UNITED COMMUNITY BANKS INC
Form 10-K
February 27, 2017

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, 2016

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 x 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 x

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 x 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 x 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 x	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 x

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: $1,261,158,381 (based on shares held by non-affiliates at $18.29 per share, the closing stock price on the Nasdaq stock market on June 30, 2016).

As of January 31, 2017, 70,960,282 shares of common stock were issued and outstanding. Also outstanding were presently exercisable options to acquire 70,607 shares, presently exercisable warrants to acquire 219,909 shares and 544,445 shares issuable under United Community Banks, Inc.'s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2017 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, 2016, operated at 139 locations throughout the Atlanta-Sandy Springs-Roswell, Georgia, and Gainesville, Georgia metropolitan statistical areas, upstate and coastal South Carolina, north and coastal Georgia, western North Carolina, and east Tennessee. Also, United has a commercial loan office in Charlotte, North Carolina. 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. In recent years, United has developed a number of specialized lending areas focusing on asset-based lending, commercial real estate, middle market businesses, United States Small Business Administration (“SBA”) and United States Department of Agriculture (“USDA”) guaranteed loans, senior living and builder finance. Although the specialized lending areas have their own customers, they also work with the community banks to provide their specialized lending expertise to better serve their customers. This partnership helps United to position itself as a community bank with large bank resources. Management believes that this operating model provides a competitive advantage.

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 2016, the Bank originated $718 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. With the acquisition of The Palmetto Bank in late 2015, United began retaining the servicing on some of its mortgage production. United's residential mortgage servicing portfolio included $543 million in loans at December 31, 2016.

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 ("UCPS"), provides payment processing services for the Bank's commercial and small business customers. UCPS is a joint venture with Security Card Services, LLC, a merchant services provider headquartered in Oxford, Mississippi.

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.

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 impact of lower federal income tax rates on the carrying amount of our deferred tax asset;
- the risk that we may be required to increase the valuation allowance on our net deferred tax asset in future periods;
- the condition of the banking system and financial markets;
- our ability to raise capital;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our lack of geographic diversification;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets and other interest rate risks;
- our accounting and reporting policies;
- if our allowance for loan losses is not sufficient to cover actual loan losses;
- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- risks related to our communications and information systems, including risks with respect to cybersecurity breaches;
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- 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 (the “Dodd-Frank Act”);
- changes in laws and regulations or failures to comply with such laws and regulations;
- changes in regulatory capital and other requirements;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur;
- changes in tax laws, regulations and interpretations or challenges to our income tax provision; and
- our ability to maintain effective internal controls over financial reporting and disclosure controls and procedures.

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

The financial statements and information contained herein have not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation (the “FDIC”).

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 Tennessee and upstate and coastal South Carolina, 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 tables on the following pages display the respective percentage of total bank and thrift deposits for the last five years in each county where the Bank has deposit operations. The tables also indicate the Bank’s ranking by deposit size in each county. All information in the tables was obtained from the FDIC 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				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Atlanta, Georgia MSA										
Bartow	8 %	9 %	11 %	11 %	9 %	5	5	3	3	4
Carroll	11	10	7	7	6	4	4	5	5	6
Cherokee	5	4	5	4	5	9	9	9	9	9
Cobb	2	2	3	3	3	13	13	12	11	10
Coweta	3	2	2	2	2	10	10	10	11	10
Dawson	36	33	34	36	36	1	1	1	1	1
DeKalb	1	1	1	1	1	16	16	16	18	18
Douglas	1	1	2	2	2	11	11	11	12	12
Fayette	8	7	7	7	7	6	7	6	5	6
Forsyth	6	7	8	7	6	8	5	4	6	7
Fulton	1	1	1	1	1	20	21	21	20	20
Gwinnett	3	3	3	3	3	7	7	7	7	8
Henry	7	7	7	6	5	6	6	6	6	7
Newton	3	3	3	3	3	7	8	8	8	8
Paulding	4	4	4	4	5	9	9	9	9	6
Pickens	6	7	7	6	4	5	5	4	5	6
Rockdale	9	9	9	12	12	5	5	6	4	4
Walton	2	2	1	2	1	10	10	10	10	10
Gainesville, Georgia MSA										
Hall	11	12	12	12	12	4	4	4	4	5
North Georgia										
Chattooga	42	43	44	43	40	1	1	1	1	1
Fannin	56	57	55	50	49	1	1	1	1	1
Floyd	16	15	15	15	16	3	3	3	4	2
Gilmer	35	27	27	26	25	1	2	2	2	2
Habersham	22	22	22	23	22	2	2	2	2	2
Jackson	8	8	8	7	6	5	5	6	7	6
Lumpkin	30	30	29	29	29	1	1	2	2	2
Rabun	17	16	15	14	13	3	3	3	3	3
Towns	54	50	53	50	48	1	1	1	1	2
Union	84	87	84	84	83	1	1	1	1	1
White	48	47	47	48	44	1	1	1	1	1

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

	Market Share					Rank in Market				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Tennessee										
Blount	1	2	1	1	1	12	12	14	12	11
Bradley	5	7	5	5	5	8	7	8	7	7
Knox	1	1	1	1	1	15	11	27	30	26
Loudon	49	51	15	15	13	1	1	3	3	3
McMinn		-	-	-	3		-	-	-	9
Monroe	2	3	3	3	4	7	7	8	8	7
Roane	9	9	9	9	8	5	6	6	5	6
Coastal Georgia										
Chatham	2	2	2	2	1	9	9	9	9	10
Glynn	10	7	14	12	12	4	7	2	2	3
Ware	4	3	4	3	3	8	9	9	9	9
North Carolina										
Avery	14	15	15	16	16	3	3	4	4	2
Cherokee	37	36	35	35	35	1	1	1	1	1
Clay	45	44	44	44	45	1	1	1	1	1
Graham	74	74	75	71	71	1	1	1	1	1
Haywood	10	11	10	11	10	6	6	6	6	5
Henderson	5	4	3	3	3	9	9	10	10	11
Jackson	30	31	30	28	25	1	1	1	1	1
Macon	5	4	6	7	8	5	6	6	5	5
Mitchell	42	41	36	34	36	1	1	1	1	1
Swain	17	15	15	17	21	2	2	2	2	2
Transylvania	17	17	16	14	15	3	3	3	3	3
Watauga	2	2	2	2	2	11	11	11	11	12
Yancey	19	19	19	20	18	2	2	3	2	2
South Carolina										
Abbeville	10	10	-	-	-	5	5	-	-	-
Anderson	4	4	-	-	-	10	10	-	-	-
Beaufort	2	-	-	-	-	16	-	-	-	-
Charleston	2	-	-	-	-	13	-	-	-	-
Cherokee	10	11	-	-	-	5	5	-	-	-
Dorchester	4	-	-	-	-	9	-	-	-	-
Greenville	4	4	1	-	-	9	9	27	-	-
Greenwood	11	11	-	-	-	4	5	-	-	-
Horry	2	-	-	-	-	15	-	-	-	-
Laurens	34	35	-	-	-	1	1	-	-	-
Oconee	1	2	-	-	-	11	11	-	-	-
Pickens	1	1	-	-	-	13	12	-	-	-
Spartanburg	3	3	-	-	-	10	11	-	-	-

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Loans

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

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

Loan Type	Percentage of Portfolio		Risk Elements
Commercial real estate - owner occupied	23.8	%	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	18.5	%	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	15.5	%	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	9.2	%	Effect of rising interest rates; changes in market demand for property; deterioration of operating fundamentals; market's loosening of credit underwriting standards and structures; and fluctuations in both the debt and equity markets.
Residential mortgage	12.4	%	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	9.5	%	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	2.7	%	Inadequate long-term financing arrangements; inventory levels; cost overruns, changes in market demand for property; rising interest rates.
	1.8	%	

Consumer installment		Consumer sentiment; elevated umemployment and underemployment in many of our local markets; household income stagnation; and increases in consumer prices.
Indirect Auto	6.6 %	Consumer sentiment; unemployment and underemployment levels; rise in interest rates; increases in consumer prices; decline in household income and loosening of credit structures; decline in vehicle values.

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 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, 2016, the Bank’s secured legal lending limit was $268 million; however, the Board of Directors has established an internal lending guideline of $28 million and an individual real estate project guideline of $17 million.

Commercial Lending

United utilizes its Regional Credit Managers and Senior Credit Officers 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. For commercial loans less than $250,000, United utilizes a centralized small business lending/underwriting department.

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. Applications are processed through an automated loan origination software platform and decisioned by the credit center underwriters.

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 significant 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 criticized 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 SBA or USDA, which have minimal risk of loss other than fraud-related losses. 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. 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 estimated 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, 2016, United and its subsidiaries had 1,916 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.

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 Tennessee and upstate 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 an accumulated deficit (negative retained earnings) may declare dividends (reduction in capital) by first obtaining the written permission of the DBF and FDIC. 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's 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 practice.

Due to its accumulated deficit, the Bank must receive pre-approval from the DBF and FDIC to pay cash dividends (reduction in capital) to United in 2017. In 2016, 2015 and 2014, the Bank paid a cash dividend of $41.5 million, $77.5 million and $129 million, respectively, to United as approved the DBF and FDIC. The dividends were paid out of capital surplus rather than the accumulated deficit. United declared cash dividends on its common stock in 2016, 2015 and 2014 of 30 cents, 22 cents and 11 cents, respectively.

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. "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 well above minimum levels 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 also require banks to maintain capital well above minimum levels.

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

- defined the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios;
- addressed risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replaced the prior 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;
- introduced a new capital measure called "common equity Tier 1" ("CET1");
- specified that Tier 1 capital consists of CET1 and "additional Tier 1 capital" instruments meeting specified requirements; and
- implemented 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.

The Basel III Capital Rules require United and the Bank to maintain:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in over four years to 2.5%, 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%, plus the capital conservation buffer (which is added to the 6% Tier 1 capital ratio as that buffer is phased in over four years to 2.5%, 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%, plus the capital conservation buffer (which is added to the 8% total capital ratio as that buffer is phased in over four years to 2.5%, 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.

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, as revised by the Basel III Capital Rules effective January 1, 2015, 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 8%, a CET1 risk-based ratio of 6.5% 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 6%, a CET1 risk-based ratio of 4.5% 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 6%, a CET1 risk-based ratio of under 4.5% 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 4%, a CET1 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, 2016, the FDIC categorized the Bank as “well-capitalized” under current regulations.

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 prior capital standards, the effects of accumulated other comprehensive income items included in capital were 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 made this election in first quarter 2015 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 began on January 1, 2016 at the 0.625% level and will 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, 2016, 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.

FDIC Insurance Assessments. The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund and therefore the Bank is subject to deposit insurance assessments as determined by the FDIC. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 and further amended by the Dodd-Frank Act. Under the risk-based deposit premium assessment system, the assessment rates for an insured depository institution are calculated based on a number of factors to measure the risk each institution poses to the Deposit Insurance Fund. The assessment rate is applied to total average assets less tangible equity. Under the current system, premiums are assessed quarterly and could increase if, for example, criticized loans and/or other higher risk assets increase or balance sheet liquidity decreases.

Effective July 2016, the FDIC published final rules to increase the Deposit Insurance Fund to the statutorily required minimum level of 1.35% by imposing on financial institutions with at least $10 billion in assets a surcharge of 4.5 cents per $100 of their assessment base (after making certain adjustments), to be assessed over a period of eight quarters. As of December 31, 2016, United’s total assets exceeded $10 billion and, accordingly, the Bank will be subject to this surcharge. If this surcharge is insufficient to increase the Deposit Insurance Fund reserve ratio to 1.35 percent by December 31, 2018, a one-time shortfall assessment will be imposed on financial institutions with total consolidated assets of $10 billion or more on March 31, 2019.

In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances. The FDIC may also terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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 total consolidated assets between $10 billion and $50 billion. Under these requirements, an applicable financial institution must conduct and publish annual stress tests that consider such 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. United must comply with these stress test requirements beginning with its formal filing in July 2018, and is currently preparing for such compliance.

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, apply to debit card issuers with $10 billion or more in total consolidated assets. United's total consolidated assets as of December 31, 2016 were $10.7 billion, which is above the Durbin Amendment's $10 billion threshold. United is required to comply with the interchange fee restrictions and other requirements contained in the Durbin Amendment by July 1, 2017, and is currently preparing for compliance with the Durbin Amendment by such date.

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 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.

Cybersecurity. Recent cyber attacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal bank regulatory agencies to issue extensive guidance on cybersecurity. These agencies are likely to devote more resources to this part of their safety and soundness examination than they may have in the past.

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. 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. The U.S. Department of the Treasury ("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. The nature and extent of future legislative and regulatory changes affecting financial institutions is not known 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, 2017, are as follows:

Name (age)	Position with United and Employment History	Officer of United Since
Jimmy C. Tallent (64)	Chairman and Chief Executive Officer (2015 - present); President, Chief Executive Officer and Director (1988 - 2015)	1988
H. Lynn Harton (55)	President and Chief Operating Officer and Director (2015 - present); 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)	2012
	Executive Vice President and Chief Financial Officer (2001 - present)	2001

Rex S. Schuette (67)		
Bill M. Gilbert (64)	President, Community Banking (2015-present); Director of Banking (2013 - 2015); Regional President of North Georgia and Coastal Georgia (2011 - 2013)	2000
Bradley J. Miller (46)	Executive Vice President, Chief Risk Officer and General Counsel (2015 - present); Senior Vice President and General Counsel (2007 - 2015)	2007
Robert A. Edwards (52)	Executive Vice President and Chief Credit Officer (2015 - present); prior to joining United was Senior Vice President and Executive Credit Officer of Toronto-Dominion Bank (2010 - 2015)	2015
Richard W. Bradshaw (55)	President, Specialized Lending (2014 - present); prior to joining United was Senior Vice President, Head of United States SBA Programs of Toronto-Dominion Bank (2010 - 2014)	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 perform credit stress testing on our capital position no less than annually. 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. Uncertainty regarding economic conditions may also result in changes in consumer and business spending, borrowing and savings habits, which could cause us to incur losses and may adversely affect our results of operations and financial condition.

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

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

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

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

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

Among other things, if we fail to remain “well-capitalized” for bank regulatory purposes, because we do not qualify under the minimum capital standards or the FDIC otherwise downgrades our capital category, it could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock and trust preferred securities, and our ability to make acquisitions, and we would not be able to accept brokered deposits without prior FDIC approval. To be “well-capitalized”, a bank must generally maintain a common equity Tier 1 capital ratio of 6.5%, Tier 1 leverage capital ratio of 5%, Tier 1 risk-based capital ratio of 8% 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 asset 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 76% 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 commercial purpose construction and development loans is subject to unique risks that could adversely affect our results of operations and financial condition.

Our commercial purpose construction and development loan portfolio was $634 million at December 31, 2016, comprising 9.2% of total loans. Commercial purpose construction and development loans are often riskier than other loans because of the lack of ongoing income supporting the asset being financed. Consequently, economic downturns adversely affect the ability of real estate developer borrowers' ability to repay these loans and the value of property used as collateral for such loans in a more dramatic fashion. 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 $2.93 billion at December 31, 2016, comprising 42% 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, 2016, we recorded a release of provision for credit losses of $800,000 compared to provision expense of $3.70 million and $8.50 million for the years ended December 31, 2015 and 2014, 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.

Reductions in interchange fees could reduce our non-interest income.

We earn interchange fees on certain debit card transactions, including approximately $20.8 million in fees during 2016. The Durbin Amendment to the Dodd-Frank Act has limited the amount of interchange fees that may be charged for these transactions. Because our total consolidated assets exceeded $10 billion at December 31, 2016, the Durbin Amendment will be applicable to United in July 2017. Complying with the Durbin Amendment will reduce United's non-interest income from interchange fees.

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 seek to acquire other financial institutions or parts of those institutions. These involve a number of risks, including:

- the potential inaccuracy of the estimates and judgments used to evaluate asset values and 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.

We face a risk of noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, USA Patriot Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal bank regulatory agencies, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. Federal bank regulatory agencies and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, which would negatively impact our business, financial condition and results of operations.

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

The Basel III Capital Rules include new minimum risk-based capital and leverage ratios, which are being phased in and modify the capital and asset definitions for purposes of calculating those ratios. Among other things, the Basel III Capital Rules established a new common equity Tier 1 minimum capital requirement of 4.5%, a higher minimum Tier 1 capital to risk-weighted assets requirement of 6% and a higher total capital to risk-weighted assets of 8%. 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 1 capital to risk-weighted assets requirement of 8%. 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 $154 million as of December 31, 2016, which includes approximately $108 million of deferred tax benefits related to federal and state operating loss carry-forwards. Our ability to use such assets 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 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, 2016, we had $655 million of home equity line of credit loans, which represented 9.5% 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 163 locations, of which 130 are owned and 33 are leased under operating leases. Note 8 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 2016.

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 symbol "UCBI". The closing price for the period ended December 31, 2016 was $29.62. Below is a schedule of high, low and closing stock prices and average daily volume for all quarters in 2016 and 2015.

	2016				2015			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	$19.27	$15.74	$18.47	440,759	$19.53	$16.48	$18.88	234,966
Second quarter	20.60	17.07	18.29	771,334	21.23	17.91	20.87	328,887
Third quarter	21.13	17.42	21.02	379,492	22.23	18.58	20.44	319,884
Fourth quarter	30.22	20.26	29.62	532,944	22.23	18.61	19.49	376,214

At January 31, 2017, there were 7,484 record shareholders and approximately 15,062 beneficial shareholders of United's common stock.

Dividends. United declared cash dividends of $.30 and $.22 per share on its common stock in 2016 and 2015, respectively. 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 20 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. On March 22, 2016, United announced that its Board of Directors had authorized a program to repurchase up to $50 million of United's outstanding common stock through December 31, 2017. Under the program, the shares may be repurchased periodically in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program depends on a number of factors, including the market price of United's common stock, general market and economic conditions, and applicable legal requirements. As of December 31, 2016, the remaining authorization was $36.3 million.

The following table contains information for shares repurchased during the fourth quarter of 2016.

(Dollars in thousands, except for per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2016 - October 31, 2016	-	$ -	-	$ 36,342
November 1, 2016 - November 30, 2016	-	-	-	36,342
December 1, 2016 - December 31, 2016	-	-	-	36,342
Total	-	$ -	-	$ 36,342

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 2016 and 2015, 57,628 and 74,275 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 2016 or 2015.

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, 2011 and ending on December 31, 2016.

	Cumulative Total Return *					
	2011	2012	2013	2014	2015	2016
United Community Banks, Inc.	$100	$135	$254	$273	$284	$437
Nasdaq Stock Market (U.S.) Index	100	116	160	182	192	207
Nasdaq Bank Index	100	116	161	165	176	238

* Assumes $100 invested on December 31, 2011 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.

UNITED COMMUNITY BANKS, INC.

