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

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

Commission File Number 001-35095

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

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

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

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

Name of exchange on which registered: Nasdaq Global Select

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. BUSINESS.

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

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

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

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

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

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

Recent Developments

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

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

Forward-Looking Statements

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

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

the condition of the general business and economic environment;
the results of our internal credit stress tests may not accurately predict the impact on our financial condition if the economy were to deteriorate;
our ability to maintain profitability;
our ability to fully realize the balance of our net deferred tax asset, including net operating loss carryforwards;
the risk that we may be required to increase the valuation allowance on our net deferred tax asset in future periods;
the condition of the banking system and financial markets;
our ability to raise capital;
our ability to maintain liquidity or access other sources of funding;
changes in the cost and availability of funding;
the success of the local economies in which we operate;
our lack of geographic diversification;
our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
changes in prevailing interest rates may negatively affect our net income and the value of our assets and other interest rate risks;
our accounting and reporting policies;
if our allowance for loan losses is not sufficient to cover actual loan losses;
losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
risks related to our communications and information systems, including risks with respect to cybersecurity breaches;
our reliance on third parties to provide key components of our business infrastructure and services required to operate our business;
competition from financial institutions and other financial service providers;
risks with respect to our ability to successfully expand and complete acquisitions and integrate businesses and operations that are acquired;
if the conditions in the stock market, the public debt market and other capital markets deteriorate;
the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related regulations;
changes in laws and regulations or failures to comply with such laws and regulations;
changes in regulatory capital and other requirements;

- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto, including possible dilution;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur;
- changes in tax laws, regulations and interpretations or challenges to our income tax provision; and
- our ability to maintain effective internal controls over financial reporting and disclosure controls and procedures.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission (the "SEC"). United cautions that the foregoing list of factors is not exclusive, and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-K.

Monetary Policy and Economic Conditions

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

Competition

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

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

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

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

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

Loans

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

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

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

and loosening of credit structures.

Lending Policy

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

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

Commercial Lending

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

Consumer Credit Center

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

Loan Review and Nonperforming Assets

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

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

7 (Watch)	Loans in this category are presently protected from apparent loss; however weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. These loans require more than the ordinary amount of supervision. Collateral values generally afford adequate coverage, but may not be immediately marketable.
8 (Substandard)	These loans are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged. Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts experiencing overdrafts. There is the distinct possibility that United will sustain some loss if

deficiencies are not corrected. If possible, immediate corrective action is taken.

9 (Doubtful)	Specific weaknesses characterized as Substandard that are severe enough to make collection in full highly questionable and improbable. There is no reliable secondary source of full repayment.
10 (Loss)	Loans categorized as Loss have the same characteristics as Doubtful, however, loss is certain. Loans classified as Loss are charged-off.

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

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

Asset/Liability Committee

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

Investment Policy

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

Employees

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

Available Information

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

Supervision and Regulation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Executive Officers of United

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

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

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

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

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

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ITEM 1A. RISK FACTORS.

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

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

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

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

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

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

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

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

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

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

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

We may be required or choose to raise additional capital, including for strategic, regulatory or other reasons. Depending on the capital markets, traditional sources of capital may not be available to us on reasonable terms if we needed to raise additional capital. In such case, there is no guarantee that we will be able to successfully raise additional capital at all or on terms that are favorable or otherwise not dilutive to existing shareholders.
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Capital resources and liquidity are essential to our businesses and could be negatively impacted by disruptions in our ability to access other sources of funding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our lack of geographic diversification increases our risk profile.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

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

ITEM 2. PROPERTIES.

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ITEM 6. SELECTED FINANCIAL DATA.

For the Years Ended December 31

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

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

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

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

SELECTED FINANCIAL DATA (Continued)

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

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

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

(1) Net income available to common shareholders, which is net of preferred stock dividends, divided by average realized common equity, which excludes accumulated other comprehensive income (loss). (2) Excludes effect of acquisition related intangibles and associated amortization.

(3) Annualized.

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

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

Overview

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for the allowance for loan losses, fair value measurements and income taxes. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

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

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

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

Allowance for Credit Losses

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

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

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

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

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

Fair Value Measurements

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

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

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

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

As United expanded its SBA lending and subsequent loan sales activities, a servicing asset has been recognized (per ASC 860). This asset is recorded at fair value on recognition, and United has elected to carry this asset at fair value for subsequent reporting. Given the nature of the asset, the key valuation inputs are unobservable and United discloses this asset as level 3 item in Note 23.

Income Tax Accounting

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

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

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

Mergers and Acquisitions

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

On June 26, 2014, United completed the acquisition of substantially all of the assets of Business Carolina, Inc., a specialty SBA / United States Department of Agriculture ("USDA") lender headquartered in Columbia, South Carolina. On the closing date, United paid $31.3 million in cash for loans having a fair value on the purchase date of $24.8 million, accrued interest of $83,000, servicing rights with a fair value on the purchase date of $2.13 million, premises and equipment with a fair value on the purchase date of $2.60 million and goodwill in the amount of $1.51 million representing the premium paid over the fair value of the separately identifiable assets and liabilities acquired.

