of June 30, 2017 and December 31, 2016, for which a nonrecurring fair value adjustment was recorded during the year-to-date periods presented *(in thousands)*.

June 30, 2017	Level 1	Level 2	Level 3	Total
Loans	$ -	$ -	$ 8,625	$ 8,625
December 31, 2016				
Loans	$ -	$ -	$ 7,179	$ 7,179

Loans that are reported above as being measured at fair value on a nonrecurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows, although only those specific reserves based on the fair value of collateral are considered nonrecurring fair value adjustments.

Assets and Liabilities Not Measured at Fair Value

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

Cash and cash equivalents and repurchase agreements have short maturities and therefore the carrying value approximates fair 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. All estimates are inherently subjective in nature. Changes in assumptions could significantly affect the estimates.

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

Off-balance sheet instruments (commitments to extend credit and standby letters of credit) for which draws can be reasonably predicted are generally short-term in maturity and are priced at variable rates. Therefore, the estimated fair value associated with these instruments is immaterial.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The carrying amount and fair values as of the dates indicated for other financial instruments that are not measured at fair value on a recurring basis are as follows *(in thousands)*.

	Carrying	Fair Value Level			
June 30, 2017	Amount	Level 1	Level 2	Level 3	Total
Assets:					
Securities held to maturity	$312,002	$-	$316,583	$-	$316,583
Loans, net	6,981,432	-	-	6,898,237	6,898,237
Mortgage loans held for sale	1,602	-	1,627	-	1,627
Liabilities:					
Deposits	8,735,735	-	8,736,957	-	8,736,957
Federal Home Loan Bank advances	669,065	-	668,997	-	668,997
Long-term debt	175,363	-	-	176,721	176,721
December 31, 2016					
Assets:					
Securities held to maturity	$329,843	$-	$333,170	$-	$333,170
Loans, net	6,859,214	-	-	6,824,229	6,824,229
Mortgage loans held for sale	1,987	-	2,018	-	2,018
Residential mortgage servicing rights	4,372	-	-	5,175	5,175
Liabilities:					
Deposits	8,637,558	-	8,635,811	-	8,635,811
Federal Home Loan Bank advances	709,209	-	709,174	-	709,174
Long-term debt	175,078	-	-	175,750	175,750

Note 13 – Commitments and Contingencies

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

The following table summarizes the contractual amount of off-balance sheet instruments as of the dates indicated *(in thousands)*.

	June 30, 2017	December 31, 2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$1,675,090	$ 1,542,186
Letters of credit	28,108	26,862

United's wholly-owned bank subsidiary, United Community Bank (the "Bank"), holds minor investments in certain limited partnerships for Community Reinvestment Act purposes. As of June 30, 2017, the Bank had invested $3.81 million in these limited partnerships and had committed to fund an additional $5.69 million related to future capital calls.

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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 14 – Mergers and Acquisitions

Four Oaks Fincorp, Inc.

On June 27, 2017, United announced that it had reached a definitive merger agreement to acquire Four Oaks Fincorp, Inc. ("FOFN") and its wholly-owned bank subsidiary, Four Oaks Bank & Trust Company. As of March 31, 2017, FOFN had total assets of $737 million, loans of $513 million and deposits of $560 million. Four Oaks Bank & Trust Company, which currently operates 14 banking offices in the Raleigh, North Carolina metropolitan statistical area, will merge into and operate under the brand of United Community Bank, United's wholly-owned bank subsidiary.

Under the terms of the merger agreement, which has been unanimously approved by the Boards of Directors of both companies, FOFN shareholders will receive .6178 shares of United common stock and $1.90 for each share of FOFN common stock. Based on United's closing price of $26.48 per share on June 23, 2017, the aggregate deal value is approximately $124 million.

The merger, which is subject to regulatory approval, the approval of shareholders of FOFN, and other customary conditions, is expected to close in the fourth quarter of 2017.

HCSB Financial Corporation

On July 31, 2017, United completed its previously announced acquisition of HCSB Financial Corporation ("HCSB") and its wholly-owned bank subsidiary, Horry County State Bank. As of March 31, 2017, HCSB had total assets of $384 million, loans of $229 million and deposits of $322 million. Horry County State Bank, which operated eight branches in the Myrtle Beach-Conway-North Myrtle Beach area of South Carolina, will operate under the HCSB brand until system conversions are completed in the fourth quarter of 2017, at which time it will begin to operate as United Community Bank.