Item 6. Selected Financial Data

For the Years Ended December 31,

(in thousands, except per share data)	2016	2015	2014	2013	2012
INCOME SUMMARY					
Interest revenue	$335,020	$278,532	$248,432	$245,840	$265,977
Interest expense	25,236	21,109	25,551	27,682	37,909
Net interest revenue	309,784	257,423	222,881	218,158	228,068
Provision for credit losses	(800)	3,700	8,500	65,500	62,500
Fee revenue	93,697	72,529	55,554	56,598	56,112
Total revenue	404,281	326,252	269,935	209,256	221,680
Expenses	241,289	211,238	162,865	174,304	186,774
Income before income tax expense	162,992	115,014	107,070	34,952	34,906
Income tax expense (benefit)	62,336	43,436	39,450	(238,188)	1,050
Net income	100,656	71,578	67,620	273,140	33,856
Preferred dividends	21	67	439	12,078	12,148
Net income available to common shareholders - GAAP	$100,635	$71,511	$67,181	$261,062	$21,708
Merger-related and other charges	8,122	17,995	-	-	-
Income tax benefit of merger-related and other charges	(3,074)	(6,388)	-	-	-
Impairment of deferred tax asset on cancelled non-qualified stock options	976	-	-	-	-
Net income available to common shareholders - operating [(1)]	$106,659	$83,118	$67,181	$261,062	$21,708
PERFORMANCE MEASURES					
Per common share:					
Diluted net income - GAAP	$1.40	$1.09	$1.11	$4.44	$.38
Diluted net income - operating [(1)]	1.48	1.27	1.11	4.44	.38
Cash dividends declared	.30	.22	.11	-	-
Book value	15.06	14.02	12.20	11.30	6.67
Tangible book value [(3)]	12.95	12.06	12.15	11.26	6.57
Key performance ratios:					
Return on common equity - GAAP [(2)]	9.41 %	8.15 %	9.17 %	46.72 %	5.43 %
Return on common equity - operating [(1)(2)]	9.98	9.48	9.17	46.72	5.43
Return on tangible common equity - operating [(1)(2)(3)]	11.86	10.24	9.32	47.35	6.27
Return on assets - GAAP	1.00	.85	.91	3.86	.49
Return on assets - operating [(1)]	1.06	.98	.91	3.86	.49
Dividend payout ratio - GAAP	21.43	20.18	9.91	-	-

Dividend payout ratio - operating [1]	20.27	17.32	9.91	-	-
Net interest margin (fully taxable equivalent)	3.36	3.30	3.26	3.30	3.51
Efficiency ratio - GAAP	59.80	63.96	58.26	63.14	65.43
Efficiency ratio - operating [1]	57.78	58.51	58.26	63.14	65.43
Average equity to average assets	10.54	10.27	9.69	10.35	8.47
Average tangible equity to average assets [3]	9.21	9.74	9.67	10.31	8.38
Average tangible common equity to average assets [3]	9.19	9.66	9.60	7.55	5.54
Tangible common equity to risk-weighted assets [3]	11.84	12.82	13.82	13.17	8.26
ASSET QUALITY					
Nonperforming loans	$21,539	$22,653	$17,881	$26,819	$109,894
Foreclosed properties	7,949	4,883	1,726	4,221	18,264
Total nonperforming assets (NPAs)	29,488	27,536	19,607	31,040	128,158
Allowance for loan losses	61,422	68,448	71,619	76,762	107,137
Net charge-offs	6,766	6,259	13,879	93,710	69,831
Allowance for loan losses to loans	.89 %	1.14 %	1.53 %	1.77 %	2.57 %
Net charge-offs to average loans	.11	.12	.31	2.22	1.69
NPAs to loans and foreclosed properties	.43	.46	.42	.72	3.06
NPAs to total assets	.28	.29	.26	.42	1.88
AVERAGE BALANCES *($ in millions)*					
Loans	$6,413	$5,298	$4,450	$4,254	$4,166
Investment securities	2,691	2,368	2,274	2,190	2,089
Earning assets	9,257	7,834	6,880	6,649	6,547
Total assets	10,054	8,462	7,436	7,074	6,865
Deposits	8,177	7,055	6,228	6,027	5,885
Shareholders' equity	1,059	869	720	732	582
Common shares - basic *(thousands)*	71,910	65,488	60,588	58,787	57,857
Common shares - diluted *(thousands)*	71,915	65,492	60,590	58,845	57,857
AT PERIOD END *($ in millions)*					
Loans	$6,921	$5,995	$4,672	$4,329	$4,175
Investment securities	2,762	2,656	2,198	2,312	2,079
Total assets	10,709	9,616	7,558	7,424	6,801
Deposits	8,638	7,873	6,335	6,202	5,952
Shareholders' equity	1,076	1,018	740	796	581
Common shares outstanding *(thousands)*	70,899	71,484	60,259	59,432	57,741

(1) Excludes merger-related charges, a 2016 deferred tax asset impairment charge related to cancelled non-qualified stock options and 2015 impairment losses on surplus bank property. (2) 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). (3) Excludes effect of acquisition related intangibles and associated amortization.

UNITED COMMUNITY BANKS, INC.

Item 6. Selected Financial Data, continued

(in thousands, except per share data)	2016 Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2015 Fourth Quarter	Third Quarter	Second Quarter	Firs Qua
INCOME SUMMARY								
Interest revenue	$87,778	$85,439	$81,082	$80,721	$79,362	$70,828	$65,808	$62
Interest expense	6,853	6,450	6,164	5,769	5,598	5,402	4,817	5,
Net interest revenue	80,925	78,989	74,918	74,952	73,764	65,426	60,991	57
Provision for credit losses	-	(300)	(300)	(200)	300	700	900	1,
Fee revenue	25,233	26,361	23,497	18,606	21,284	18,297	17,266	15
Total revenue	106,158	105,650	98,715	93,758	94,748	83,023	77,357	71
Expenses	61,321	64,023	58,060	57,885	65,488	54,269	48,420	43
Income before income tax expense	44,837	41,627	40,655	35,873	29,260	28,754	28,937	28
Income tax expense	17,616	15,753	15,389	13,578	11,052	10,867	11,124	10
Net income	27,221	25,874	25,266	22,295	18,208	17,887	17,813	17
Preferred dividends	-	-	-	21	25	25	17	-
Net income available to common shareholders – GAAP	$27,221	$25,874	$25,266	$22,274	$18,183	$17,862	$17,796	$17
Merger-related and other charges	1,141	3,152	1,176	2,653	9,078	5,744	3,173	-
Income tax benefit of merger-related and other charges	(432)	(1,193)	(445)	(1,004)	(3,486)	(1,905)	(997)	-
Impairment of deferred tax asset on cancelled non- qualified stock options	976	-	-	-	-	-	-	-
Net income available to common shareholders - operating [1]	$28,906	$27,833	$25,997	$23,923	$23,775	$21,701	$19,972	$17
PERFORMANCE MEASURES								
Per common share:								
Diluted net income - GAAP	$.38	$.36	$.35	$.31	$.25	$.27	$.28	$.2
Diluted net income - operating [1]	.40	.39	.36	.33	.33	.33	.32	.2
Cash dividends declared	.08	.08	.07	.07	.06	.06	.05	.0
Book value	15.06	15.12	14.80	14.35	14.02	13.95	12.95	12
Tangible book value [3]	12.95	13.00	12.84	12.40	12.06	12.08	12.66	12
Key performance ratios:								
Return on common equity - GAAP [2][4]	9.89 %	9.61 %	9.54 %	8.57 %	7.02 %	7.85 %	8.83 %	9.
Return on common equity - operating [1][2][4]	10.51	10.34	9.81	9.20	9.18	9.54	9.90	9.

Return on tangible common equity - operating (1)(2)(3)(4)	12.47	12.45	11.56	10.91	10.87	10.29	10.20	9.4
Return on assets - GAAP (4)	1.03	1.00	1.04	.93	.76	.82	.89	.94
Return on assets - operating (1)(4)	1.10	1.08	1.07	1.00	.99	1.00	1.00	.94
Dividend payout ratio - GAAP	21.05	22.22	20.00	22.58	24.00	22.22	17.86	17
Dividend payout ratio - operating (1)	20.00	20.51	19.44	21.21	18.18	18.18	15.63	17
Net interest margin (fully taxable equivalent) (4)	3.34	3.34	3.35	3.41	3.34	3.26	3.30	3.3
Efficiency ratio - GAAP	57.65	60.78	59.02	61.94	68.97	64.65	61.63	59
Efficiency ratio - operating (1)	56.58	57.79	57.82	59.10	59.41	57.81	57.59	59
Average equity to average assets	10.35	10.38	10.72	10.72	10.68	10.39	10.05	9.8
Average tangible equity to average assets (3)	9.04	8.98	9.43	9.41	9.40	9.88	9.91	9.8
Average tangible common equity to average assets (3)	9.04	8.98	9.43	9.32	9.29	9.77	9.83	9.8
Tangible common equity to risk-weighted assets (3)	11.84	12.22	12.87	12.77	12.82	13.08	13.24	13
ASSET QUALITY								
Nonperforming loans	$21,539	$21,572	$21,348	$22,419	$22,653	$20,064	$18,805	$19
Foreclosed properties	7,949	9,187	6,176	5,163	4,883	7,669	2,356	1,
Total nonperforming assets (NPAs)	29,488	30,759	27,524	27,582	27,536	27,733	21,161	20
Allowance for loan losses	61,422	62,961	64,253	66,310	68,448	69,062	70,129	70
Net charge-offs	1,539	1,359	1,730	2,138	1,302	1,417	978	2,3
Allowance for loan losses to loans	.89 %	.94 %	1.02 %	1.09 %	1.14 %	1.15 %	1.36 %	1.4
Net charge-offs to average loans (4)	.09	.08	.11	.14	.09	.10	.08	.22
NPAs to loans and foreclosed properties	.43	.46	.44	.45	.46	.46	.41	.42
NPAs to total assets	.28	.30	.28	.28	.29	.29	.26	.26
AVERAGE BALANCES *($ in millions)*								
Loans	$6,814	$6,675	$6,151	$6,004	$5,975	$5,457	$5,017	$4,7
Investment securities	2,690	2,610	2,747	2,718	2,607	2,396	2,261	2,2
Earning assets	9,665	9,443	9,037	8,876	8,792	8,009	7,444	7,0
Total assets	10,484	10,281	9,809	9,634	9,558	8,634	8,017	7,6
Deposits	8,552	8,307	7,897	7,947	8,028	7,135	6,669	6,3
Shareholders' equity	1,085	1,067	1,051	1,033	1,021	897	806	75
Common shares - basic *(thousands)*	71,641	71,556	72,202	72,162	72,135	66,294	62,549	60
Common shares - diluted *(thousands)*	71,648	71,561	72,207	72,166	72,140	66,300	62,553	60
AT PERIOD END *($ in millions)*								
Loans	$6,921	$6,725	$6,287	$6,106	$5,995	$6,024	$5,174	$4,7
Investment securities	2,762	2,560	2,677	2,757	2,656	2,457	2,322	2,2
Total assets	10,709	10,298	9,928	9,781	9,616	9,404	8,237	7,6
Deposits	8,638	8,442	7,857	7,960	7,873	7,897	6,800	6,4
Shareholders' equity	1,076	1,079	1,060	1,034	1,018	1,013	827	76
Common shares outstanding *(thousands)*	70,899	70,861	71,122	71,544	71,484	71,472	62,700	60

(1) Excludes merger-related charges, a fourth quarter 2016 deferred tax asset impairment charge related to cancelled non-qualified stock options and fourth quarter 2015 impairment losses on surplus bank property. (2) 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). (3) Excludes effect of acquisition related intangibles and associated amortization. (4) Annualized.

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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.

On July 1, 2016, United completed the acquisition of Tidelands Bancshares, Inc. ("Tidelands") and its wholly-owned bank subsidiary, Tidelands Bank. On September 1, 2015, United completed the acquisition of Palmetto Bancshares, Inc. ("Palmetto") and its wholly-owned bank subsidiary, The Palmetto Bank. On May 1, 2015, United completed the acquisition of MoneyTree Corporation ("MoneyTree") and its wholly-owned bank subsidiary, First National Bank. The acquired entities' results are included in United's consolidated results beginning on the respective acquisition dates.

United reported net income of $101 million, or $1.40 per diluted share, in 2016, compared with $71.6 million, or $1.09 per share in 2015 and $67.6 million, or $1.11 per share, in 2014.

Net interest revenue increased to $310 million for 2016, compared to $257 million in 2015 and $223 million in 2014. The increase was primarily due to higher loan volume, much of which resulted from the acquisitions of Tidelands, Palmetto and MoneyTree (the "Acquisitions").

Net interest margin increased six basis points to 3.36% in 2016 from 3.30% in 2015 due primarily to a higher yield on the investment securities portfolio and growth in the loan portfolio that led to a more favorable earning asset mix. The average yield on the taxable investment securities portfolio increased 20 basis points from 2015, partly as a result of a change in the investment portfolio composition.

The release of provision for credit losses was $800,000 for 2016, compared to provision expense of $3.70 million for 2015. Net charge-offs for 2016 were $6.77 million, compared to $6.26 million for 2015. Recoveries of previously charged-off amounts remained at elevated levels, with fourth quarter 2016 being the seventh consecutive quarter of recoveries greater than $1 million.

As of December 31, 2016, the allowance for loan losses was $61.4 million, or .89% of loans, compared with $68.4 million, or 1.14% of loans, at the end of 2015, reflecting continued asset quality improvement. Nonperforming assets of $29.5 million were .28% of total assets at December 31, 2016 compared to .29% as of December 31, 2015. The dollar increase year over year was primarily attributable to foreclosed properties assumed in connection with the Tidelands acquisition.

Fee revenue of $93.7 million was up $21.2 million, or 29%, from 2015. The increase was primarily due to the Acquisitions, higher mortgage fees and an increase in gains from sales of government guaranteed loans. Mortgage loan and related fees increased $6.70 million from 2015 due to United's emphasis on growing its mortgage business by recruiting lenders in metropolitan markets and continued strong refinancing activity. In 2016, United closed $718 million in mortgage loans compared with $494 million in 2015. In 2016, 53%, or $382 million, of the closed loans were for home purchases versus 55%, or $272 million in 2015. Fee revenue is shown in more detail in Table 4. Fee revenue for 2016 included $9.55 million in gains from sales of government guaranteed loans compared to $6.28 million for 2015. Customer derivative fees increased $2.39 million to $4.10 million in 2016 due to increased demand for this product. Deposit service charges and fees were up $5.29 million mostly due to higher deposit balances and related fees resulting from the Acquisitions.

For 2016, operating expenses of $241 million were up $30.1 million, or 14%, from 2015, largely due to the Acquisitions. Salaries and employee benefits expense increased $22.1 million in 2016 mostly due to the Acquisitions and investment in additional staff and new teams to expand the specialized lending area as well as higher incentive compensation in connection with increased lending activity and improvement in earnings performance. Operating expenses for 2016 included $8.12 million of merger-related charges, while operating expenses for 2015 included merger-related charges of $12.0 million and impairment charges on real estate purchased in prior years for future branch expansion of $5.97 million.

Loans at December 31, 2016 were $6.92 billion, up $925 million from the end of 2015, primarily due to the acquisition of Tidelands combined with solid growth in our community banks and specialized lending areas. Deposits were up $764 million to $8.64 billion at December 31, 2016, as United focused on increasing low cost core transaction deposits which grew $489 million in 2016, excluding public funds deposits and the Acquisitions. At the end of 2016, total equity capital was $1.08 billion, up $57.5 million from December 31, 2015, reflecting net income of $101 million, partially offset by the payment of dividends on United's common stock of $21.6 million and the retirement of common and preferred stock of $23.7 million. At December 31, 2016, all of United's regulatory capital ratios were significantly 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 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 accompanying consolidated financial statements. These policies, along with the disclosures presented in the other notes to the consolidated financial statements and in this Management’s Discussion and Analysis, 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 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.

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 the 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 accounting policies related to the allowance for loan losses.

Fair Value Measurements

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, 2016, the percentage of total assets measured at fair value on a recurring basis was 23%. See Note 24 "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. Management 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. 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 its interest rate risk or to help its customers manage their 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 in Note 24 to the consolidated 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 management has 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 24.

Beginning in the third quarter of 2016, management elected the fair value option for newly originated mortgage loans held for sale. United elected the fair value option for its portfolio of mortgage loans held for sale in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the value of derivative instruments used to economically hedge them. The fair value of mortgage loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan, and as such is categorized as level 2 in Note 24.

As of December 31, 2016, United had $675,000 of available-for-sale securities, $5.75 million in servicing assets for government guaranteed loans and $11.8 million in derivative financial instruments that were valued using unobservable inputs. The sum of these items represents less than .17% of total assets. United also had $16.3 million in derivative financial instruments recorded as liabilities that were valued using unobservable inputs, which represent .17% of total liabilities.

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, 2016, United reported a net deferred tax asset totaling $154 million, net of a valuation allowance of $3.88 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 arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of deferred tax liabilities, are excluded from CET1 and Tier 1 capital. Deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of deferred tax liabilities, that exceed certain thresholds are excluded from CET1 and 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 or enhance our market share in markets where we already have an established presence. 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 July 1, 2016, United completed the acquisition of Tidelands and its wholly-owned bank subsidiary, Tidelands Bank. Tidelands operated seven branches in coastal South Carolina. In connection with the acquisition, United acquired $440 million of assets and assumed $440 million of liabilities. Under the terms of the merger agreement, Tidelands’ shareholders received cash equal to $0.52 per common share, or an aggregate of $2.22 million. Additionally, at closing, United redeemed all of Tidelands’ fixed-rate cumulative preferred stock that was issued to the U.S. Department of the Treasury (the “Treasury”) under the Treasury’s Capital Purchase Program, plus unpaid dividends, for $8.98 million in aggregate. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $10.7 million.

On September 1, 2015, United completed the acquisition of Palmetto and its wholly-owned bank subsidiary, The Palmetto Bank. Palmetto operated 25 branches in South Carolina. In connection with the acquisition, United acquired $1.15 billion of assets and assumed $1.02 billion of liabilities. Total consideration transferred was $244 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $115 million.

On May 1, 2015, United completed the acquisition of MoneyTree and its wholly-owned bank subsidiary, First National Bank. MoneyTree operated ten branches in east Tennessee. In connection with the acquisition, United acquired $459 million of assets and assumed $410 million of liabilities and $9.99 million of preferred stock. Total consideration transferred was $54.6 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $14.7 million.

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 financial information determined by methods other than in accordance with GAAP. Such non-GAAP financial information includes the following measures: “tangible book value per share,” “tangible equity to assets,” “tangible common equity to assets” and “tangible common equity to risk-weighted assets.” In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of United’s ongoing business operations. Operating performance measures include “expenses – operating,” “net income – operating,” “net income available to common shareholders – operating,” “diluted net income per common share – operating,” “return on common equity – operating,” “return on tangible common equity – operating,” “return on assets – operating,” “dividend payout ratio – operating” and “efficiency ratio – operating.” Management has developed internal processes and procedures to accurately capture and account for merger-related and other charges and those charges are reviewed with the audit committee of United’s Board of Directors each quarter. Management uses these non-GAAP measures because it believes they may provide useful supplemental information for evaluating United’s operations and performance over periods of time, as well as in managing and evaluating United’s business and in discussions about United’s operations and performance. Management believes these non-GAAP measures may also provide users of United?s financial information with a meaningful measure for assessing United?s financial results and credit trends, as well as a comparison to financial results for prior periods. These non-GAAP measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable measures as reported in accordance with GAAP are included in the tables on pages 33 through 34.

UNITED COMMUNITY BANKS, INC.