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

GAAP Reconciliation and Explanation

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

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

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

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

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

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

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

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

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

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

Results of Operations

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

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

Net Interest Revenue (Taxable Equivalent)

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

Net interest revenue had been on a declining trend from 2009 through 2013 due to attrition in the loan portfolio and intense loan pricing competition. United's securities portfolio yield had also declined during that period as United was unable to reinvest proceeds of maturing securities at comparable interest rates. United had been unable to lower its funding costs to fully offset the decline in earning asset yields leading to lower net interest revenue. In the second quarter of 2014, United restructured its balance sheet to improve its net interest margin and increase net interest revenue. The second quarter 2014 balance sheet restructure included the sale of approximately $237 million in securities which were mostly low-yielding, variable-rate collateralized mortgage obligations ("CMOs") and fixed rate corporate bonds that had been swapped to a floating rate. Improvement in the credit spreads on corporate bonds allowed United to sell the securities at an attractive gain that was used to repay $44 million in structured repurchase agreements that were paying a 4% interest rate. About $120 million of the proceeds from the sales of securities was reinvested in fixed-rate mortgage-backed securities ("MBS") and higher yielding floating rate collateralized loan obligations to offset the impact of the decrease in interest revenue on the sold securities. These actions in the second quarter of 2014, along with strong loan growth in the latter half of the year, were primarily responsible for the increase in net interest revenue and stabilizing the net interest margin.

Also in the second quarter of 2014, as a result of improvement in the interest sensitivity position, United effectively terminated $300 million notional in pay fixed forward starting swaps that were serving as cash flow hedges of LIBOR based wholesale borrowings and indexed money market deposits. The swaps were entered into in 2012 in anticipation of rising interest rates and had forward start dates that took effect in the first and second quarters of 2014. Changes in United's balance sheet since that time made the hedges no longer necessary to achieve a neutral interest sensitivity position. The termination of the cash flow hedges in the second quarter of 2014 lowered United's deposit and wholesale borrowings costs and also contributed to the increase in net interest revenue and improvement in the net interest margin. United effectively terminated another $100 million notional in pay fixed swaps that were serving as cash flow hedges of LIBOR based money market deposits late in the fourth quarter of 2014.

The above noted securities transactions, along with slowing prepayment activity in United's mortgage backed securities, which were mostly purchased at a premium, increased the overall yield in the investment portfolio. The higher investment securities yields offset much of the effect on interest revenue of the decline in loan yields. The yield on other interest-earning assets increased 42 basis points although the average balance declined $48.5 million from 2013. Included in other interest-earning assets are reverse repurchase agreements, including collateral swap transactions, where United enters into a repurchase agreement and reverse repurchase agreement simultaneously with the same counterparty subject to a master netting agreement. In these transactions, the offsetting balances are netted on the balance sheet.

Average interest bearing liabilities in 2014 increased $176 million, or 4%, from the prior year as United's funding needs increased with the increase in lending activity and a larger securities portfolio. Average noninterest bearing deposits increased $175 million from 2013 to 2014 providing much of United's 2014 funding needs. The average cost of interest bearing liabilities for 2014 was .50% compared to .56% for 2013, reflecting United's concerted efforts to reduce deposit pricing. Also contributing to the overall lower rate on interest bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction deposits. United was able to reduce the effective rate on brokered deposits by swapping the fixed rate on longer-term brokered time deposits to

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

The banking industry uses two key ratios to measure relative profitability of net interest revenue - the net interest spread and the net interest margin. The net interest spread measures the difference between the average yield on interest earning assets and the average rate paid on interest bearing liabilities. The interest rate spread eliminates the effect of non-interest-bearing deposits and other non-interest bearing funding sources and gives a direct perspective on the effect of market interest rate movements. The net interest margin is an indication of the profitability of a company's overall balance sheet management activities and is defined as net interest revenue as a percentage of total average interest earning assets, which includes the positive effect of funding a portion of interest earning assets with customers' non-interest bearing deposits and with shareholders' equity.

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

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

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

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

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

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal rate and the federal tax adjusted state tax rate.

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

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $3.36 million, $4.36 million and $23.6 million in 2014, 2013 and 2012, respectively, are included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relative effect on net interest revenue of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities.

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

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

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

Provision for Credit Losses

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

In the fourth quarter of 2013, United established an allowance for unfunded loan commitments which is included in other liabilities in the consolidated balance sheet. The allowance for unfunded loan commitments represents probable incurred losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded loan commitments was established through the provision for credit losses. At December 31, 2014, the allowance for unfunded commitments was $1.93 million compared with $2.17 million at December 31, 2013.

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

Fee Revenue

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

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

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

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

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

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

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

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

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

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

Operating Expense

The following table presents the components of operating expenses.

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

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

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

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

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

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

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

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

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

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

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

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

Income Taxes

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

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

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

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

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

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

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 16 to the consolidated financial statements.

Fourth Quarter 2014 Discussion

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

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

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

Table 6 - Quarterly Fee Revenue
(in thousands)

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

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

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

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

Table 7 - Quarterly Operating Expenses
(in thousands)

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

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

Balance Sheet Review

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

Loans

Substantially all of United's loans are to customers located in the immediate market areas of its community banks in Georgia, North Carolina, South Carolina and Tennessee, including customers who have a seasonal residence in United's market areas. More than 75% of the loans are secured by real estate. Despite the weak economy and lagging loan demand, United has continued to pursue lending opportunities. The rate of decrease in the loan portfolio dropped significantly following the disposition of problem loans in the first quarter of 2011 and has continued to stabilize, resulting in modest growth in 2012 and 2013. In 2014, loan growth began to return to pre-crisis levels reflecting United's specialized lending initiatives which resulted in increases in commercial lending. Consumer installment loans also increased due to purchases of indirect auto loans. Total loans averaged $4.45 billion in 2014, compared with $4.25 billion in 2013, an increase of 5%. At December 31, 2014, total loans were $4.67 billion, excluding loans acquired from SCB that are covered by loss sharing agreements with the FDIC, an increase of $343 million, or 8%, from December 31, 2013.

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

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

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

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

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

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

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

	Rate Structure for Loans Maturing Over One Year	
Maturity	Fixed	Floating

One Year or Less	One through Five Years	Over Five Years	Total	Rate