Under the terms of the merger agreement, HCSB shareholders received .0050 shares of United common stock for each share of HCSB common stock, or an aggregate of approximately $69 million, based on United’s closing price of $27.76 on July 31, 2017.

The acquisition will be accounted for as a business combination. Due to the timing of the acquisition, United is currently in the process of completing the purchase accounting and has not made all of the remaining disclosures required by ASC 805-10-50, such as the fair value of assets acquired and supplemental pro forma information, which will be disclosed in subsequent filings.

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

Forward-looking Statements

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

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experiences may differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experiences to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2016 as well as the following factors:

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

- if our allowance for loan losses is not sufficient to cover actual loan losses;
- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- risks related to our communications and information systems, including risks with respect to cybersecurity breaches;
- our reliance on third parties to provide key components of our business infrastructure and services required to operate our business;
- competition from financial institutions and other financial service providers;
- risks with respect to our ability to successfully expand and complete acquisitions and integrate businesses and operations that are acquired;
- if the conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related regulations;
- changes in laws and regulations or failures to comply with such laws and regulations;
- changes in regulatory capital and other requirements;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur;
- changes in tax laws, regulations and interpretations or challenges to our income tax provision; and
- our ability to maintain effective internal controls over financial reporting and disclosure controls and procedures.

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

Overview

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

United is a bank holding company registered with the Board of Governors of the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the State of Georgia in 1987 and commenced operations in 1988. At June 30, 2017, United had total consolidated assets of $10.8 billion, total loans of $7.04 billion, total deposits of $8.74 billion, and shareholders’ equity of $1.13 billion.

United conducts substantially all of its operations through its wholly-owned Georgia bank subsidiary, United Community Bank (the “Bank”), which as of June 30, 2017, operated at 134 locations throughout the Atlanta-Sandy Springs-Roswell, Georgia, and Gainesville, Georgia metropolitan statistical areas, upstate and coastal South Carolina, north and coastal Georgia, western North Carolina, and east Tennessee, as well as a commercial loan office in Charlotte, North Carolina.

On July 1, 2016, United completed its previously announced acquisition of Tidelands Bancshares, Inc. (“Tidelands”) and its wholly-owned bank subsidiary, Tidelands Bank. Tidelands’ results are included in United’s consolidated results beginning on the acquisition date.

United reported net income of $28.3 million, or $.39 per diluted share, for the second quarter of 2017, compared to net income of $25.3 million, or $.35 per diluted share, for the second quarter of 2016. For the six months ended June 30, 2017, United reported net income of $51.8 million, or $.72 per diluted share, compared to $47.6 million, or $.66 per diluted share, for the first six months of 2016. The increase in earnings per share resulted from an increase in net interest revenue and fee revenue, partially offset by an increase in operating expenses.

Net interest revenue increased to $85.1 million for the second quarter of 2017, compared to $74.9 million for the second quarter of 2016, primarily due to higher loan volume, much of which resulted from the acquisition of Tidelands. Net interest margin increased to 3.47% for the three months ended June 30, 2017 from 3.35% for the same period in 2016 mostly due to the effect of rising interest rates on floating rate loans and investment securities. Growth in the loan portfolio also led to a more favorable earning asset mix. For the six months ended June 30, 2017, net interest revenue was $169 million and the net interest margin was 3.46% compared to net interest revenue of $150 million and net interest margin of 3.38% for the same period in 2016.

The provision for credit losses was $800,000 for the second quarter of 2017, compared to a release of provision of $300,000 for the second quarter of 2016. For the six months ended June 30, 2017, the provision for credit losses was $1.60 million, compared to a release of provision of $500,000 for the same period in 2016. Net charge-offs for the second quarter of 2017 were $1.62 million, compared to $1.73 million for the second quarter of 2016. Recoveries of previously charged-off amounts remained at elevated levels, with second quarter 2017 being the ninth consecutive quarter of recoveries greater than $1 million.

As of June 30, 2017, the allowance for loan losses was $59.5 million, or .85% of loans, compared to $61.4 million, or .89% of loans, at December 31, 2016 reflecting continued asset quality improvement. Nonperforming assets of $25.8 million were .24% of total assets at June 30, 2017, down from .28% at December 31, 2016 primarily due to sales of foreclosed properties received through the Tidelands acquisition. During the second quarter of 2017, $8.11 million in loans were placed on nonaccrual compared with $6.79 million in the second quarter of 2016.