Table 1 - Non-GAAP Performance Measures Reconciliation - Annual

Selected Financial Information

	For the Twelve Months Ended December 31,				
(in thousands, except per share data)	2016	2015	2014	2013	2012
Expense reconciliation					
Expenses (GAAP)	$241,289	$211,238	$162,865	$174,304	$186,774
Merger-related and other charges	(8,122)	(17,995)	-	-	-
Expenses - operating	$233,167	$193,243	$162,865	$174,304	$186,774
Net income reconciliation					
Net income (GAAP)	$100,656	$71,578	$67,620	$273,140	$33,856
Merger-related and other charges	8,122	17,995	-	-	-
Income tax benefit of merger-related and other charges	(3,074)	(6,388)	-	-	-
Impairment of deferred tax asset on cancelled non-qualified stock options	976	-	-	-	-
Net income - operating	$106,680	$83,185	$67,620	$273,140	$33,856
Net income available to common shareholders reconciliation					
Net income available to common shareholders (GAAP)	$100,635	$71,511	$67,181	$261,062	$21,708
Merger-related and other charges	8,122	17,995	-	-	-
Income tax benefit of merger-related and other charges	(3,074)	(6,388)	-	-	-
Impairment of deferred tax asset on cancelled non-qualified stock options	976	-	-	-	-
Net income available to common shareholders - operating	$106,659	$83,118	$67,181	$261,062	$21,708
Diluted income per common share reconciliation					
Diluted income per common share (GAAP)	$1.40	$1.09	$1.11	$4.44	$.38
Merger-related and other charges	.07	.18	-	-	-
Impairment of deferred tax asset on cancelled non-qualified stock options	.01	-	-	-	-
Diluted income per common share - operating	$1.48	$1.27	$1.11	$4.44	$.38

Book value per common share reconciliation										
Book value per common share (GAAP)	$15.06		$14.02		$12.20		$11.30		$6.67	
Effect of goodwill and other intangibles	(2.11	)	(1.96	)	(.05	)	(.04	)	(.10	)
Tangible book value per common share	$12.95		$12.06		$12.15		$11.26		$6.57	
Return on tangible common equity reconciliation										
Return on common equity (GAAP)	9.41	%	8.15	%	9.17	%	46.72	%	5.43	%
Merger-related and other charges	.48		1.33		-		-		-	
Impairment of deferred tax asset on cancelled non-qualified stock options	.09		-		-		-		-	
Return on common equity - operating	9.98		9.48		9.17		46.72		5.43	
Effect of goodwill and other intangibles	1.88		.76		.15		.63		.84	
Return on tangible common equity - operating	11.86	%	10.24	%	9.32	%	47.35	%	6.27	%
Return on assets reconciliation										
Return on assets (GAAP)	1.00	%	.85	%	.91	%	3.86	%	.49	%
Merger-related and other charges	.05		.13		-		-		-	
Impairment of deferred tax asset on cancelled non-qualified stock options	.01		-		-		-		-	
Return on assets - operating	1.06	%	.98	%	.91	%	3.86	%	.49	%
Dividend payout ratio reconciliation										
Dividend payout ratio (GAAP)	21.43	%	20.18	%	9.91	%	-	%	-	%
Merger-related and other charges	(1.02	)	(2.86	)	-		-		-	
Impairment of deferred tax asset on cancelled non-qualified stock options	(.14	)	-		-		-		-	
Dividend payout ratio - operating	20.27	%	17.32	%	9.91	%	-	%	-	%
Efficiency ratio reconciliation										
Efficiency ratio (GAAP)	59.80	%	63.96	%	58.26	%	63.14	%	65.43	%
Merger-related and other charges	(2.02	)	(5.45	)	-		-		-	
Efficiency ratio - operating	57.78	%	58.51	%	58.26	%	63.14	%	65.43	%
Average equity to assets reconciliation										
Equity to assets (GAAP)	10.54	%	10.27	%	9.69	%	10.35	%	8.47	%
Effect of goodwill and other intangibles	(1.33	)	(.53	)	(.02	)	(.04	)	(.09	)
Tangible equity to assets	9.21		9.74		9.67		10.31		8.38	
Effect of preferred equity	(.02	)	(.08	)	(.07	)	(2.76	)	(2.84	)
Tangible common equity to assets	9.19	%	9.66	%	9.60	%	7.55	%	5.54	%
Tangible common equity to risk-weighted assets reconciliation										
Tier 1 capital ratio (Regulatory)	11.23	%	11.45	%	12.06	%	12.74	%	14.16	%
Effect of other comprehensive income	(.34	)	(.38	)	(.35	)	(.39	)	(.51	)
Effect of deferred tax limitation	1.26		2.05		3.11		4.26		-	
Effect of trust preferred	(.25	)	(.08	)	(1.00	)	(1.04	)	(1.15	)
Effect of preferred equity	-		(.15	)	-		(2.39	)	(4.24	)
Basel III intangibles transition adjustment	(.06	)	(.10	)	-		-		-	
Basel III disallowed investments	-		.03		-		-		-	
Tangible common equity to risk-weighted assets	11.84	%	12.82	%	13.82	%	13.18	%	8.26	%

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UNITED COMMUNITY BANKS, INC.

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

Selected Financial Information

(in thousands, except per share data)	2016 Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2015 Fourth Quarter	Third Quarter	Second Quarter	First Quarte
Expense reconciliation								
Expenses (GAAP)	$61,321	$64,023	$58,060	$57,885	$65,488	$54,269	$48,420	$43,0
Merger-related and other charges	(1,141)	(3,152)	(1,176)	(2,653)	(9,078)	(5,744)	(3,173)	-
Expenses - operating	$60,180	$60,871	$56,884	$55,232	$56,410	$48,525	$45,247	$43,0
Net income reconciliation								
Net income (GAAP)	$27,221	$25,874	$25,266	$22,295	$18,208	$17,887	$17,813	$17,6
Merger-related and other charges	1,141	3,152	1,176	2,653	9,078	5,744	3,173	-
Income tax benefit of merger-related and other charges	(432)	(1,193)	(445)	(1,004)	(3,486)	(1,905)	(997)	-
Impairment of deferred tax asset on cancelled non-qualified stock options	976	-	-	-	-	-	-	-
Net income - operating	$28,906	$27,833	$25,997	$23,944	$23,800	$21,726	$19,989	$17,6
Net income available to common shareholders reconciliation								
Net income available to common shareholders (GAAP)	$27,221	$25,874	$25,266	$22,274	$18,183	$17,862	$17,796	$17,6
Merger-related and other charges	1,141	3,152	1,176	2,653	9,078	5,744	3,173	-
Income tax benefit of merger-related and other charges	(432)	(1,193)	(445)	(1,004)	(3,486)	(1,905)	(997)	-
Impairment of deferred tax asset on cancelled non-qualified stock options	976	-	-	-	-	-	-	-
Net income available to common shareholders - operating	$28,906	$27,833	$25,997	$23,923	$23,775	$21,701	$19,972	$17,6
Diluted income per common share reconciliation								
Diluted income per common share (GAAP)	$.38	$.36	$.35	$.31	$.25	$.27	$.28	$.29
Merger-related and other charges	.01	.03	.01	.02	.08	.06	.04	-
Impairment of deferred tax asset on cancelled non-qualified stock options	.01	-	-	-	-	-	-	-

Diluted income per common share - operating	$.40	$.39	$.36	$.33	$.33	$.33	$.32	$.29
Book value per common share reconciliation								
Book value per common share (GAAP)	$15.06	$15.12	$14.80	$14.35	$14.02	$13.95	$12.95	$12.58
Effect of goodwill and other intangibles	(2.11)	(2.12)	(1.96)	(1.95)	(1.96)	(1.87)	(.29)	(.05
Tangible book value per common share	$12.95	$13.00	$12.84	$12.40	$12.06	$12.08	$12.66	$12.53
Return on tangible common equity reconciliation								
Return on common equity (GAAP)	9.89 %	9.61 %	9.54 %	8.57 %	7.02 %	7.85 %	8.83 %	9.34
Merger-related and other charges	.26	.73	.27	.63	2.16	1.69	1.07	-
Impairment of deferred tax asset on cancelled non-qualified stock options	.36	-	-	-	-	-	-	-
Return on common equity - operating	10.51	10.34	9.81	9.20	9.18	9.54	9.90	9.34
Effect of goodwill and other intangibles	1.96	2.11	1.75	1.71	1.69	.75	.30	.12
Return on tangible common equity - operating	12.47 %	12.45 %	11.56 %	10.91 %	10.87 %	10.29 %	10.20 %	9.46
Return on assets reconciliation								
Return on assets (GAAP)	1.03 %	1.00 %	1.04 %	.93 %	.76 %	.82 %	.89 %	.94
Merger-related and other charges	.03	.08	.03	.07	.23	.18	.11	-
Impairment of deferred tax asset on cancelled non-qualified stock options	.04	-	-	-	-	-	-	-
Return on assets - operating	1.10 %	1.08 %	1.07 %	1.00 %	.99 %	1.00 %	1.00 %	.94
Dividend payout ratio reconciliation								
Dividend payout ratio (GAAP)	21.05 %	22.22 %	20.00 %	22.58 %	24.00 %	22.22 %	17.86 %	17.24
Merger-related and other charges	(.54)	(1.71)	(.56)	(1.37)	(5.82)	(4.04)	(2.23)	-
Impairment of deferred tax asset on cancelled non-qualified stock options	(.51)	-	-	-	-	-	-	-
Dividend payout ratio - operating	20.00 %	20.51 %	19.44 %	21.21 %	18.18 %	18.18 %	15.63 %	17.24
Efficiency ratio reconciliation								
Efficiency ratio (GAAP)	57.65 %	60.78 %	59.02 %	61.94 %	68.97 %	64.65 %	61.63 %	59.13
Merger-related and other charges	(1.07)	(2.99)	(1.20)	(2.84)	(9.56)	(6.84)	(4.04)	-
Efficiency ratio - operating	56.58 %	57.79 %	57.82 %	59.10 %	59.41 %	57.81 %	57.59 %	59.13
Average equity to assets reconciliation								
Equity to assets (GAAP)	10.35 %	10.38 %	10.72 %	10.72 %	10.68 %	10.39 %	10.05 %	9.86
Effect of goodwill and other intangibles	(1.31)	(1.40)	(1.29)	(1.31)	(1.28)	(.51)	(.14)	(.04
Tangible equity to assets	9.04	8.98	9.43	9.41	9.40	9.88	9.91	9.82
Effect of preferred equity	-	-	-	(.09)	(.11)	(.11)	(.08)	-
Tangible common equity to assets	9.04 %	8.98 %	9.43 %	9.32 %	9.29 %	9.77 %	9.83 %	9.82

Tangible common equity to risk-weighted assets reconciliation								
Tier 1 capital ratio (Regulatory)	11.23 %	11.04 %	11.44 %	11.32 %	11.45 %	11.40 %	11.86 %	11.5
Effect of other comprehensive income	(.34)	-	(.06)	(.25)	(.38)	(.23)	(.28)	(.19
Effect of deferred tax limitation	1.26	1.50	1.63	1.85	2.05	2.24	2.49	2.86
Effect of trust preferred	(.25)	(.26)	(.08)	(.08)	(.08)	(.08)	(.63)	(.67
Effect of preferred equity	-	-	-	-	(.15)	(.15)	(.17)	-
Basel III intangibles transition adjustment	(.06)	(.06)	(.06)	(.07)	(.10)	(.13)	(.06)	(.04
Basel III disallowed investments	-	-	-	-	.03	.03	.03	.04
Tangible common equity to risk-weighted assets	11.84 %	12.22 %	12.87 %	12.77 %	12.82 %	13.08 %	13.24 %	13.5

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Results of Operations

United reported net income of $101 million for the year ended December 31, 2016. This compared to net income of $71.6 million in 2015. Diluted earnings per common share for 2016 were $1.40, compared to diluted earnings per common share for 2015 of $1.09.

Net Interest Revenue

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. Management seeks to optimize this revenue while balancing interest rate, credit, and liquidity risks. Net interest revenue for 2016 was $310 million, compared to $257 million for 2015 and $223 million for 2014. Taxable equivalent net interest revenue totaled $311 million in 2016, an increase of $52.1 million, or 20%, from 2015. Taxable equivalent net interest revenue for 2015 increased $34.3 million, or 15%, from 2014.

The combination of the larger earning asset base from the Acquisitions and growth in the loan portfolio were responsible for the increase in net interest revenue. The acquisition of Tidelands on July 1, 2016, Palmetto on September 1, 2015 and MoneyTree on May 1, 2015 contributed to the increase as the acquired entities’ results are included in consolidated results beginning on the relevant acquisition date.

Average loans increased $1.12 billion, or 21%, from 2015, while the yield on loans decreased three basis points, reflecting ongoing pricing pressure on new and renewed loans.

Average interest-earning assets for 2016 increased $1.42 billion, or 18%, from 2015, which was due primarily to the increase in loans, including the acquisitions of Tidelands, Palmetto and MoneyTree loans. Average investment securities for 2016 increased $323 million from a year ago, partially due to the Acquisitions. The average yield on the taxable investment portfolio increased 20 basis points from a year ago, primarily due to the impact of higher short-term interest rates on the floating rate portion of the securities portfolio as well as accelerated discount accretion on called agency bonds and higher yields on fixed rate investments.

Average interest-bearing liabilities in 2016 increased $856 million, or 15%, from the prior year as funding needs increased with the increase in loans and a larger securities portfolio. Average noninterest-bearing deposits increased $531 million from 2015 to 2016 providing some of United’s 2016 funding needs. The average cost of interest-bearing liabilities for 2016 was .39% compared to .38% for 2015, reflecting a higher average rate on interest-bearing deposits, specifically money market accounts and brokered deposits.

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 2016, 2015 and 2014, the net interest spread was 3.24%, 3.19%, and 3.13%, respectively, while the net interest margin was 3.36%, 3.30%, and 3.26%, respectively. Although loan yields continued to decline in 2016 due to competitive pricing pressure on new and renewed loans and a shift in loan mix to more floating rate loans, this decline was offset by an increase in the yield on investment securities. The increase in both ratios from 2014 to 2015 was due to growth in the loan portfolio which improved the earning asset mix, an increase in the taxable investment securities yield and a decrease in the cost of deposits and borrowed funds.

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, fully taxable equivalent)

	2016 Average Balance	Interest	Avg. Rate	2015 Average Balance	Interest	Avg. Rate	2014 Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans (1)(2)	$6,412,740	$268,478	4.19%	$5,297,687	$223,713	4.22%	$4,450,268	$197,039	4.43%
Taxable securities (3)	2,665,051	63,413	2.38	2,342,533	51,143	2.18	2,255,084	47,755	2.12
Tax-exempt securities (1)(3)	26,244	1,005	3.83	25,439	1,154	4.54	19,279	1,209	6.27
Federal funds sold and other interest-earning assets	152,722	3,149	2.06	168,494	3,799	2.25	155,803	3,966	2.55
Total interest-earning assets	9,256,757	336,045	3.63	7,834,153	279,809	3.57	6,880,434	249,969	3.63
Non-interest-earning assets:									
Allowance for loan losses	(65,294)			(71,001)			(75,237)		
Cash and due from banks	95,613			81,244			67,818		
Premises and equipment	187,698			174,835			161,391		
Other assets (3)	579,051			442,878			401,240		
Total assets	$10,053,825			$8,462,109			$7,435,646		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									

Interest-bearing deposits:									
NOW	$1,826,729	$1,903	.10	$1,563,911	$1,505	.10	$1,396,373	$1,651	.12
Money market	1,941,288	4,982	.26	1,678,765	3,466	.21	1,389,837	3,060	.22
Savings deposits	515,179	135	.03	372,414	98	.03	277,351	81	.03
Time deposits	1,289,876	3,138	.24	1,269,360	4,823	.38	1,362,873	7,009	.51
Brokered deposits	171,420	(2)	.00	269,162	(1,067)	(.40)	293,657	124	.04
Total interest-bearing deposits	5,744,492	10,156	.18	5,153,612	8,825	.17	4,720,091	11,925	.25
Federal funds purchased, repurchase agreeements, & other short-term borrowings	34,906	399	1.14	49,301	364	.74	74,541	2,160	2.90
Federal Home Loan Bank advances	499,026	3,676	.74	250,404	1,743	.70	175,481	912	.52
Long-term debt	170,479	11,005	6.46	139,979	10,177	7.27	129,865	10,554	8.13
Total borrowed funds	704,411	15,080	2.14	439,684	12,284	2.79	379,887	13,626	3.59
Total interest-bearing liabilities	6,448,903	25,236	.39	5,593,296	21,109	.38	5,099,978	25,551	.50
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	2,432,846			1,901,521			1,507,944		
Other liabilities	112,774			97,890			107,523		
Total liabilities	8,994,523			7,592,707			6,715,445		
Shareholders’ equity	1,059,302			869,402			720,201		
Total liabilities and shareholders’ equity	$10,053,825			$8,462,109			$7,435,646		
Net interest revenue		$310,809			$258,700			$224,418	
Net interest-rate spread			3.24%			3.19%			3.13%
Net interest margin (4)			3.36%			3.30%			3.26%

(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 $16.0 million, $11.4 million and $3.36 million in 2016, 2015 and 2014, respectively, are included in other assets for purposes of this presentation.

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

The following table shows the relative effect on net interest revenue of changes in the average outstanding balances (volume) of interest-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, fully taxable equivalent)

	2016 Compared to 2015 Increase (decrease) due to changes in			2015 Compared to 2014 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	$46,699	$(1,934)	$44,765	$36,124	$(9,450)	$26,674
Taxable securities	7,424	4,846	12,270	1,884	1,504	3,388
Tax-exempt securities	36	(185)	(149)	329	(384)	(55)
Federal funds sold and other interest-earning assets	(340)	(310)	(650)	308	(475)	(167)
Total interest-earning assets	53,819	2,417	56,236	38,645	(8,805)	29,840
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	267	131	398	184	(330)	(146)
Money Market	594	922	1,516	606	(200)	406
Savings deposits	37	-	37	26	(9)	17
Time deposits	77	(1,762)	(1,685)	(455)	(1,731)	(2,186)
Brokered deposits	284	781	1,065	(9)	(1,182)	(1,191)
Total interest-bearing deposits	1,259	72	1,331	352	(3,452)	(3,100)
Federal funds purchased, repurchase agreements & other short-term borrowings	(127)	162	35	(561)	(1,235)	(1,796)
Federal Home Loan Bank advances	1,826	107	1,933	463	368	831
Long-term debt	2,053	(1,225)	828	785	(1,162)	(377)
Total borrowed funds	3,752	(956)	2,796	687	(2,029)	(1,342)
Total interest-bearing liabilities	5,011	(884)	4,127	1,039	(5,481)	(4,442)
Increase (decrease) in net interest revenue	$48,808	$3,301	$52,109	$37,606	$(3,324)	$34,282

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 release of provision for credit losses was $800,000 in 2016, compared with provision expense of $3.70 million in 2015 and $8.50 million in 2014. 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. The improvement in 2016 reflects overall improvement in a number of troubled debt restructuruings ("TDRs") as well as continued strong credit quality and a low overall level of net charge-offs. In 2015, the provision for loan losses decreased partly due to lower levels of charge offs along with increased recoveries. The ratio of net loan charge-offs to average outstanding loans for 2016 was .11% compared with .12% for 2015 and .31% for 2014.

The allowance for unfunded loan commitments, which is included in other liabilities in the consolidated balance sheet, 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, 2016, the allowance for unfunded commitments was $2.00 million compared with $2.54 million at December 31, 2015 and $1.93 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 $93.7 million in 2016, compared with $72.5 million in 2015 and $55.6 million in 2014. The following table presents the components of fee revenue for the periods indicated.

Table 4 - Fee Revenue

For the Years Ended December 31,

(in thousands)

	2016	2015	2014	Change 2016-2015
Overdraft fees	$13,883	$12,503	$11,871	11 %
ATM and debit card interchange fees	20,839	17,667	15,295	18
Other service charges and fees	7,391	6,655	5,907	11
Service charges and fees	42,113	36,825	33,073	14
Mortgage loan and related fees	20,292	13,592	7,520	49
Brokerage fees	4,280	5,041	4,807	(15)
Gains from sales of government guaranteed loans	9,545	6,276	2,615	52
Customer derivatives	4,104	1,713	729	140
Securities gains, net	982	2,255	4,871	
Losses on prepayment of borrowings	-	(1,294)	(4,446)	
Other	12,381	8,121	6,385	52
Total fee revenue	$93,697	$72,529	$55,554	29

Service charges and fees of $42.1 million were up $5.29 million, or 14%, from 2015. The increase for both 2016 and 2015 was primarily due to increased deposit balances driven primarily by the Acquisitions.

Mortgage loan and related fees of $20.3 million were up $6.70 million, or 49%, from 2015. In 2016, United closed 3,246 mortgage loans totaling $718 million compared with 2,538 loans totaling $494 million in 2015 and 1,639 loans totaling $276 million in 2014. The increase reflects United's focus on growing the mortgage business by recruiting new mortgage lenders in key metropolitan markets and an increase in refinancing activity. In 2016, new home purchase mortgages of $382 million accounted for 53% of production volume compared with $272 million, or 55%, of production volume in 2015 and $174 million, or 63%, of production volume in 2014. Also, late in 2016, United switched from best efforts delivery to mandatory delivery which improved the profitability of the mortgage business.

Brokerage fees of $4.28 million for 2016 decreased $761,000, or 15%, from 2015, reflecting weak market activity and changes in industry practices in advance of the United States Department of Labor’s new fiduciary rule that becomes effective in April 2017. Brokerage fees increased in 2015 compared to 2014 as a result of United’s focus on growing its advisory services business.

In 2016, United realized $9.55 million in gains from the sales of the guaranteed portion of SBA and USDA loans, compared to $6.28 million and $2.62 million, respectively, in 2015 and 2014. United’s SBA/USDA lending strategy includes selling a portion of the loan production each quarter. United retains the servicing rights on the sold loans and earns a fee for servicing the loans. In 2016, United sold the guaranteed portion of loans in the amount of $120 million, compared to $70.7 million and $28.3 million, respectively, for 2015 and 2014. The growth in 2016 compared to 2015 reflects an increase in the numbers of loans closed due to additional lenders and cross-selling the product through our community banks as well as the completion of construction projects.

Fees from customer swap transactions of $4.10 million were up $2.39 million from 2015 due to an increase in customer demand to lock in low fixed rates on their loans. 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 the equivalent of a variable rate loan.

United recognized net securities gains of $982,000, $2.26 million and $4.87 million during 2016, 2015 and 2014, respectively. In 2015, United incurred $1.29 million in debt prepayment charges due to the redemption of $49.3 million in trust preferred securities with an average rate of approximately 9% and prepayment of $6 million in structured repurchase agreements with an average rate of 4%. United also recognized losses from the prepayment of structured repurchase agreements totaling $4.45 million in 2014. 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 $12.4 million for 2016 was up $4.26 million from 2015, due to a number of factors. Volume driven increases in earnings from bank owned life insurance policies account for $639,000 of the increase. Also included in 2016 other fee revenue is a payment for the settlement of a vendor dispute over trust fees totaling $638,000. The remaining increase is primarily due to higher fees from a number of miscellaneous banking services. Other fee revenue of $8.12 million for 2015 was up $1.74 million from 2014, primarily due to volume driven increases in income from bank owned life insurance and merchant services combined with gains on sales of former branch facilities.

Operating Expense

The following table presents the components of operating expenses for the periods indicated.

Table 5 - Operating Expenses

For the Years Ended December 31,

(in thousands)

	2016	2015	2014	Change 2016-2015	
Salaries and employee benefits	$138,789	$116,688	$100,941	19	%
Communications and equipment	18,355	15,273	12,523	20	
Occupancy	19,603	15,372	13,513	28	
Advertising and public relations	4,426	3,667	3,461	21	
Postage, printing and supplies	5,382	4,273	3,542	26	
Professional fees	11,822	10,175	7,907	16	
FDIC assessments and other regulatory charges	5,866	5,106	4,792	15	
Amortization of intangibles	4,182	2,444	1,348	71	
Other	24,742	20,245	14,838	22	
Total excluding merger-related and other charges	233,167	193,243	162,865	21	
Merger-related and other charges	8,122	17,995	-	(55	)
Total operating expenses	$241,289	$211,238	$162,865	14	

Operating expenses were $241 million in 2016 as compared to $211 million in 2015 and $163 million in 2014. The increase mostly reflects the inclusion of operating expenses associated with the Acquisitions and higher salaries and employee benefits expense resulting from investing in specialized lending areas and other strategic hiring. The increase in 2015 from 2014 was due to similar reasons as well as impairment on several bank surplus properties and merger-related charges.

Salaries and employee benefits expense for 2016 was $139 million, an increase of $22.1 million, or 19%, from 2015. The increase was due to a number of factors including investments in additional staff and new teams to expand specialized lending and other key areas and additional staff resulting from the Acquisitions. Full time equivalent headcount totaled 1,916 at December 31, 2016 compared to 1,883 at December 31, 2015 and 1,506 at December 31, 2014.

Communications and equipment expense of $18.4 million for 2016 was up $3.08 million, or 20%, from 2015 due to higher local and long distance telephone charges, higher data circuits charges, and higher equipment depreciation charges mostly resulting from the Acquisitions. The increase in 2015 from 2014 reflects higher software maintenance costs and merger-related increases.

Occupancy expense of $19.6 million for 2016 was up $4.23 million, or 28%, compared to 2015, primarily due to higher depreciation and lease rental charges for the expanded branch network resulting from the Acquisitions. Maintenance charges were also up in 2016 reflecting the larger branch network. The increase from 2014 to 2015 was primarily related to the Acquisitions and expansion into additional metropolitan areas.

Postage, printing and supplies expense for 2016 was $5.38 million, an increase of 26% from 2015, partly due to the Acquisitions. Similarly, the increase from 2014 to 2015 was primarily due to acquisition activity.

Professional fees were $11.8 million for 2016, up $1.65 million, or 16%, from 2015, primarily due to compliance projects and process improvement projects to improve operating efficiency. The increase in 2015 from 2014 was primarily due to higher legal and consulting fees relating to various corporate projects, including projects to enhance our productivity as well as model validations and improvements to our regulatory compliance function.

FDIC assessments and other regulatory charges expense for 2016 was $5.87 million, an increase of $760,000, or 15%, from 2015 due to a larger balance sheet. Amortization of intangibles increased in 2016 and 2015 due to Acquisition-related core deposit intangibles.

In 2016, merger-related and other charges of $8.12 million included severance, conversion, legal and professional charges related to the Acquisitions. The 2016 charges were primarily related to the Palmetto and Tidelands acquisitions. In 2015, merger-related and other charges of $18.0 million included $12.0 million of merger-related charges, primarily severance, conversion costs and legal and professional fees related to the Palmetto and MoneyTree acquisitions, and $5.97 million of impairment on real estate purchased in prior years for future branch expansion.

Other expenses totaled $24.7 million for 2016, compared to $20.2 million in 2015 and $14.8 million in 2014, mostly due to higher lending support costs due to increased lending activity, higher ATM and internet banking costs due to higher volume, and higher servicing costs on United's indirect auto lending portfolio due to growth in that portfolio. The increase in the expense categories not specifically mentioned was primarily due to the Acquisitions.

Income Taxes

Income tax expense was $62.3 million in 2016, compared to income tax expense of $43.4 million in 2015 and $39.5 million in 2014. Income tax expense for 2016, 2015 and 2014 represents an effective tax rate of 38.2%, 37.8% and 36.8%, respectively. The tax rate for 2017 is expected to be approximately 37.4% 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, 2016 and 2015, 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 several years have closely followed management's forecast for these periods. 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.

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 three to seven 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.

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 17 to the consolidated financial statements.

Fourth Quarter 2016 Discussion

Net interest revenue for the fourth quarter of 2016 increased $7.16 million, or 10%, to $80.9 million from the same period a year ago, primarily due to solid loan growth, including acquisition-related growth, and a higher yield on the securities portfolio. The yield on the securities portfolio increased partly due to the impact of rising interest rates on the variable portion of the securities portfolio. The net interest margin for the fourth quarter of 2016 remained flat at 3.34% compared to the fourth quarter of 2015.

United did not record a provision for credit losses in the fourth quarter of 2016, compared to provision expense of $300,000 for the fourth quarter of 2015. The decrease was primarily due to overall improvement in portfolio credit quality, including strong recoveries of previously charged off loans.

The following table presents the components of fee revenue for the periods indicated.

Table 6 - Quarterly Fee Revenue

(in thousands)

	Three Months Ended December 31,		
	2016	2015	Change
Overdraft fees	$ 3,545	$ 3,872	(8)%
ATM and debit card fees	5,250	5,445	(4)
Other service charges and fees	1,858	2,183	(15)
Service charges and fees	10,653	11,500	(7)
Mortgage loan and related fees	6,516	3,290	98
Brokerage fees	911	1,058	(14)
Gains on sales of government guaranteed loans	3,028	1,995	52
Customer derivatives	821	399	106
Securities gains, net	60	378	
Other	3,244	2,664	22
Total fee revenue	$ 25,233	$ 21,284	19

Fee revenue for the fourth quarter of 2016 of $25.2 million increased $3.95 million, or 19%, from $21.3 million for the fourth quarter of 2015. Service charges and fees on deposit accounts of $10.7 million decreased $847,000, or 7%, from $11.5 million for the fourth quarter of 2015, primarily due to product changes after the Palmetto system conversion. Mortgage fees of $6.52 million increased $3.23 million, or 98%, from $3.29 million in the fourth quarter of 2015 due to higher loan origination volume. United closed $194 million in mortgage loans in the fourth quarter of 2016, of which 46% were for new home purchases, compared to $138 million in the fourth quarter of 2015, of which 55% were for new home purchases. Sales of $41.1 million in government guaranteed loans in fourth quarter 2016 resulted in net gains of $3.03 million, compared to $25.1 million sold in fourth quarter 2015, resulting in net gains of $2.0 million. Customer derivative fees increased in the fourth quarter of 2016 compared with a year ago due to an increase in customer demand for the product. Other fee revenue of $3.24 million increased $580,000, or 22%, from the fourth quarter of 2015, partially due to volume driven increases in earnings on bank owned life insurance policies, increases in miscellaneous banking fees and increases in the value of equity investments held by United.

The following table presents operating expenses for the periods indicated.

Table 7 - Quarterly Operating Expenses

(in thousands)

	Three Months Ended December 31,		
	2016	2015	Change
Salaries and employee benefits	$ 35,677	$ 32,939	8 %
Communications and equipment	4,753	4,735	-
Occupancy	5,210	4,666	12
Advertising and public relations	1,151	978	18
Postage, printing and supplies	1,353	1,293	5
Professional fees	2,773	3,331	(17)
FDIC assessments and other regulatory charges	1,413	1,463	(3)
Amortization of intangibles	1,066	1,041	2
Other	6,784	5,964	14
Total excluding merger-related and other charges	60,180	56,410	7
Merger-related and other charges	1,141	9,078	(87)
Total operating expenses	$ 61,321	$ 65,488	(6)

Operating expenses of $61.3 million decreased 6% from $65.5 million for the fourth quarter of 2015, largely due to lower merger-related and other charges. Salaries and employee benefit costs of $35.7 million were up $2.74 million from the fourth quarter of 2015, due primarily to additional staff resulting from the Tidelands acquisition and investment in additional staff and new teams to expand specialized lending and other key areas, as well as higher commissions and incentives due to business growth. Occupancy expense of $5.21 million was up $544,000 for the fourth quarter of 2016 compared to 2015, primarily due to additional locations attributable to the Tidelands acquisition. Professional fees decreased 17% to $2.77 million in fourth quarter 2016 compared to fourth quarter 2015 due primarily to higher consulting fees in 2015 relating to various corporate projects to enhance productivity, model validations, and improve our regulatory compliance function. Other expenses of $6.78 million were up 14% from the fourth quarter of 2015, primarily due to higher lending support costs resulting from higher production volume in the specialized lending areas. For the fourth quarter of 2015, merger-related and other charges of $9.08 million included $3.11 million of merger charges primarily related to the Palmetto acquisition and $5.97 million of impairment charges on bank-owned real estate acquired in prior years for expansion.

Balance Sheet Review

Total assets at December 31, 2016 were $10.7 billion, an increase of $1.09 billion, or 11%, from December 31, 2015. On a daily average basis, total assets increased $1.59 billion, or 19%, from 2015 to 2016. Average interest earning assets for 2016 and 2015 were $9.26 billion and $7.83 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, except for specific specialized lending strategies such as SBA and franchise lending. More than 76% of the loans are secured by real estate. Total loans averaged $6.41 billion in 2016, compared with $5.30 billion in 2015, an increase of 21%. At December 31, 2016, total loans were $6.92 billion, an increase of $925 million, or 15%, from December 31, 2015. Loans increased year over year due to organic growth and the Tidelands acquisition.

In the fourth quarter of 2016, certain loan balances previously shown as retail loans were reclassified to several commercial categories to better align the reporting with the business purpose or underlying credit risk of the loans, rather than the collateral type. At December 31, 2015 and 2014, the reclassifications moved approximately $275 million and $262 million, respectively, in residential mortgages and home equity lines from the residential mortgage and home equity lines of credit categories to the owner-occupied and income-producing commercial real estate categories. Although these loans were secured by one-to-four family residential properties, their purpose was commercial since they included residential home rental property and business purpose loans secured by the borrower's primary residence. In addition, at December 31, 2015 and 2014, approximately $176 million and $169 million, respectively, in residential construction loans were reclassified to the commercial construction category. These reclassified loans are to professional builders and developers of residential properties. Reclassifying these balances better aligns the loan categories with the management of credit risk. Historic charge-offs and recoveries on these same loans have also been reclassified, as well as the corresponding allowance for loan loss balances.

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	2016	2015	2014	2013	2012
Owner occupied commercial real estate	$1,650,360	$1,570,988	$1,256,779	$1,237,623	$1,253,588
Income producing commercial real estate	1,281,541	1,020,464	766,834	807,093	891,120
Commercial & industrial	1,069,715	784,870	709,615	470,702	456,467
Commercial construction	633,921	518,335	364,564	336,158	406,821
Total commercial	4,635,537	3,894,657	3,097,792	2,851,576	3,007,996
Residential mortgage	856,725	764,175	613,592	603,719	517,306
Home equity lines of credit	655,410	589,325	455,825	430,530	374,817
Residential construction	190,043	176,202	131,382	136,292	122,333
Consumer installment	123,567	115,111	104,899	111,045	114,117
Indirect auto	459,354	455,971	268,629	196,104	38,439
Total loans	$6,920,636	$5,995,441	$4,672,119	$4,329,266	$4,175,008

Loans by Market	2016	2015	2014	2013	2012
North Georgia	$1,096,974	$1,125,123	$1,163,479	$1,240,234	$1,363,723
Atlanta MSA	1,398,657	1,259,377	1,243,535	1,235,378	1,203,937
North Carolina	544,792	548,591	552,527	571,971	579,085
Coastal Georgia	581,138	536,598	455,709	423,045	400,022
Gainesville MSA	247,410	254,016	257,449	254,655	261,406
East Tennessee	503,843	504,277	280,312	279,587	282,863
South Carolina	1,233,185	819,560	29,786	3,787	-
Specialized Lending	855,283	491,928	420,693	124,505	45,533
Indirect auto	459,354	455,971	268,629	196,104	38,439
Total loans	$6,920,636	$5,995,441	$4,672,119	$4,329,266	$4,175,008

As of December 31, 2016, United's 25 largest credit relationships consisted of loans and loan commitments ranging from $31.3 million to $17.4 million, with an aggregate total credit exposure of $520 million. Total credit exposure includes $123 million in unfunded commitments and $397 million in balances outstanding, excluding participations sold. United had nine lending relationships whose total credit exposure exceeded $20 million of which only four 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, 2016

(in thousands)

	Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial (commercial and industrial)	$262,348	$ 555,411	$251,956	$1,069,715	$ 297,576	$ 509,791
Construction (commercial and residential)	275,581	374,941	173,442	823,964	174,712	373,671
Total	$537,929	$ 930,352	$425,398	$1,893,679	$ 472,288	$ 883,462

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United’s credit administration function is responsible for monitoring asset quality and Board of Directors approved portfolio concentration limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banks and specialized lending areas. Additional information on United’s credit administration function is included in Item 1 under the heading “Loan Review and Nonperforming Assets.”

United classifies performing loans as “substandard” when there is a well-defined weakness or weaknesses that jeopardizes the repayment by the borrower and there is a distinct possibility that United could sustain some loss if the deficiency is not corrected.

United’s home equity lines generally require the payment of interest only for a set period after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both principal and interest. At December 31, 2016 and 2015, the funded portion of home equity lines totaled $655 million and $589 million, respectively. Approximately 3% of the home equity loans at December 31, 2016 were amortizing. Of the $655 million in balances outstanding at December 31, 2016, $384 million, or 59%, were first liens. At December 31, 2016, 56% of the total available home equity lines were drawn upon.

United monitors the performance of its home equity loans and lines secured by second liens similar to other consumer loans and utilizes assumptions specific to these loans in determining the necessary allowance. United generally receives notification when the first lien holder is in the process of foreclosure and upon that notification, United obtains valuations to determine if any additional charge-offs or reserves are warranted.

The table below presents performing classified loans for the last five years.

Table 10 - Performing Classified Loans

(in thousands)

	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
By Category					
Owner occupied commercial real estate	$ 42,169	$ 44,790	$ 52,671	$ 51,395	$ 76,836
Income producing commercial real estate	29,379	37,638	29,194	45,363	66,928
Commercial & industrial	8,903	5,967	7,664	9,267	18,184
Commercial construction	8,840	8,622	14,263	29,186	54,114
Total commercial	89,291	97,017	103,792	135,211	216,062
Residential mortgage	15,324	18,141	15,985	25,040	28,653
Home equity	5,060	6,851	5,181	7,967	9,824
Residential construction	2,726	3,548	1,479	1,947	3,749
Consumer installment	584	757	1,382	2,538	3,653
Indirect auto	1,362	1,213	574	-	-
Total	$ 114,347	$ 127,527	$ 128,393	$ 172,703	$ 261,941

By Market					
North Georgia	$ 39,438	$ 46,668	$ 55,821	$ 69,510	$ 105,851
Atlanta MSA	17,954	25,723	31,201	42,955	75,305
North Carolina	11,089	14,087	16,479	18,954	28,657
Coastal Georgia	4,516	5,187	15,642	18,561	17,421
Gainesville MSA	713	566	1,109	14,916	19,251
East Tennessee	7,485	9,522	5,933	7,591	13,131
South Carolina	31,623	23,620	-	-	-
Specialized lending	167	941	1,634	216	2,325
Indirect auto	1,362	1,213	574	-	-
Total loans	$ 114,347	$ 127,527	$ 128,393	$ 172,703	$ 261,941

At December 31, 2016, performing classified loans totaled $114 million and decreased $13.2 million from December 31, 2015. The decrease from 2015 reflects a general declining trend, partially offset by an increase due to the acquisitions in 2015. Performing classified loans have been on a downward trend as credit conditions have continued to improve and problem credits are resolved.

Reviews of classified performing and non-performing loans, TDRs, past due loans and larger credits, are conducted on a regular basis and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are presented by the responsible lending officers and specific action plans are discussed along with the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, the effect of prevailing economic conditions on the borrower and other factors specific to the borrower and its industry. In addition to internal loan review, management also uses external loan review to ensure the objectivity of the loan review process.