Fee revenue of $23.7 million for the second quarter of 2017 was up $188,000, or 1%, from the second quarter of 2016. Gains from the sales of Small Business Administration and United States Department of Agriculture ("SBA/USDA") loans decreased $175,000 in the second quarter of 2017 compared to the second quarter of 2016. Mortgage fees of $4.81 million for the second quarter of 2017 increased from $4.45 million in the second quarter of 2016. For the first six months of 2017, fee revenue of $45.8 million increased $3.66 million, or 9%, from the same period in 2016, primarily due to the same factors that affected the quarterly results.

For the second quarter and first half of 2017, operating expenses of $63.2 million and $126 million, respectively, were up $5.17 million and $10.1 million from the same periods of 2016, primarily due to the addition of Tidelands operating expenses since acquisition. Salaries and benefits expense increased $3.77 million from second quarter 2016 and $7.40 million from the first half of 2016, also due to the addition of Tidelands and higher incentives and commissions in connection with increased lending activities and improvement in earnings performance.

Recent Developments

On June 27, 2017, United announced that it had reached a definitive merger agreement to acquire Four Oaks Fincorp, Inc. (“FOFN”) and its wholly-owned bank subsidiary, Four Oaks Bank & Trust Company. As of March 31, 2017, FOFN had total assets of $737 million, loans of $513 million and deposits of $560 million. Four Oaks Bank & Trust Company, which currently operates 14 banking offices in the Raleigh, North Carolina metropolitan statistical area, will merge into and operate under the brand of United Community Bank, United’s wholly-owned bank subsidiary.

Under the terms of the merger agreement, which has been unanimously approved by the Boards of Directors of both companies, FOFN shareholders will receive .6178 shares of United common stock and $1.90 for each share of FOFN common stock. Based on United’s closing price of $26.48 per share on June 23, 2017, the aggregate deal value is approximately $124 million.

The merger, which is subject to regulatory approval, the approval of shareholders of FOFN, and other customary conditions, is expected to close in the fourth quarter of 2017.

On July 31, 2017, United completed its previously announced acquisition of HCSB Financial Corporation (“HCSB”) and its wholly-owned bank subsidiary, Horry County State Bank. As of March 31, 2017, HCSB had total assets of $384 million, loans of $229 million and deposits of $322 million. Horry County State Bank, which operated eight branches in the Myrtle Beach-Conway-North Myrtle Beach area of South Carolina, will operate under the HCSB brand until system conversions are completed in the fourth quarter of 2017, at which time it will begin to operate as United Community Bank. The acquisition date fair value of purchased assets and liabilities has not yet been finalized.

Under the terms of the merger agreement, HCSB shareholders received .0050 shares of United common stock for each share of HCSB common stock, or an aggregate of approximately $69 million, based on United’s closing price of $27.76 on July 31, 2017.

Critical Accounting Policies

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

GAAP Reconciliation and Explanation

This Form 10-Q contains financial information determined by methods other than in accordance with GAAP. Such non-GAAP financial information includes the following measures: “tangible book value per common share,” “average tangible equity to average assets,” “tangible equity to assets,” “average tangible common equity to average assets,” “tangible common equity to assets” and “tangible common equity to risk-weighted assets.” In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of United’s ongoing business operations. Operating performance measures include “expenses – operating,” “net income – operating,” “net income available to common shareholders – operating,” “diluted net income per common share – operating,” “return on common equity – operating,” “return on tangible common equity – operating,” “return on assets – operating,” “dividend payout ratio – operating” and “efficiency ratio – operating.” Management has developed internal processes and procedures to capture and account for merger-related and other charges and those charges are reviewed with the audit committee of United’s Board of Directors each quarter. Management uses these non-GAAP measures because it believes they may provide useful supplemental information for evaluating United’s operations and performance over periods of time, as well as in managing and evaluating United’s business and in discussions about United’s operations and performance. Management believes these non-GAAP measures may also provide users of United’s financial information with a meaningful measure for assessing United’s financial results and credit trends, as well as a comparison to financial results for prior periods. These non-GAAP measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable measures as reported in accordance with GAAP are included in the table on page 43.

Results of Operations

United reported net income of $28.3 million for the second quarter of 2017. This compared to net income of $25.3 million for the same period in 2016. For the second quarter of 2017, diluted earnings per common share were $.39 compared to $.35 for the second quarter of 2016. For the six months ended June 30, 2017, United reported net income of $51.8 million compared to net income of $47.6 million for the same period in 2016.