The provision for credit losses charged to earnings is based upon management’s judgment of the amount necessary to maintain the allowance at a level appropriate to absorb probable incurred losses in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management’s assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. The decreases in the provision and the declining level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard and nonperforming loans as well as charge-off levels. Further, the declining balance of the allowance for loan losses over the last several quarters reflects an overall improving trend in the credit quality of the loan portfolio. A general improvement in economic conditions in United’s market also contributed to the lower level of provision and allowance for loan losses.

The allocation of the allowance for credit losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. In 2014, United incorporated a loss emergence period into its allowance for loan losses analysis. The increase in precision resulting from the loss emergence period resulted in full allocation of the previously unallocated portion of the allowance.

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

Table 11 - Allocation of Allowance for Credit Losses

As of December 31,

(in thousands)

	2016		2015		2014		2013		2012	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Commercial (secured by real estate)	$25,289	42	$29,564	43	$32,691	43	$29,430	47	$30,394	51
Commercial & industrial	3,810	16	4,433	13	3,252	15	6,504	11	5,423	11
Commercial construction	13,405	9	9,553	9	10,901	8	10,702	8	25,359	10
Total commercial	42,504	67	43,550	65	46,844	66	46,636	66	61,176	72
Residential mortgage	13,144	22	18,675	23	18,609	23	16,185	24	24,984	21
Residential construction	3,264	3	4,002	3	4,374	3	5,219	3	8,920	3
Consumer installment	2,510	8	2,221	9	1,792	8	2,479	7	2,744	4
Unallocated	-		-		-		6,243		9,313	
Total allowance for loan losses	61,422	100	68,448	100	71,619	100	76,762	100	107,137	100
Allowance for unfunded commitments	2,002		2,542		1,930		2,165		-	
Total allowance for credit losses	$63,424		$70,990		$73,549		$78,927		$107,137	

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

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

Table 12 - Allowance for Credit Losses

Years Ended December 31,

(in thousands)

	2016	2015	2014	2013	2012
Balance beginning of period	$68,448	$71,619	$76,762	$107,137	$114,468
Charge-offs:					
Owner occupied commercial real estate	2,029	2,901	4,567	26,352	12,547
Income producing commercial real estate	1,433	1,280	2,671	13,912	16,212
Commercial & industrial	1,830	1,358	2,145	18,914	2,424
Commercial construction	837	1,947	1,574	8,042	17,542
Residential mortgage	1,151	1,615	5,011	5,063	7,142
Home equity lines of credit	1,690	1,094	2,314	3,395	4,369
Residential construction	533	851	1,837	21,515	12,183
Consumer installment	1,459	1,597	2,008	2,184	2,198
Indirect auto	1,399	772	540	277	16
Total loans charged-off	12,361	13,415	22,667	99,654	74,633
Recoveries:					
Owner occupied commercial real estate	706	755	3,343	1,603	209
Income producing commercial real estate	580	866	1,009	873	517
Commercial & industrial	1,689	2,174	1,665	1,619	1,075
Commercial construction	821	736	503	393	950
Residential mortgage	301	1,080	572	293	197
Home equity lines of credit	386	242	287	62	124
Residential construction	79	173	135	51	965
Consumer installment	800	1,044	1,221	1,010	765
Indirect auto	233	86	54	40	-
Total recoveries	5,595	7,156	8,789	5,944	4,802
Net charge-offs	6,766	6,259	13,878	93,710	69,831
Provision for loan losses	(260)	3,088	8,735	63,335	62,500
Allowance for loan losses at end of period	61,422	68,448	71,619	76,762	107,137
Allowance for unfunded commitments at beginning of period	2,542	1,930	2,165	-	-
Provision for unfunded commitments	(540)	612	(235)	2,165	-
Allowance for unfunded commitments at end of period	2,002	2,542	1,930	2,165	-
Allowance for credit losses	$63,424	$70,990	$73,549	$78,927	$107,137

Total loans [1]:					
At year-end	$6,920,636	$5,995,441	$4,672,119	$4,329,266	$4,175,008
Average	6,412,740	5,297,687	4,440,868	4,228,235	4,123,530
Allowance for loan losses as a percentage of year- end loans	0.89 %	1.14 %	1.53 %	1.77 %	2.57 %
As a percentage of average loans:					
Net charge-offs	.11	.12	.31	2.22	1.69
Provision for loan losses	-	.06	.20	1.50	1.52

[1] Excludes loans acquired through the 2009 FDIC assisted acquisition of Southern Community Bank that are covered by loss sharing agreements.

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled $63.4 million at December 31, 2016 compared with $71.0 million at December 31, 2015. At December 31, 2016, the allowance for loan losses was $61.4 million, or .89% of total loans, compared with $68.4 million, or 1.14% of loans at December 31, 2015. The decrease in the allowance for credit losses is consistent with the overall improving trends in credit quality of the loan portfolio.

In accordance with the accounting guidance for business combinations, there was no allowance for loan losses brought forward on loans acquired from Tidelands, as credit deterioration was included in the determination of fair value at acquisition date. At December 31, 2016, United recorded no allowance for loan losses on loans acquired from Tidelands as there was no evidence of credit deterioration beyond that which was incorporated into the determination of fair value at acquisition date. At December 31, 2016, for acquired loans that had no evidence of credit deterioration at the time of acquisition, the remaining unaccreted fair value discount was $7.14 million.

Management believes that the allowance for credit losses at December 31, 2016 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if management’s assessment of loan quality or collateral values changes substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for credit losses in future periods if, in their opinion, the results of their review warrant such additions. See the “Critical Accounting Policies” section for additional information on the allowance for credit losses.

Nonperforming Assets

Nonperforming loans totaled $21.5 million at December 31, 2016, compared with $22.7 million at December 31, 2015. At December 31, 2016 and 2015, the ratio of nonperforming loans to total loans was .31% and .38%, respectively. Nonperforming assets, which include nonperforming loans and foreclosed properties, totaled $29.5 million at December 31, 2016, compared with $27.5 million at December 31, 2015.

United's policy is to place loans on nonaccrual status when, in the opinion of management, the full principal and interest on a loan is not likely to be collected or when the loan becomes 90 days past due. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied to reduce the loan's recorded investment.

Purchased Credit Impaired ("PCI") loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered as performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or future period yield adjustments. PCI loans were not classified as nonaccrual at December 31, 2016 or 2015 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

Generally, United does not commit to lend additional funds to customers whose loans are on nonaccrual status, although in certain isolated cases, United executes forbearance agreements whereby United will continue to fund construction loans to completion or other lines of credit as long as the borrower meets the conditions of the forbearance agreement. United may also fund other amounts necessary to protect the Bank's collateral such as amounts to pay past due property taxes and insurance coverage. The table below summarizes nonperforming assets at year-end for the last five years. For years prior to 2015, assets covered by loss-sharing agreements with the FDIC have been excluded from the table below. These assets were excluded from the review of nonperforming assets, as the loss-sharing agreements with the FDIC and purchase price adjustments to reflect credit losses effectively eliminate the likelihood of recognizing losses on the covered assets. The loss-sharing agreements were terminated and settled in early 2015.

Table 13 - Nonperforming Assets

As of December 31,

(in thousands)

	2016	2015	2014	2013	2012
Nonaccrual loans (NPLs)	$21,539	$22,653	$17,881	$26,819	$109,894
Foreclosed properties	7,949	4,883	1,726	4,221	18,264
Total nonperforming assets (NPAs)	$29,488	$27,536	$19,607	$31,040	$128,158
NPLs as a percentage of total loans	.31 %	.38 %	.38 %	.62 %	2.63 %
NPAs as a percentage of loans and foreclosed properties	.43	.46	.42	.72	3.06
NPAs as a percentage of total assets	.28	.29	.26	.42	1.88

At December 31, 2016 and 2015 United had $73.2 million and $86.6 million, respectively, in loans with terms that have been modified in a TDR. Included therein were $5.35 million and $3.58 million, respectively, of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $67.8 million and $83.0 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At December 31, 2016 and 2015, there were $85.7 million and $104 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification including TDRs which are by definition considered impaired. Included in impaired loans at December 31, 2016 and 2015 were $28.3 million and $32.7 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at December 31, 2016 of $57.4 million had specific reserves that totaled $3.45 million and the balance of impaired loans at December 31, 2015 of $71.3 million had specific reserves that totaled $6.80 million. The average recorded investment in impaired loans for 2016, 2015 and 2014 was $90.4 million, $107 million and $109 million, respectively. During 2016, 2015 and 2014, United recognized $4.27 million, $4.96 million and $5.04 million, respectively, in interest revenue on impaired loans. United's policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, *Receivables,* when a loan meets the criteria for nonaccrual status. Impaired loans decreased 18% from 2015 to 2016.

The following table summarizes nonperforming assets by category and market.

Table 14 - Nonperforming Assets by Category

(in thousands)

	December 31, 2016			December 31, 2015		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY						
Owner occupied commercial real estate	$7,373	$ 3,145	$10,518	$8,545	$ 2,652	$11,197
Income producing commercial real estate	1,324	36	1,360	3,768	-	3,768
Commercial & industrial	966	-	966	892	-	892
Commercial construction	1,538	2,977	4,515	1,378	437	1,815
Total commercial	11,201	6,158	17,359	14,583	3,089	17,672
Residential mortgage	6,368	1,260	7,628	5,873	1,242	7,115
Home equity lines of credit	1,831	531	2,362	851	80	931
Residential construction	776	-	776	348	472	820
Consumer installment	88	-	88	212	-	212
Indirect auto	1,275	-	1,275	786	-	786
Total NPAs	$21,539	$ 7,949	$29,488	$22,653	$ 4,883	$27,536
BY MARKET						
North Georgia	$5,278	$ 856	$6,134	$5,167	$ 1,612	$6,779
Atlanta MSA	1,259	716	1,975	3,023	625	3,648
North Carolina	4,750	632	5,382	5,289	183	5,472
Coastal Georgia	1,778	-	1,778	2,079	-	2,079
Gainesville MSA	279	-	279	307	-	307
East Tennessee	2,354	675	3,029	3,448	157	3,605
South Carolina	2,494	5,070	7,564	323	2,306	2,629
Specialized Lending	2,072	-	2,072	2,231	-	2,231
Indirect auto	1,275	-	1,275	786	-	786
Total NPAs	21,539	7,949	29,488	22,653	4,883	27,536

The following table summarizes activity in nonperforming assets by year.

Table 15 - Activity in Nonperforming Assets

(in thousands)

	2016			2015			**2014** (1)		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	$22,653	$4,883	$27,536	$17,881	$1,726	$19,607	$26,819	$4,221	$31,040
Acquisitions	-	6,998	6,998	-	4,225	4,225	-	-	-
Loans placed on non-accrual	24,583	-	24,583	32,187	-	32,187	33,637	-	33,637
Payments received	(13,783)	-	(13,783)	(14,478)	-	(14,478)	(14,108)	-	(14,108)
Loan charge-offs	(6,011)	-	(6,011)	(8,036)	-	(8,036)	(19,374)	-	(19,374)
Foreclosures	(5,903)	8,177	2,274	(4,901)	4,925	24	(9,093)	9,093	-
Capitalized costs	-	127	127	-	256	256	-	209	209
Note / property sales	-	(12,238)	(12,238)	-	(6,887)	(6,887)	-	(12,501)	(12,501)
Write downs	-	(387)	(387)	-	(243)	(243)	-	(691)	(691)
Net gains on sales	-	389	389	-	881	881	-	1,395	1,395
Ending Balance	$21,539	$7,949	$29,488	$22,653	$4,883	$27,536	$17,881	$1,726	$19,607

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

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

In 2016, 2015 and 2014, United transferred $8.18 million, $4.93 million and $9.09 million, respectively, of loans into foreclosed property. During 2016, 2015 and 2014, proceeds from sales of foreclosed properties were $12.2 million, $6.89 million and $12.5 million, respectively, which includes $195,000, $1.54 million and $2.50 million, respectively, of sales that were financed by United.

Investment Securities

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The investment securities portfolio also provides a balance to interest rate risk in other categories of the balance sheet, while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits and borrowings, including repurchase agreements. Total investment securities at December 31, 2016 increased $106 million from a year ago.

At December 31, 2016 and 2015, United had securities held-to-maturity with a carrying value of $330 million and $365 million, respectively, and securities available-for-sale totaling $2.43 billion and $2.29 billion, respectively. At December 31, 2016 and 2015, the securities portfolio represented approximately 26% and 28%, respectively, of total assets. At December 31, 2016, the effective duration of the investment portfolio was 3.01 years, compared with 2.92 years at December 31, 2015.

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

Table 16 - Carrying Value of Investment Securities

As of December 31,

(in thousands)

	December 31, 2016		
	Available-for-Sale	Held-to-Maturity	Total Securities
U.S. Treasuries	$ 169,616	$ -	$ 169,616
U.S. Government agencies	20,820	-	20,820
State and political subdivisions	74,177	57,134	131,311
Mortgage-backed securities	1,391,682	272,709	1,664,391

Corporate bonds	305,392	-	305,392
Asset-backed securities	469,569	-	469,569
Other	1,182	-	1,182
Total securities	$2,432,438	$ 329,843	$ 2,762,281

	December 31, 2015		
	Available-for-Sale	Held-to-Maturity	Total Securities
U.S. Treasuries	$168,706	$ -	$ 168,706
U.S. Government agencies	112,340	-	112,340
State and political subdivisions	56,268	62,073	118,341
Mortgage-backed securities	1,113,118	302,623	1,415,741
Corporate bonds	306,026	-	306,026
Asset-backed securities	533,242	-	533,242
Other	1,811	-	1,811
Total securities	$2,291,511	$ 364,696	$ 2,656,207

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

Management evaluates its securities portfolio each quarter to determine if any security is other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. Losses on United's fixed income securities at December 31, 2016 primarily reflect the effect of changes in interest rates. United did not recognize any other than temporary impairment losses on its investment securities in 2016, 2015 or 2014.

At December 31, 2016, United had 60% of its total investment securities portfolio in mortgage backed securities, compared with 53% at December 31, 2015. United has continued to purchase mortgage-backed securities in order to obtain a favorable yield with low risk. United did not have debt obligations of any issuer in excess of 10% of equity at year-end 2016 or 2015, excluding U.S. Government sponsored entities. Approximately 3% of the securities portfolio is rated below “A” by at least one rating agency or unrated and 11% of securities, excluding government or agency securities, are rated “Aaa”. See Note 6 to the consolidated financial statements for further discussion of investment portfolio and related fair value and maturity information.

Goodwill and Other Intangible Assets

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

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

Deposits

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

Total customer deposits, excluding brokered deposits, as of December 31, 2016 were $8.31 billion, an increase of $776 million from December 31, 2015. Total core deposits (demand, NOW, money market and savings deposits, excluding public funds deposits) of $7.77 billion increased $687 million, or 10%, due to the Tidelands acquisition and the success of core deposit incentive programs.

Total time deposits, excluding brokered deposits, as of December 31, 2016 were $1.29 billion, up $4.34 million from December 31, 2015, primarily due to the Tidelands acquisition. United continued to offer low rates on certificates of deposit, allowing balances to decline and shift to lower cost transaction account deposits.

Brokered deposits totaled $327 million as of December 31, 2016, a decrease of $11.5 million from December 31, 2015, and included NOW accounts, money market deposits and certificates of deposit. Brokered certificates of deposit accounted for $89.9 million and $234 million of the balance at December 31, 2016 and 2015, respectively. The decrease in brokered certificates of deposit was largely offset by an increase in the balance of lower-cost brokered money market deposits.

The following table sets forth the scheduled maturities of time deposits of $250,000 and greater and brokered time deposits.

Table 17 - Maturities of Time Deposits of $250,000 and Greater and Brokered Time Deposits

As of December 31,

(in thousands)

$250,000 and greater:	2016	2015
Three months or less	$42,549	$46,736
Three to six months	31,475	23,886
Six to twelve months	36,634	38,143
Over one year	33,628	30,180
Total	$144,286	$138,945
Brokered time deposits:		
Three months or less	$-	$-
Three to six months	-	-
Six to twelve months	-	-
Over one year	89,864	233,844
Total	$89,864	$233,844

Borrowing Activities

The Bank is a shareholder in the Federal Home Loan Bank of Atlanta ("FHLB"). Through this affiliation, FHLB secured advances totaled $709 million and $430 million at December 31, 2016 and 2015, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at December 31, 2016 had maturity dates in 2017 and a weighted average interest rate of .67%. Additional information regarding FHLB advances is provided in Note 13 to the consolidated financial statements.

At December 31, 2016, United had $5.0 million in federal funds purchased outstanding. At December 31, 2015, United had $16.6 million in repurchase agreements outstanding. At December 31, 2015, the outstanding repurchase agreements were retail repurchase agreements offered to customers as an alternative investment tool to conventional savings deposits. In connection with the agreements, the client buys an interest in a pool of U.S. government, U.S. agency or state and municipal investment securities. Funds are swept daily between the client and the bank. Retail repurchase agreements are not insured deposits. This product was discontinued in 2016.

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. To assist in determining the adequacy of its liquidity, United performs a variety of liquidity stress tests including idiosyncratic, systemic and combined scenarios for both moderate and severe events. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and the ability to raise additional funds by increasing liabilities. Liquidity management involves maintaining the ability to meet the daily cash flow requirements of customers, both depositors and borrowers. United maintains an unencumbered liquid asset reserve to help ensure its ability to meet its obligations under normal conditions for at least a 12-month period and under severely adverse liquidity conditions for a minimum of 30 days.

An important part of the Bank's liquidity resides in the asset portion of the balance sheet, which provides liquidity primarily through loan interest and principal repayments and the maturities and sales of securities, as well as the ability to use these assets as collateral for borrowings on a secured basis. The Bank also maintains excess funds in short-term interest-bearing assets that provide additional liquidity.

The Bank's main source of liquidity is customer interest-bearing and noninterest-bearing deposit accounts. Liquidity is also available from wholesale funding sources consisting primarily of Federal funds purchased, FHLB advances, brokered deposits, and securities sold under agreements to repurchase. These sources of liquidity are generally short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs.

In addition, because United's holding company is a separate entity and apart from the Bank, it must provide for its own liquidity. United's holding company is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities. United's holding company currently has internal capital resources to meet these obligations. While United's holding company has access to the capital markets, the ultimate source of holding company liquidity is subsidiary service fees and dividends from the Bank, which are limited by applicable law and regulations. In 2016 and 2015, the Bank paid dividends of $41.5 million and $77.5 million, respectively, to the holding company. Also in 2015, the holding company received $3.50 million in dividends from its captive insurance subsidiary, United Community Risk Management Services, Inc. No such dividends were received in 2016. Holding company liquidity is managed to 18-months of positive cash flow after considering all of its liquidity needs over this period.

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

Table 18 - Short-Term Borrowings

As of December 31,

(in thousands)

December 31, 2016	Period-end balance	Period end weighted-average interest rate		Maximum outstanding at any month-end	Average amounts outstanding during the year	Weighted-average rate for the year	
Federal funds purchased	$ 5,000	0.81	%	$ 50,000	$ 27,572	.66	%
Repurchase agreements	-	-		19,234	7,334	.15	
	$ 5,000				$ 34,906		
December 31, 2015							
Federal funds purchased	$ -	-	%	$ 10,000	$ 41,319	.34	%
Repurchase agreements	16,640	0.01		35,000	7,982	.21	
	$ 16,640				$ 49,301		
December 31, 2014							
Federal funds purchased	$ -	-	%	$ 65,000	$ 22,795	.32	%
Repurchase agreements	6,000	4.00		55,075	28,568	3.81	
Other	-	-		40,000	23,178	4.30	
	$ 6,000				$ 74,541		

At December 31, 2016, United had sufficient qualifying collateral to increase FHLB advances by $955 million and Federal Reserve discount window capacity of $1.22 billion. Management also has the ability to raise substantial funds through brokered deposits. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in the consolidated statement of cash flows, net cash provided by operating activities was $139 million for the year ended December 31, 2016. Net income of $101 million for the year included the deferred income tax expense of $59.7 million and non-cash depreciation, amortization and accretion of $30.0 million. Other assets and accrued interest receivable increased $39.0 million and mortgage loans held for sale increased $5.51 million. Net cash used in investing activities of $732 million consisted primarily of $693 million of purchases of securities available for sale, and a net increase in loans of $658 million, offset by proceeds from sales of securities available for sale of $200 million, maturities and calls of investment securities available for sale of $393 million and maturities and calls of securities held to maturity of $68.2 million. The $571 million of net cash provided by financing activities consisted primarily of a net increase in deposits of $366 million and a net increase in FHLB advances of $266 million. This increase was partially offset by a $21.6 million reduction in short-term borrowings and $15.8 million in common stock dividends. In the opinion of management, United's liquidity position at December 31, 2016 was sufficient to meet its expected cash flow requirements.

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

Table 19 - Contractual Obligations and Other Commitments

As of December 31, 2016

(in thousands)

			Maturity By Years			
	Total	Unamortized Premium (Discount)	1 or Less	1 to 3	3 to 5	Over 5
Contractual Cash Obligations						
FHLB advances	$709,209	$ 209	$709,000	$-	$-	$-
Long-term debt	175,078	(4,976)	35,000	40,000	-	105,054
Operating leases	29,090	-	4,028	7,208	6,703	11,151
Total contractual cash obligations	$913,377	$ (4,767)	$748,028	$47,208	$6,703	$116,205
Other Commitments						
Commitments to extend credit	$1,542,186	$ -	$413,181	$343,322	$209,216	$576,467
Commercial letters of credit	26,862	-	21,441	5,121	300	-
Uncertain tax positions	3,892	-	351	745	2,446	350
Total other commitments	$1,572,940	$ -	$434,973	$349,188	$211,962	$576,817

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

Table 20 - Maturity of Available-for-Sale and Held-to-Maturity Investment Securities

As of December 31, 2016

(in thousands)

	Maturity By Years				
	1 or Less	1 to 5	5 to 10	Over 10	Total
Available-for-Sale					
U.S. Treasuries	$-	$115,702	$53,914	$-	$169,616
U.S. Government agencies	-	2,123	17,716	981	20,820
State and political subdivisions	1,394	38,943	33,840	-	74,177
Corporate bonds	-	233,597	71,120	675	305,392
Asset-backed securities	72,475	159,900	222,140	15,054	469,569
Other securities [1]	68,966	997,655	315,292	10,951	1,392,864
Total securities available-for-sale	$142,835	$1,547,920	$714,022	$27,661	$2,432,438
Weighted average yield [2]	2.33 %	2.35 %	2.68 %	2.71 %	2.45 %
Held-to-Maturity					
State and political subdivisions	$9,031	$16,970	$14,001	$17,132	$57,134
Other securities [1]	6,301	204,881	35,575	25,952	272,709
Total securities held-to-maturity	$15,332	$221,851	$49,576	$43,084	$329,843
Weighted average yield [2]	4.19 %	2.87 %	3.21 %	3.22 %	3.03 %
Combined Portfolio					
U.S. Treasuries	$-	$115,702	$53,914	$-	$169,616
U.S. Government agencies	-	2,123	17,716	981	20,820
State and political subdivisions	10,425	55,913	47,841	17,132	131,311
Corporate bonds	-	233,597	71,120	675	305,392
Asset-backed securities	72,475	159,900	222,140	15,054	469,569
Other securities [1]	75,267	1,202,536	350,867	36,903	1,665,573
Total securities	$158,167	$1,769,771	$763,598	$70,745	$2,762,281
Weighted average yield [2]	2.51 %	2.42 %	2.71 %	3.02 %	2.52 %

[1] Includes mortgage-backed securities

(2) Based on amortized cost, taxable equivalent basis

Off-Balance Sheet Arrangements

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

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

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

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used. United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 21 to the consolidated financial statements for additional information on off-balance sheet arrangements.

At December 31, 2016 and 2015, United had $150 million and $400 million, respectively, in offsetting repurchase agreements / reverse repurchase agreements that were netted in the consolidated balance sheet. United enters into these collateral swap arrangements from time to time as a source of additional revenue.

Capital Resources and Dividends

Shareholders' equity at December 31, 2016 was $1.08 billion, an increase of $57.5 million from December 31, 2015 primarily due to year-to-date earnings partially offset by dividends declared and a retirement of common and preferred stock. Accumulated other comprehensive loss, which includes unrealized gains and losses on securities available-for-sale, the unrealized gains and losses on derivatives qualifying as cash flow hedges, and unamortized prior service cost and actuarial gains and losses on United's defined benefit retirement plans, is excluded in the calculation of regulatory capital ratios.

United accrued $21,000 and $67,000, respectively, in dividends on outstanding preferred stock for the years ended December 31, 2016 and 2015.

Effective January 1, 2015, the Board of Governors of the Federal Reserve System and the FDIC implemented 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 of more and all savings and loan holding companies except for those that are substantially engaged in insurance underwriting or commercial activities. Under the Basel III Capital Rules, minimum requirements increased for both the quantity and quality of capital held by United. The Basel III Capital Rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5% and, for prompt corrective action purposes, a "well capitalized" ratio of 6.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6%, require a minimum ratio of Total Capital to risk-weighted assets of 8%, and require a minimum Tier 1 leverage ratio of 4%. A new capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the Basel III Capital Rules. The Basel III Capital Rules also revise the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets.

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

Tier 1 capital consists of shareholders' equity, excluding accumulated other comprehensive income, intangible assets (goodwill and deposit-based intangibles), and disallowed deferred tax assets, plus qualifying capital securities. Tier 2 capital components include supplemental capital such as the qualifying portion of the allowance for loan losses and qualifying subordinated debt. Tier 1 capital plus Tier 2 capital is referred to as Total risk-based capital.

United has outstanding junior subordinated debentures related to trust preferred securities totaling $20.1 million at December 31, 2016. The related trust preferred securities of $19.5 million (excluding common securities) qualify as Tier 1 capital under risk-based capital guidelines provided that total trust preferred securities do not exceed certain quantitative limits. At December 31, 2016, all of United's trust preferred securities qualified as Tier 1 capital. Further information on United's trust preferred securities is provided in Note 14 to the consolidated financial statements.

The following table shows capital ratios, as calculated under regulatory guidelines in effect at the time, as of the dates indicated:

Table 21 - Capital Ratios

As of December 31,

(dollars in thousands)

	Basel III Guidelines		United Community Banks, Inc. (consolidated)		United Community Bank	
	Minimum	Well Capitalized	2016	2015	2016	2015
Risk-based ratios:						
Common equity tier 1 capital	4.5 %	6.5 %	11.23 %	11.45 %	12.66 %	13.01 %
Tier 1 capital	6.0	8.0	11.23	11.45	12.66	13.01
Total capital	8.0	10.0	12.04	12.50	13.48	14.06
Tier 1 leverage ratio	4.0	5.0	8.54	8.34	9.63	9.47
Common equity tier 1 capital			$ 874,452	$ 773,677	$ 984,529	$ 877,169
Tier 1 capital			874,452	773,677	984,529	877,169
Total capital			937,876	844,667	1,047,953	948,159
Risk-weighted assets			7,789,089	6,755,011	7,775,352	6,743,560
Average total assets			10,236,868	9,282,243	10,221,318	9,264,133

Effect of Inflation and Changing Prices

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

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

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

Interest Rate Sensitivity Management

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

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

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

United’s policy is based on the 12-month impact on net interest revenue of interest rate shocks and ramps that increase from 100 to 400 basis points or decrease 100 basis points from the base scenario. In the shock scenarios, rates immediately change the full amount at the scenario onset. In the ramp scenarios, rates change by 25 basis points per month. United’s policy limits the projected change in net interest revenue over the first 12 months to a 5% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. Historically low rates on December 31, 2016 and 2015 made use of the down scenarios irrelevant. The following table presents United’s interest sensitivity position at the dates indicated.

Table 22 - Interest Sensitivity

	Increase (Decrease) in Net Interest Revenue from Base Scenario at December 31,			
	2016		2015	
Change in Rates	Shock	Ramp	Shock	Ramp
100 basis point increase	(0.39)%	(0.81)%	0.49%	0.31%

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

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

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

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

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

From time to time, United will terminate hedging positions when conditions change and the position is no longer necessary to manage overall sensitivity to changes in interest rates. In those situations where the terminated contract was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the contract, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. At December 31, 2016, United had $1.73 million in losses from terminated derivative positions included in other comprehensive income that will be amortized into earnings over their remaining original contract terms. United expects that $891,000 will be reclassified as an increase to interest expense over the next twelve months related to these terminated cash flow hedges.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the registrant and report of independent registered public accounting firm are included herein on the pages that follow.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Management has assessed the effectiveness of the internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, management concluded that as of December 31, 2016, United Community Banks, Inc.'s internal control over financial reporting is effective based on those criteria.

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

of United Community Banks, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income (loss), of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of United Community Banks, Inc. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia

February 27, 2017

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statement of Income
For the Years Ended December 31, 2016, 2015 and 2014
(in thousands, except per share data)

	2016	2015	2014
Interest revenue:			
Loans, including fees	$268,382	$223,256	$196,279
Investment securities:			
Taxable	63,413	51,143	47,755
Tax exempt	614	705	738
Deposits in banks and short-term investments	2,611	3,428	3,660
Total interest revenue	335,020	278,532	248,432
Interest expense:			
Deposits:			
NOW	1,903	1,505	1,651
Money market	4,982	3,466	3,060
Savings	135	98	81
Time	3,136	3,756	7,133
Total deposit interest expense	10,156	8,825	11,925
Short-term borrowings	399	364	2,160
Federal Home Loan Bank advances	3,676	1,743	912
Long-term debt	11,005	10,177	10,554
Total interest expense	25,236	21,109	25,551
Net interest revenue	309,784	257,423	222,881
(Release of) provision for credit losses	(800)	3,700	8,500
Net interest revenue after provision for credit losses	310,584	253,723	214,381
Fee revenue:			
Service charges and fees	42,113	36,825	33,073
Mortgage loan and other related fees	20,292	13,592	7,520
Brokerage fees	4,280	5,041	4,807
Gains from sales of government guaranteed loans	9,545	6,276	2,615
Securities gains, net	982	2,255	4,871
Losses on prepayment of borrowings	-	(1,294)	(4,446)
Other	16,485	9,834	7,114
Total fee revenue	93,697	72,529	55,554
Total revenue	404,281	326,252	269,935
Operating expenses:			
Salaries and employee benefits	138,789	116,688	100,941
Occupancy	19,603	15,372	13,513
Communications and equipment	18,355	15,273	12,523
FDIC assessments and other regulatory charges	5,866	5,106	4,792
Professional fees	11,822	10,175	7,907
Postage, printing and supplies	5,382	4,273	3,542
Advertising and public relations	4,426	3,667	3,461

Amortization of intangibles	4,182	2,444	1,348
Foreclosed property	1,051	32	634
Merger-related and other charges	8,122	17,995	-
Other	23,691	20,213	14,204
Total operating expenses	241,289	211,238	162,865
Income before income taxes	162,992	115,014	107,070
Income tax expense	62,336	43,436	39,450
Net income	100,656	71,578	67,620
Preferred stock dividends	21	67	439
Net income available to common shareholders	$100,635	$71,511	$67,181
Income per common share:			
Basic	$1.40	$1.09	$1.11
Diluted	1.40	1.09	1.11
Weighted average common shares outstanding:			
Basic	71,910	65,488	60,588
Diluted	71,915	65,492	60,590

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income (Loss)

For the Years Ended December 31, 2016, 2015 and 2014

(in thousands, except per share data)

	2016			2015			2014		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$162,992	$(62,336)	$100,656	$115,014	$(43,436)	$71,578	$107,070	$(39,450)	$67,620
Other comprehensive income (loss):									
Unrealized (losses) gains on available-for-sale securities:									
Unrealized holding (losses) gains arising during period	(3,609)	1,274	(2,335)	(10,779)	4,004	(6,775)	12,550	(4,676)	7,874
Reclassification adjustment for gains included in net income	(982)	371	(611)	(2,255)	862	(1,393)	(4,871)	1,902	(2,969)
Net unrealized (losses) gains	(4,591)	1,645	(2,946)	(13,034)	4,866	(8,168)	7,679	(2,774)	4,905
Amortization of losses included in net income on available-for-sale securities transferred to held to maturity	1,759	(662)	1,097	1,702	(638)	1,064	1,656	(622)	1,034
Amortization of losses included in net income on terminated derivative financial instruments that	1,891	(736)	1,155	1,936	(753)	1,183	2,010	(782)	1,228

were previously accounted for as cash flow hedges									
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	-	-	-	(471)	183	(288)	(8,437)	3,282	(5,155)
Net cash flow hedge activity	1,891	(736)	1,155	1,465	(570)	895	(6,427)	2,500	(3,927)
Amendments to defined benefit pension plan	(454)	177	(277)	(1,353)	526	(827)	-	-	-
Net actuarial loss on defined benefit pension plan	(952)	370	(582)	(125)	49	(76)	(1,933)	752	(1,181)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	855	(333)	522	736	(286)	450	365	(142)	223
Net defined benefit pension plan activity	(551)	214	(337)	(742)	289	(453)	(1,568)	610	(958)
Total other comprehensive income (loss)	(1,492)	461	(1,031)	(10,609)	3,947	(6,662)	1,340	(286)	1,054
Comprehensive income	$161,500	$(61,875)	$99,625	$104,405	$(39,489)	$64,916	$108,410	$(39,736)	$68,674

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

As of December 31, 2016 and 2015

(in thousands, except share data)

Assets	2016	**2015**
Cash and due from banks	$99,489	$86,912
Interest-bearing deposits in banks	117,859	153,451
Cash and cash equivalents	217,348	240,363
Securities available-for-sale	2,432,438	2,291,511
Securities held-to-maturity (fair value $333,170 and $371,658)	329,843	364,696
Mortgage loans held for sale (includes $27,891 and $0 at fair value)	29,878	24,231
Loans, net of unearned income	6,920,636	5,995,441
Less allowance for loan losses	(61,422)	(68,448)
Loans, net	6,859,214	5,926,993
Premises and equipment, net	189,938	178,165
Bank owned life insurance	143,543	105,493
Accrued interest receivable	28,018	25,786
Net deferred tax asset	154,336	197,613
Derivative financial instruments	23,688	20,082
Goodwill and other intangible assets	156,222	147,420
Other assets	144,189	94,075
Total assets	$10,708,655	$9,616,428
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand	$2,637,004	$2,204,755
NOW	1,989,763	1,975,884
Money market	1,846,440	1,599,637
Savings	549,713	471,129
Time	1,287,142	1,282,803
Brokered	327,496	338,985
Total deposits	8,637,558	7,873,193
Short-term borrowings	5,000	16,640
Federal Home Loan Bank advances	709,209	430,125
Long-term debt	175,078	163,836

Derivative financial instruments	27,648	28,825
Accrued expenses and other liabilities	78,427	85,524
Total liabilities	9,632,920	8,598,143
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1 par value; 10,000,000 shares authorized; Series H, $1,000 stated value; 0 and 9,992 shares issued and outstanding	-	9,992
Common stock, $1 par value; 150,000,000 shares authorized; 70,899,114 and 66,198,477 shares issued and outstanding	70,899	66,198
Common stock, non-voting, $1 par value; 26,000,000 shares authorized; 0 and 5,285,516 shares issued and outstanding	-	5,286
Common stock issuable; 519,874 and 458,953 shares	7,327	6,779
Capital surplus	1,275,849	1,286,361
Accumulated deficit	(251,857)	(330,879)
Accumulated other comprehensive loss	(26,483)	(25,452)
Total shareholders' equity	1,075,735	1,018,285
Total liabilities and shareholders' equity	$10,708,655	$9,616,428

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the Years Ended December 31, 2016, 2015 and 2014

(in thousands except share data)

	Preferred Stock			Common	Non-Voting Common	Common Stock	Capital	Retained Earnings (Accumulated	Accumulated Other Comprehensive	
	Series B	Series D	Series H	Stock	Stock	Issuable	Surplus	Deficit)	(Loss) Income	Tota
Balance, December 31, 2013	105,000	16,613	-	46,243	13,188	3,930	1,078,676	(448,091)	(19,844)	79
Net income								67,620		67
Other comprehensive income									1,054	1,(
Redemption of Series B preferred stock (105,000 shares)	(105,000)									(1(
Redemption of Series D preferred stock (16,613 shares)		(16,613)								(1(
Common stock issued at market (640,000 shares)				640			11,566			12
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (28,070 common shares)				28			441			46
Conversion of non-voting common stock to voting common stock (3,107,419 shares)				3,107	(3,107)					-
							(12,000)			(1:

Warrant repurchase at fair value										
Amortization of stock options and restricted stock							4,304			4,3
Vesting of restricted stock awards, net of shares surrendered to cover payroll taxes (146,548 common shares issued, 115,609 common shares deferred)				147		1,274	(2,736)			(1,
Deferred compensation plan, net, including dividend equivalents						234				23
Shares issued from deferred compensation plan (13,223 common shares)				13		(270)	257			-
Common stock dividends ($.11 per share)								(6,658)		(6,
Preferred stock dividends:										
Series B								(159)		(15
Series D								(280)		(28
Balance, December 31, 2014	-	-	-	50,178	10,081	5,168	1,080,508	(387,568)	(18,790)	73
Net income								71,578		71
Other comprehensive income									(6,662)	(6,
Common stock issued to Dividend Reinvestment Plan and employee benefit plans (17,129 common shares)				17			286			30
Conversion of non-voting common stock to voting common stock (4,795,271				4,795	(4,795)					-

shares)										
Common and preferred stock issued for acquisitions (11,058,515 common shares and 9,992 preferred shares)			9,992	11,059			203,092			22
Amortization of stock options and restricted stock							4,403			4,4
Vesting of restricted stock awards, net of shares surrendered to cover payroll taxes (120,692 common shares issued, 110,935 common shares deferred)				121		1,509	(3,113)			(1,
Deferred compensation plan, net, including dividend equivalents						372	-			37
Shares issued from deferred compensation plan (28,265 shares)				28		(270)	242			-
Common stock dividends ($.22 per share)								(14,822)		(14
Tax on option exercise and restricted stock vesting							943			94
Preferred stock dividends, Series H								(67)		(67
Balance, December 31, 2015	-	-	9,992	66,198	5,286	6,779	1,286,361	(330,879)	(25,452)	1,0
Net income								100,656		10
Other comprehensive income									(1,031)	(1,
Common stock issued to Dividend Reinvestment Plan and employee				20			346			36

benefit plans (20,500 common shares)										
Conversion of non-voting common stock to voting common stock (5,285,516 shares)				5,286	(5,286)					-
Redemption of Series H preferred stock (9,992 shares)			(9,992)							(9,
Purchases of common stock (764,000 shares)				(764)			(12,895)			(13
Amortization of stock options and restricted stock							4,496			4,4
Vesting of restricted stock awards, net of shares surrendered to cover payroll taxes (96,722 common shares issued, 106,771 common shares deferred)				97		1,597	(2,883)			(1,
Deferred compensation plan, net, including dividend equivalents						385				38
Shares issued from deferred compensation plan (61,899 shares)				62		(1,434)	1,372			-
Common stock dividends ($.30 per share)								(21,613)		(2
Tax on option exercise and restricted stock vesting							(948)			(94
Preferred stock dividends, Series H								(21)		(2
Balance, December 31, 2016	$-	$-	$-	$70,899	$-	$7,327	$1,275,849	$(251,857)	$(26,483)	$1,0