United reported operating net income of $29.4 million and $57.6 million, respectively, for the second quarter and first half of 2017, compared to $26.0 million and $49.9 million, respectively, for the same periods in 2016. For the second quarter of 2017, operating net income excludes merger-related and executive retirement charges, which, net of the associated income tax benefit, totaled $1.16 million. For the first half of 2017, operating net income excludes merger-related and executive retirement charges and the release from accumulated other comprehensive income of the disproportionate tax effect related to cash flow hedges, which, net of tax, totaled $2.45 million and $3.40 million, respectively. For the second quarter and first half of 2016, operating net income excludes merger-related charges, which, net of tax, totaled $731,000 and $2.38 million, respectively.

Table 1 - Financial Highlights
Selected Financial Information

(in thousands, except per share data)	2017 Second Quarter	First Quarter	2016 Fourth Quarter	Third Quarter	Second Quarter	Second Quarter 2017-2016 Change	For the Six Months Ended June 30, 2017	20
INCOME SUMMARY								
Interest revenue	$93,166	$90,958	$87,778	$85,439	$81,082		$184,124	$1
Interest expense	8,018	7,404	6,853	6,450	6,164		15,422	1
Net interest revenue	85,148	83,554	80,925	78,989	74,918	14%	168,702	1
Provision for credit losses	800	800	-	(300)	(300)		1,600	(
Fee revenue	23,685	22,074	25,233	26,361	23,497	1	45,759	4
Total revenue	108,033	104,828	106,158	105,650	98,715	9	212,861	1
Expenses	63,229	62,826	61,321	64,023	58,060	9	126,055	1
Income before income tax expense	44,804	42,002	44,837	41,627	40,655	10	86,806	7
Income tax expense	16,537	18,478	17,616	15,753	15,389	7	35,015	2
Net income	28,267	23,524	27,221	25,874	25,266	12	51,791	4
Preferred dividends	-	-	-	-	-		-	2
Net income available to common shareholders - GAAP	$28,267	$23,524	$27,221	$25,874	$25,266	12	$51,791	$4
Adjustments:								
Merger-related and other charges	1,830	2,054	1,141	3,152	1,176		3,884	3
Income tax benefit of merger-related and other charges	(675)	(758)	(432)	(1,193)	(445)		(1,433)	(
Impairment of deferred tax asset on canceled non-qualified stock options	-	-	976	-	-		-	-
Release of disproportionate tax effects lodged in OCI	-	3,400	-	-	-		3,400	-
Net income available to common shareholders - operating [1]	$29,422	$28,220	$28,906	$27,833	$25,997	13	$57,642	$4
PERFORMANCE MEASURES								
Per common share:								
Diluted net income - GAAP	$.39	$.33	$.38	$.36	$.35	11	$.72	$.
Diluted net income - operating [1]	.41	.39	.40	.39	.36	14	.80	.
Cash dividends declared	.09	.09	.08	.08	.07		.18	.
Book value	15.83	15.40	15.06	15.12	14.80	7	15.83	1
Tangible book value [3]	13.74	13.30	12.95	13.00	12.84	7	13.74	1
Key performance ratios:								
Return on common equity - GAAP [2][4]	9.98 %	8.54 %	9.89 %	9.61 %	9.54 %		9.27 %	9
Return on common equity - operating [1][2][4]	10.39	10.25	10.51	10.34	9.81		10.32	9
Return on tangible common equity - operating [1][2][3][4]	12.19	12.10	12.47	12.45	11.56		12.15	1

Return on assets - GAAP (4)	1.06	.89	1.03	1.00	1.04	.98	.
Return on assets - operating (1)(4)	1.10	1.07	1.10	1.08	1.07	1.09	1
Dividend payout ratio - GAAP	23.08	27.27	21.05	22.22	20.00	25.00	2
Dividend payout ratio - operating (1)	21.95	23.08	20.00	20.51	19.44	22.50	2
Net interest margin (fully taxable equivalent) (4)	3.47	3.45	3.34	3.34	3.35	3.46	3
Efficiency ratio - GAAP	57.89	59.29	57.65	60.78	59.02	58.58	6
Efficiency ratio - operating (1)	56.21	57.35	56.58	57.79	57.82	56.77	5
Average equity to average assets	10.49	10.24	10.35	10.38	10.72	10.36	1
Average tangible equity to average assets (3)	9.23	8.96	9.04	8.98	9.43	9.09	9
Average tangible common equity to average assets (3)	9.23	8.96	9.04	8.98	9.43	9.09	9
Tangible common equity to risk-weighted assets (3)	12.44	12.07	11.84	12.22	12.87	12.44	1