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Years Ended December 31, 2016, 2015 and 2014

(in thousands)

	2016	2015	2014
Operating activities:			
Net income	$100,656	$71,578	$67,620
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	29,974	22,652	19,952
(Release of) provision for credit losses	(800)	3,700	8,500
Fixed asset impairment charge	-	5,969	-
Stock based compensation	4,496	4,403	4,304
Deferred income tax expense	59,727	38,296	38,226
Securities gains, net	(982)	(2,255)	(4,871)
Losses on prepayment of borrowings	-	1,294	4,446
Gains from sales of government guaranteed loans	(9,545)	(6,276)	(2,615)
Net gains on sales of other assets	(397)	(663)	-
Net gains on sales and write downs of other real estate owned	(2)	(638)	(704)
Change in assets and liabilities:			
Increase in other assets and accrued interest receivable	(39,007)	(8,848)	(16,776)
Increase (decrease) in accrued expenses and other liabilities	110	(10,563)	(15,385)
Increase in mortgage loans held for sale	(5,505)	(6,705)	(3,418)
Net cash provided by operating activities	138,725	111,944	99,279
Investing activities:			
Investment securities held-to-maturity:			
Proceeds from maturities and calls	68,232	70,962	64,791
Purchases	(24,021)	(20,000)	(173)
Investment securities available-for-sale:			
Proceeds from sales	199,864	353,860	419,201
Proceeds from maturities and calls	392,575	284,435	224,302
Purchases	(692,983)	(839,345)	(603,384)
Net increase in loans	(657,650)	(475,132)	(323,837)
Proceeds from sales of loans held for investment	-	190,111	4,561
Net cash received (paid) for acquisitions	1,912	35,497	(31,261)
Funds (paid to) collected from FDIC under loss sharing agreements	-	(1,198)	2,662
Purchase of bank owned life insurance	(20,000)	-	-
Purchases of premises and equipment	(17,375)	(10,532)	(5,054)
Proceeds from sales of premises and equipment	5,077	5,546	3,137

Proceeds from sale of other real estate owned	12,043	5,352	10,175
Net cash used in investing activities	(732,326)	(400,444)	(234,880)
Financing activities:			
Net increase in deposits	365,531	195,881	125,007
Net decrease in short-term borrowings	(21,640)	(18,437)	(51,687)
Proceeds from Federal Home Loan Bank advances	9,780,000	2,075,000	1,230,000
Repayment of Federal Home Loan Bank advances	(9,514,125)	(1,937,070)	(1,080,000)
Repayment of long-term debt	-	(48,521)	-
Proceeds from issuance of long-term debt	-	83,924	-
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	366	303	469
Proceeds from issuance of common stock, net of offering costs	-	-	12,206
Purchase of treasury stock	(13,659)	-	-
Repurchase of outstanding warrant at fair value	-	-	(12,000)
Retirement of preferred stock	(9,992)	-	(121,613)
Cash dividends on common stock	(15,849)	(14,822)	(1,810)
Cash dividends on preferred stock	(46)	(50)	(1,214)
Net cash provided by financing activities	570,586	336,208	99,358
Net change in cash and cash equivalents	(23,015)	47,708	(36,243)
Cash and cash equivalents at beginning of year	240,363	192,655	228,898
Cash and cash equivalents at end of year	$217,348	$240,363	$192,655
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$32,141	$21,604	$25,669
Income taxes paid	3,948	4,203	3,046

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

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

Organization and Basis of Presentation

At December 31, 2016, United was a bank holding company subject to the regulation of the Board of Governors of the Federal Reserve System (the “Federal Reserve”) whose principal business was conducted by its wholly-owned commercial bank subsidiary, United Community Bank (the “Bank”). United is subject to regulation under the Bank Holding Company Act of 1956. The consolidated financial statements include the accounts of United, the Bank and other wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Use of Estimates

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

Operating Segments

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

Additionally United assessed other operating units to determine if they should be classified and reported as segments. They include Mortgage, Advisory Services and Specialized Lending. Each was assessed for separate reporting on both a qualitative and a quantitative basis in accordance with Financial Accounting Standards Boards ("FASB") Accounting Standards Codification Topic 280 Segment Reporting ("ASC 280"). Qualitatively, these business units are currently operating in the same geographic footprint as the community banks and face many of the same customers as the community banks. While the chief operating decision maker does have some separate financial information for these entities, they are currently viewed more as a product line extension of the community banks. However, management will continue to evaluate these business units for separate reporting as facts and circumstances change. On a quantitative basis, ASC 280 provides a threshold of 10% of Revenue, Net Income or Assets where a breach of any of these thresholds would trigger segment reporting. Under this requirement none of the entities reached the threshold.

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

Cash and Cash Equivalents

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued
<u>**Investment Securities**</u>

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

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

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

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

<u>Mortgage Loans Held for Sale</u>

Beginning in the third quarter of 2016, United elected the fair value option for newly originated mortgage loans held for sale in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the fair value of derivative instruments used to economically hedge them. Mortgage loans held for sale which were originated prior to third quarter 2016 are carried at the lower of aggregate cost or fair value. The amount by which cost exceeds fair value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net income for the period in which the change occurs. No valuation allowances were required at December 31, 2016 or 2015 since those loans have fair values that exceeded the recorded cost basis.

<u>Loans</u>

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

Purchased Loans With Evidence of Credit Deterioration: United from time to time purchases loans, primarily through business combination transactions. Some of those purchased loans show evidence of credit deterioration since origination and are accounted for pursuant to ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. These purchased credit impaired (“PCI”) loans are recorded at their estimated fair value at date of purchase. After acquisition, further losses evidenced by decreases in expected cash flows are recognized by an increase in the allowance for loan losses.

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued
Loans, continued

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

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

PCI loans are considered to be impaired when it is probable that United will be unable to collect all the cash flows expected at acquisition, plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Loans that are accounted for in pools are evaluated collectively for impairment on a pool by pool basis based on expected pool cash flows. Discounts continue to be accreted as long as there are expected future cash flows in excess of the current carrying amount of the specifically-reviewed loan or pool.

Concentration of Credit Risk: Most of United's business activity is with customers located within the markets where it has banking operations. Therefore, United's exposure to credit risk is significantly affected by changes in the economy within its markets. More than 76% of United's loan portfolio is secured by real estate and is therefore susceptible to changes in real estate valuations.

Allowance for Credit Losses

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued
Allowance for Credit Losses, continued

For PCI loans, a valuation allowance is established when it is probable that the Company will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition.

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

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

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

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

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

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

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

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

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

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

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

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

Management believes the allowance for loan losses is appropriate at December 31, 2016. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review United's allowance for loan losses.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the related assets. Costs incurred for maintenance and repairs are expensed as incurred. The range of estimated useful lives for buildings and improvements is 10 to 40 years, for land improvements, 10 years, and for furniture and equipment, 3 to 10 years. United periodically reviews the carrying value of premises and equipment for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued
Foreclosed Properties (Other Real Estate Owned, or "OREO")

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

Goodwill and Other Intangible Assets

Goodwill is an asset representing the future economic benefits from other assets acquired that are not individually identified and separately recognized. Goodwill is measured as the excess of the consideration transferred, net of the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. Goodwill is not amortized, but instead is tested for impairment annually or more frequently if events or circumstances exist that indicate a goodwill impairment test should be performed.

Other intangible assets, which are initially recorded at fair value, consist of core deposit intangible assets resulting from United's acquisitions. Core deposit intangible assets are amortized on a sum-of-the-years-digits basis over their estimated useful lives. United evaluates its other intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable

Transfers of Financial Assets

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

Servicing Rights

United records a separate servicing asset for Small Business Administration (“SBA”) loans, United States Department of Agriculture (“USDA”) loans, and residential mortgage loans when the loan is sold but servicing is retained. This asset represents the right to service the loans and receive a fee in compensation. Servicing assets are initially recorded at their fair value as a component of the sale proceeds. The fair value of the servicing assets is based on an analysis of discounted cash flows that incorporates estimates of (1) market servicing costs, (2) market-based prepayment rates, and (3) market profit margins. Servicing assets are included in other assets.

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

Residential mortgage servicing rights are subsequently measured using the amortization method which requires the servicing rights to be amortized to expense over the estimated life of the servicing right. These servicing rights are carried at the lower of amortized cost or estimated fair value. Impairment valuations are based on projections using a discounted cash flow method that includes assumptions regarding prepayments, interest rates, servicing costs and other factors. Impairment is measured on a disaggregated basis for each stratum of the servicing rights, which is segregated based on predominant risk characteristics including interest rate and loan type. Subsequent increases in value are recognized to the extent of previously recorded impairment for each stratum.

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Bank Owned Life Insurance

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

Loan Commitments and Related Financial Instruments

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

Income Taxes

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

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

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

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

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

Derivative Instruments and Hedging Activities

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

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

In addition, United originates certain residential mortgage loans with the intention of selling these loans. Between the time United enters into an interest-rate lock commitment to originate a residential mortgage loan that is to be held for sale and the time the loan is funded and eventually sold, the Company is subject to the risk of variability in market prices. United also enters into forward sale agreements to mitigate risk and to protect the expected gain on the eventual loan sale. Most of this activity is on a matched basis, with a loan sale commitment hedging a specific loan. The commitments to originate residential mortgage loans and forward loan sales commitments are freestanding derivative instruments.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Derivative Instruments and Hedging Activities, continued

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

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

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

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

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Acquisition Activities

United accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the fair value of net assets purchased exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. Fair values are subject to refinement for a period not to exceed one year after the closing date of an acquisition as information relative to closing date fair values becomes available. The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss; therefore, the related allowance for loan losses is not carried forward.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Deposit liabilities and the related depositor relationship intangible assets may be exchanged in observable exchange transactions. As a result, the depositor relationship intangible asset is considered identifiable, because the separability criterion has been met.

Earnings Per Common Share

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

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Management does not believe there are such matters that will have a material effect on the financial statements.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit dividends paid by the Bank to United or by United to shareholders. Specifically, dividends paid by the Bank to United require pre-approval of the Georgia Department of Banking and Finance and the FDIC while the Bank has an accumulated deficit (negative retained earnings).

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in Note 24. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Stock-Based Compensation

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

Reclassifications

Certain 2015 and 2014 amounts have been reclassified to conform to the 2016 presentation. Specifically, certain loan balances previously shown as retail loans were reclassified to several commercial categories to better align the reporting with the business purpose or underlying credit risk of the loans, rather than the collateral type. At December 31, 2015 and 2014, the reclassifications moved approximately $275 million and $262 million, respectively, in residential mortgages and home equity lines from the residential mortgage and home equity lines of credit categories to the owner-occupied and income-producing commercial real estate categories. Although these loans were secured by one-to-four family residential properties, their purpose was commercial since they included residential home rental property and business purpose loans secured by the borrower’s primary residence. In addition, at December 31, 2015 and 2014, approximately $176 million and $169 million, respectively, in residential construction loans were reclassified to the commercial construction category. These reclassified loans are to builders and developers of residential properties. Reclassifying these balances better aligns the loan categories with the management of credit risk. Historic charge-offs and recoveries on these same loans have also been reclassified, as well as the corresponding allowance for loan loss balances.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, continued

Reclassifications, continued

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, the amendments in this update required that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability consistent with debt discounts. The standard was effective January 1, 2016 and has been retrospectively reflected in the accompanying consolidated balance sheet, with a corresponding reclassification for December 31, 2015 between other assets for $9.68 million, brokered deposits for $7.90 million and long-term debt for $1.78 million.

(2) Accounting Standards Updates

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU provides guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and will be applied retrospectively either to each prior reporting period or with a cumulative effect recognized at the date of initial application. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, United does not expect the new revenue recognition guidance to have a material impact on the consolidated financial statements.

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

In March 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This update clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public entities, this update is effective for fiscal years beginning after December 15, 2016, with application on either a prospective or modified retrospective basis. The adoption of this update is not expected to have a material impact on United's consolidated financial statements as the novation of any derivative in a designated hedging relationship is an extremely rare event for United.

In March 2016, the FASB issued ASU No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*. This update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under this update is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence as outlined in the guidance. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. For public entities, this update is effective for fiscal years beginning after December 15, 2016, with application on a modified retrospective basis. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. This update eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. For public entities, this update is effective for fiscal years beginning after December 15, 2016, with application on a prospective basis. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Accounting Standards Updates, continued

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments require that excess tax benefits and deficiencies be recognized as income tax expense or benefit in the income statement and as an operating activity in the statement of cash flows. In addition, an entity can make a policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The guidance modifies the threshold to qualify for equity classification to permit withholding up to the maximum statutory tax rate and clarifies that cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. For public entities, this update is effective for fiscal years beginning after December 15, 2016. Although the adoption of this update is not expected to have a material impact on United's consolidated financial statements, management expects more volatility in the effective tax rate as excess tax benefits and deficiencies on stock compensation transactions flow through income tax expense rather than capital surplus.

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

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides guidance on the treatment of eight specific cash flow issues for which there was diversity in practice. For example, cash payments for debt prepayment should be classified as cash outflows for financing activities. Cash payments for contingent consideration after a business combination if made soon after the acquisition date should be classified as investing outflows, while similar payments not made soon after the acquisition date should be classified as financing outflows (up to the amount of the contingent consideration liability recognized at the acquisition date, including measurement period adjustments) or operating activities (for any excess). Cash proceeds from the settlement of insurance claims should be classified on the basis of the related insurance coverage, while proceeds from the settlement of bank owned life insurance should be classified as investing inflows. For public entities, this update is effective for fiscal years beginning after December 15, 2017. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This update clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) or assets or businesses by providing a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If a screen is not met, the amendments require that to be considered a business, a set must include an input and a substantive process that together significantly contribute to the ability to create output and remove the evaluation of whether a market participant could replace missing elements. For public entities, this update is effective for fiscal years beginning after December 15, 2017. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Accounting Standards Updates, continued

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This update eliminates Step 2 from the goodwill impairment test, which required an entity to calculate the implied fair value of goodwill by valuing a reporting unit's assets and liabilities using the same process that would be required to value assets and liabilities in a business combination. Instead, the amendments require that an entity perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. For public entities, this update is effective for fiscal years beginning after December 15, 2019. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

(3) Mergers and Acquisitions

<u>Acquisition of Tidelands Bancshares, Inc.</u>

On July 1, 2016, United completed the acquisition of Tidelands Bancshares, Inc. ("Tidelands") and its wholly-owned bank subsidiary, Tidelands Bank. Tidelands operated seven branches in coastal South Carolina. In connection with the acquisition, United acquired $440 million of assets and assumed $440 million of liabilities. Under the terms of the merger agreement, Tidelands shareholders received cash equal to $0.52 per common share, or an aggregate of $2.22 million. Additionally, at closing, United redeemed all of Tidelands' fixed-rate cumulative preferred stock that was issued to the U.S. Department of the Treasury (the "Treasury") under the Treasury's Capital Purchase Program, plus unpaid dividends, for $8.98 million in aggregate. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $10.7 million, representing the intangible value of Tidelands' business and reputation within the market it served. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of $1.57 million using the sum-of-the-years-digits method over five years, which represents the expected useful life of the asset.

United's operating results for the period ended December 31, 2016 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of July 1, 2016.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Mergers and Acquisitions, continued
Acquisition of Tidelands Bancshares, Inc.,continued

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

	As Recorded by Tidelands	Fair Value **Adjustments** (1)	As Recorded by United
Assets			
Cash and cash equivalents	$ 13,121	$ -	$ 13,121
Securities	65,676	(155)	65,521
Loans held for sale	139	3	142
Loans, net	317,938	(12,035)	305,903
Premises and equipment, net	19,133	(7,944)	11,189
Bank owned life insurance	16,917	-	16,917
Accrued interest receivable	1,086	(167)	919
Net deferred tax asset	73	15,639	15,712
Core deposit intangible	-	1,570	1,570
Other real estate owned	9,881	(2,386)	7,495
Other assets	1,920	(164)	1,756
Total assets acquired	$ 445,884	$ (5,639)	$ 440,245
Liabilities			
Deposits	$ 398,108	$ 1,765	$ 399,873
Repurchase agreements	10,000	155	10,155
Federal Home Loan Bank advances	13,000	354	13,354
Long-term debt	14,434	(3,668)	10,766
Other liabilities	11,587	(5,986)	5,601
Total liabilities assumed	447,129	(7,380)	439,749
Excess of assets acquired over liabilities assumed	$ (1,245)		
Aggregate fair value adjustments		$ 1,741	
Total identifiable net assets			$ 496
Consideration transferred			
Cash paid to redeem common stock			2,224
Cash paid to redeem preferred stock issued under the Treasury's Capital Purchase Program			8,985
Total fair value of consideration transferred			11,209
Goodwill			$ 10,713

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

The following table presents additional information related to the acquired loan portfolio at the acquisition date *(in thousands)*:

	July 1, 2016
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	$ 50,660
Non-accretable difference	13,483
Cash flows expected to be collected	37,177
Accretable yield	2,113
Fair value	$ 35,064
Excluded from ASC 310-30:	
Fair value	$ 270,839
Gross contractual amounts receivable	302,331
Estimate of contractual cash flows not expected to be collected	3,859

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Mergers and Acquisitions, continued
Acquisition of Palmetto Bancshares, Inc.

On September 1, 2015, United completed the acquisition of Palmetto Bancshares, Inc. ("Palmetto") and its wholly-owned bank subsidiary, The Palmetto Bank. Palmetto operated 25 branches in South Carolina. In connection with the acquisition, United acquired $1.15 billion of assets and assumed $1.02 billion of liabilities. Total consideration transferred was $244 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $115 million, representing the intangible value of Palmetto's business and reputation within the market it serves. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of $12.9 million using the sum-of-the-years-digits method over 12 years, which represents the expected useful life of the asset.

The fair value of the 8.70 million common shares issued as part of the consideration paid for Palmetto was determined on the basis of the closing market price of United's common shares on the acquisition date.

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

	As Recorded by Palmetto	Fair Value Adjustments	As Recorded by United
Assets			
Cash and cash equivalents	$ 64,906	$ -	$ 64,906
Securities	208,407	(340)	208,067
Loans held for sale	2,356	91	2,447
Loans, net	802,111	(5,552)	796,559
Premises and equipment, net	21,888	(4,931)	16,957
Bank owned life insurance	12,133	(148)	11,985
Accrued interest receivable	3,227	(346)	2,881
Net deferred tax asset	14,798	1,587	16,385
Core deposit intangible	-	12,900	12,900
Other assets	18,439	(4,731)	13,708
Total assets acquired	$ 1,148,265	$ (1,470)	$ 1,146,795

Liabilities			
Deposits	$ 989,296	$ -	$ 989,296
Short-term borrowings	13,537	-	13,537
Other liabilities	11,994	2,808	14,802
Total liabilities assumed	1,014,827	2,808	1,017,635
Excess of assets acquired over liabilities assumed	$ 133,438		
Aggregate fair value adjustments		$ (4,278)	
Total identifiable net assets			$ 129,160
Consideration transferred			
Cash			74,003
Common stock issued (8,700,012 shares)			170,259
Total fair value of consideration transferred			244,262
Goodwill			$ 115,102

Since the acquisition date, within the one year measurement period, United received additional information regarding the fair values of loans, premises and equipment, OREO, which is included in other assets in the table above, and certain other assets. As a result, the provisional values assigned to the acquired loans, premises and equipment, OREO and other assets have been adjusted by an increase of $535,000, a decrease of $6.18 million, a decrease of $2.06 million and a decrease of $3.75 million, respectively. There were also small adjustments to securities, bank owned life insurance and other liabilities. The tax effect of all adjustments was reflected as an increase to the deferred tax asset of $3.91 million, with the net amount reflected as a $7.18 million increase to goodwill.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Mergers and Acquisitions, continued
Acquisition of Palmetto Bancshares, Inc., continued

The following table presents additional information related to the acquired loan portfolio at acquisition date *(in thousands)*:

	September 1, 2015
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	$ 63,623
Non-accretable difference	13,397
Cash flows expected to be collected	50,226
Accretable yield	4,306
Fair value	$ 45,920
Excluded from ASC 310-30:	
Fair value	$ 750,639
Gross contractual amounts receivable	859,628
Estimate of contractual cash flows not expected to be collected	7,733

Acquisition of MoneyTree Corporation

On May 1, 2015, United completed the acquisition of MoneyTree Corporation ("MoneyTree") and its wholly-owned bank subsidiary, First National Bank ("FNB"). FNB operated ten branches in east Tennessee. In connection with the acquisition, United acquired $459 million of assets and assumed $410 million of liabilities and $9.99 million of preferred stock. Total consideration transferred was $54.6 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $14.7 million, representing the intangible value of FNB's business and reputation within the market it serves. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of $4.22 million using the sum-of-the-years-digits method over 6.67 years, which represents the expected useful life of the asset. The deposit premium of $917,000 will be amortized using the effective yield method over 5 years, which represents the weighted average maturity of the underlying deposits.

The fair value of the 2.36 million common shares issued as part of the consideration paid for MoneyTree was determined on the basis of the closing market price of United's common shares on the acquisition date.

Upon completion of the acquisition, each share of preferred stock issued by MoneyTree as part of the Small Business Lending Fund ("SBLF") program of the Treasury (9,992 shares in the aggregate with a liquidation preference amount of $1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. See Note 22 for further information on preferred stock.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Mergers and Acquisitions, continued
Acquisition of MoneyTree Corporation, continued

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

	As Recorded by MoneyTree	Fair Value Adjustments	As Recorded by United
Assets			
Cash and cash equivalents	$ 55,293	$ -	$ 55,293
Securities	127,123	(52)	127,071
Loans held for sale	1,342	-	1,342
Loans, net	246,816	(2,464)	244,352
Premises and equipment, net	9,497	1,362	10,859
Bank owned life insurance	11,194	-	11,194
Core deposit intangible	-	4,220	4,220
Other assets	5,462	(399)	5,063
Total assets acquired	$ 456,727	$ 2,667	$ 459,394
Liabilities			
Deposits	$ 368,833	$ 917	$ 369,750
Short-term borrowings	15,000	-	15,000
Federal Home Loan Bank advances	22,000	70	22,070
Other liabilities	864	1,828	2,692
Total liabilities assumed	406,697	2,815	409,512
SBLF preferred stock assumed	9,992	-	9,992
Excess of assets acquired over liabilities and preferred stock assumed	$ 40,038		
Aggregate fair value adjustments		$ (148)	
Total identifiable net assets			$ 39,890
Consideration transferred			
Cash			10,699
Common stock issued (2,358,503 shares)			43,892
Total fair value of consideration transferred			54,591
Goodwill			$ 14,701

Since the acquisition date, within the one year measurement period, United received additional information regarding the fair value of premises and equipment. As a result, the provisional value assigned to the acquired premises and equipment was reduced by $2.40 million, partially offset by acquisition-related adjustments to deferred tax assets. The net of these adjustments was reflected as a $1.68 million increase to goodwill.

The following table presents additional information related to the acquired loan portfolio at acquisition date *(in thousands)*:

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Mergers and Acquisitions, continued
Pro forma information - unaudited

The following table discloses the impact of the mergers with Tidelands, Palmetto and MoneyTree since the respective acquisition dates through December 31 of the year of acquisition. The table also presents certain pro forma information as if Tidelands had been acquired on January 1, 2015 and Palmetto and MoneyTree had been acquired on January 1, 2014. These results combine the historical results of Palmetto and MoneyTree with United's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisitions taken place in earlier years.

The following table presents the actual results and pro forma information for the periods indicated *(in thousands)*. Merger-related costs of $4.07 million from the Tidelands acquisition have been excluded from the 2016 pro forma information presented below and included in the 2015 pro forma information below. Merger-related costs of $12.0 million from the Palmetto and MoneyTree acquisitions have been excluded from the 2015 pro forma information presented below and included in the 2014 pro forma information presented below.

	(Unaudited) Year Ended December 31,	
	Revenue	Net Income
2016		
Actual Tidelands results included in statement of income since acquisition date	$ 7,512	$ 1,189
Supplemental consolidated pro forma as if Tidelands had been acquired January 1, 2015	411,088	100,184
2015		
Actual Palmetto results included in statement of income since acquisition date	$ 17,887	$ 7,010
Actual MoneyTree results included in statement of income since acquisition date	8,373	3,806
Supplemental consolidated pro forma as if Tidelands had been acquired January 1, 2015 and Palmetto and MoneyTree had been acquired January 1, 2014	382,921	82,465
2014		
	$ 342,211	$ 72,438

Supplemental consolidated pro forma as if Palmetto and MoneyTree had been acquired
January 1, 2014

Acquisition of Business Carolina, Inc.

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

(4) Cash Flows

During 2016, 2015 and 2014, loans having a value of $8.18 million, $4.93 million and $9.09 million, respectively, were transferred to foreclosed property.

United also accounts for sales and purchases of government guaranteed loans on the trade date. At December 31, 2016 and 2015, United had unsettled sales of government guaranteed loans of $29.9 million and $18.5 million, respectively. At December 31, 2016, United had no unsettled purchases of government guaranteed loans, while at December 31, 2015, United had $18.3 million of unsettled purchases of government guaranteed loans. There were no unsettled government guaranteed loan transactions at December 31, 2014.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash Flows, continued
United accounts for securities transactions on the trade date. There were no unsettled securities transactions at December 31, 2016 or 2015. At December 31, 2014, United had purchased $5.43 million in securities that had not settled.

During 2016, United acquired, through business combinations, assets with a fair value totaling $451 million and liabilities with a fair value totaling $440 million, for net assets acquired of $11.2 million. During 2015, United acquired, through business combinations, assets with a fair value totaling $1.74 billion and liabilities with a fair value totaling $1.43 billion, for net assets acquired of $309 million. Common and preferred stock issued pursuant to these business combinations in 2015 totaled $214 million and $9.99 million, respectively. During 2014, United acquired, through business combinations, assets with a fair value totaling $31.3 million.

(5) Balance Sheet Offsetting and Repurchase Agreements Accounted for as Secured Borrowings
United enters into reverse repurchase agreements in order to invest short-term funds. In addition, United enters into repurchase agreements and reverse repurchase agreements and offsetting securities lending transactions with the same counterparty in transactions commonly referred to as collateral swaps that are subject to master netting agreements under which the balances are netted in the balance sheet in accordance with ASC 210-20, *Offsetting*.

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

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

Total	$ 173,688	$ (150,000)	$ 23,688	$ (3,485)	$ (3,366)	$ 16,837
Weighted average interest rate of reverse repurchase agreements	1.78 %					

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

December 31, 2015	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 400,000	$ (400,000)	$ -	$ -	$ -	$ -
Derivatives	20,082	-	20,082	(519)	(3,729)	15,834
Total	$ 420,082	$ (400,000)	$ 20,082	$ (519)	$ (3,729)	$ 15,834
Weighted average interest rate of reverse repurchase agreements	1.34 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 400,000	$ (400,000)	$ -	$ -	$ -	$ -
Derivatives	28,825	-	28,825	(519)	(30,917)	-
Total	$ 428,825	$ (400,000)	$ 28,825	$ (519)	$ (30,917)	$ -
Weighted average interest rate of repurchase agreements	.50 %					

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Balance Sheet Offsetting and Repurchase Agreements Accounted for as Secured Borrowings, continued
At December 31, 2016, United recognized the right to reclaim cash collateral of $18.5 million and the obligation to return cash collateral of $3.37 million. At December 31, 2015, United recognized the right to reclaim cash collateral of $6.26 million and the obligation to return cash collateral of $3.73 million. The right to reclaim cash collateral and the obligation to return cash collateral were included in the consolidated balance sheet in other assets and other liabilities, respectively.

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

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
As of December 31, 2016					
Mortgage-backed securities	$-	$ -	$ 50,000	$ 100,000	$150,000
Total	$-	$ -	$ 50,000	$ 100,000	$150,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$150,000
Amounts related to agreements not included in offsetting disclosure					$-
As of December 31, 2015					
U.S. Treasuries	$-	$ -	$ 100,000	$ -	$100,000
U.S. Government agencies	32	-	-	-	32
Mortgage-backed securities	16,608	25,000	175,000	100,000	316,608
Total	$16,640	$ 25,000	$ 275,000	$ 100,000	$416,640
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$400,000
Amounts related to agreements not included in offsetting disclosure					$16,640

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

(6) Investment Securities

At both December 31, 2016 and 2015, securities with a carrying value of $1.45 billion and $1.63 billion, respectively, were pledged to secure public deposits, derivatives and other secured borrowings.

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

As of December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 57,134	$ 2,197	$ 249	$ 59,082
Mortgage-backed securities [1]	272,709	4,035	2,656	274,088
Total	$ 329,843	$ 6,232	$ 2,905	$ 333,170
As of December 31, 2015				
State and political subdivisions	$ 62,073	$ 3,211	$ -	$ 65,284
Mortgage-backed securities [1]	302,623	5,424	1,673	306,374
Total	$ 364,696	$ 8,635	$ 1,673	$ 371,658

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Investment Securities, continued

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

As of December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	$170,360	$ 20	$ 764	$169,616
U.S. Government agencies	21,053	6	239	20,820
State and political subdivisions	74,555	176	554	74,177
Mortgage-backed securities (1)	1,397,435	8,924	14,677	1,391,682
Corporate bonds	306,824	591	2,023	305,392
Asset-backed securities	468,742	2,798	1,971	469,569
Other	1,182	-	-	1,182
Total	$2,440,151	$ 12,515	$ 20,228	$2,432,438
As of December 31, 2015				
U.S. Treasuries	$169,034	$ 156	$ 484	$168,706
U.S. Government agencies	112,394	385	439	112,340
State and political subdivisions	56,265	461	458	56,268
Mortgage-backed securities (1)	1,108,206	12,077	7,165	1,113,118
Corporate bonds	308,102	933	3,009	306,026
Asset-backed securities	538,679	569	6,006	533,242
Other	1,811	-	-	1,811
Total	$2,294,491	$ 14,581	$ 17,561	$2,291,511

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

The following summarizes available-for-sale securities sales activities for the years ended December 31 *(in thousands)*:

	2016	2015	2014
Proceeds from sales	$199,864	$353,860	$419,201
Gross gains on sales	$1,647	$2,409	$6,003
Gross losses on sales	(665)	(154)	(1,132)
Net gains on sales of securities	$982	$2,255	$4,871
Income tax expense attributable to sales	$371	$862	$1,902

At year-end 2016 and 2015, there were no holdings of debt obligations of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Investment Securities, continued

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

	Less than 12 Months		12 Months or More		Total	
As of December 31, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$ 18,359	$ 249	$ -	$ -	$ 18,359	$ 249
Mortgage-backed securities	118,164	2,656	-	-	118,164	2,656
Total unrealized loss position	$ 136,523	$ 2,905	$ -	$ -	$ 136,523	$ 2,905
As of December 31, 2015						
Mortgage-backed securities	$ 140,362	$ 1,331	$ 13,127	$ 342	$ 153,489	$ 1,673
Total unrealized loss position	$ 140,362	$ 1,331	$ 13,127	$ 342	$ 153,489	$ 1,673

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

	Less than 12 Months		12 Months or More		Total	
As of December 31, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	$ 145,229	$ 764	$ -	$ -	$ 145,229	$ 764
U.S. Government agencies	19,685	239	-	-	19,685	239
State and political subdivisions	61,782	554	-	-	61,782	554
Mortgage-backed securities	810,686	13,952	26,279	725	836,965	14,677
Corporate bonds	228,504	1,597	15,574	426	244,078	2,023
Asset-backed securities	54,477	540	115,338	1,431	169,815	1,971
Total unrealized loss position	$ 1,320,363	$ 17,646	$ 157,191	$ 2,582	$ 1,477,554	$ 20,228

As of December 31, 2015

U.S. Treasuries	$126,066	$ 484	$-	$ -	$126,066	$ 484
U.S. Government agencies	74,189	439	-	-	74,189	439
State and political subdivisions	27,014	458	-	-	27,014	458
Mortgage-backed securities	274,005	2,580	173,254	4,585	447,259	7,165
Corporate bonds	221,337	2,759	750	250	222,087	3,009
Asset-backed securities	358,940	5,746	4,816	260	363,756	6,006
Total unrealized loss position	$1,081,551	$ 12,466	$178,820	$ 5,095	$1,260,371	$ 17,561

At December 31, 2016, there were 170 available-for-sale securities and 41 held-to-maturity securities that were in an unrealized loss position. Management does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of its amortized cost basis. Unrealized losses at December 31, 2016 and 2015 were primarily attributable to changes in interest rates and spread relationships.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analyst’s reports. No impairment charges were recognized during 2016, 2015 or 2014.

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Investment Securities, continued

The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2016, by contractual maturity, are presented in the following table *(in thousands)*:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
US Treasuries:				
1 to 5 years	$116,093	$115,702	$-	$-
5 to 10 years	54,267	53,914	-	-
	170,360	169,616	-	-
US Government agencies:				
1 to 5 years	2,119	2,123	-	-
5 to 10 years	17,904	17,716	-	-
More than 10 years	1,030	981	-	-
	21,053	20,820	-	-
State and political subdivisions:				
Within 1 year	1,053	1,059	4,506	4,553
1 to 5 years	31,941	31,930	13,850	14,514
5 to 10 years	23,653	23,403	21,192	22,676
More than 10 years	17,908	17,785	17,586	17,339
	74,555	74,177	57,134	59,082
Corporate bonds:				
1 to 5 years	233,481	233,597	-	-
5 to 10 years	72,343	71,120	-	-
More than 10 years	1,000	675	-	-
	306,824	305,392	-	-
Asset-backed securities:				
1 to 5 years	16,395	16,598	-	-
5 to 10 years	334,071	335,031	-	-
More than 10 years	118,276	117,940	-	-
	468,742	469,569	-	-

Other:				
More than 10 years	1,182	1,182	-	-
	1,182	1,182	-	-
Total securities other than mortgage-backed securities:				
Within 1 year	1,053	1,059	4,506	4,553
1 to 5 years	400,029	399,950	13,850	14,514
5 to 10 years	502,238	501,184	21,192	22,676
More than 10 years	139,396	138,563	17,586	17,339
Mortgage-backed securities	1,397,435	1,391,682	272,709	274,088
	$2,440,151	$2,432,438	$329,843	$333,170

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses

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

	December 31, 2016	December 31, 2015
Owner occupied commercial real estate	$1,650,360	$1,570,988
Income producing commercial real estate	1,281,541	1,020,464
Commercial & industrial	1,069,715	784,870
Commercial construction	633,921	518,335
Total commercial	4,635,537	3,894,657
Residential mortgage	856,725	764,175
Home equity lines of credit	655,410	589,325
Residential construction	190,043	176,202
Consumer installment	123,567	115,111
Indirect auto	459,354	455,971
Total loans	6,920,636	5,995,441
Less allowance for loan losses	(61,422)	(68,448)
Loans, net	$6,859,214	$5,926,993

At December 31, 2016 and 2015, loans with a carrying value of $3.33 billion and $2.44 billion were pledged as collateral to secure FHLB advances and other contingent funding sources.

At December 31, 2016, the carrying value and outstanding balance of PCI loans was $62.8 million and $87.9 million, respectively. At December 31, 2015, the carrying value and outstanding balance of PCI loans was $51.3 million and $71.0 million, respectively. The following table presents changes in the value of the accretable yield for PCI loans for the years ended December 31 *(in thousands)*:

	2016	2015
Balance at beginning of period	$4,279	$-
Additions due to acquisitions	2,113	5,335
Accretion	(4,223)	(1,056)
Reclassification from nonaccretable difference	3,321	-
Changes in expected cash flows that do not affect nonaccretable difference	2,491	-
Balance at end of period	$7,981	$4,279

In addition to the accretable yield on PCI loans, the fair value adjustments on purchased loans outside the scope of ASC Topic 310-30 are also accreted to interest income over the life of the loans. At December 31, 2016 and 2015, the remaining accretable fair value mark on loans acquired through a business combination and not accounted for under ASC Topic 310-30 was $7.14 million and $7.03 million, respectively. In addition, indirect auto loans purchased at a premium outside of a business combination had a remaining premium of $11.4 million and $12.0 million, respectively, at December 31, 2016 and 2015.

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

	2016	2015
Balance at beginning of period	$2,732	$3,204
New loans and advances	1	40
Repayments	(301)	(512)
Balance at end of period	$2,432	$2,732

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

The allowance for loan losses represents management's estimate of probable incurred losses in the loan portfolio as of the end of the period. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheet. Combined, the allowance for loan losses and allowance for unfunded commitments are referred to as the allowance for credit losses. The following table presents the balance and activity in the allowance for credit losses by portfolio segment for the periods indicated *(in thousands)*:

Year Ended December 31, 2016	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$ 18,016	$ (2,029)	$ 706	$ -	$ (247)	$ 16,446
Income producing commercial real estate	11,548	(1,433)	580	-	(1,852)	8,843
Commercial & industrial	4,433	(1,830)	1,689	-	(482)	3,810
Commercial construction	9,553	(837)	821	-	3,868	13,405
Residential mortgage	12,719	(1,151)	301	-	(3,324)	8,545
Home equity lines of credit	5,956	(1,690)	386	-	(53)	4,599
Residential construction	4,002	(533)	79	-	(284)	3,264
Consumer installment	828	(1,459)	800	-	539	708
Indirect auto	1,393	(1,399)	233	-	1,575	1,802
Total allowance for loan losses	68,448	(12,361)	5,595	-	(260)	61,422
Allowance for unfunded commitments	2,542	-	-	-	(540)	2,002
Total allowance for credit losses	$ 70,990	$ (12,361)	$ 5,595	$ -	$ (800)	$ 63,424

Year Ended December 31, 2015	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$ 18,174	$ (2,901)	$ 755	$ -	$ 1,988	$ 18,016
Income producing commercial real estate	14,517	(1,280)	866	-	(2,555)	11,548
Commercial & industrial	3,252	(1,358)	2,174	-	365	4,433
Commercial construction	10,901	(1,947)	736	-	(137)	9,553
Residential mortgage	14,133	(1,615)	1,080	-	(879)	12,719
Home equity lines of credit	4,476	(1,094)	242	-	2,332	5,956
Residential construction	4,374	(851)	173	-	306	4,002
Consumer installment	731	(1,597)	1,044	-	650	828

Indirect auto	1,061	(772)	86	-	1,018	1,393
Total allowance for loan losses	71,619	(13,415)	7,156	-	3,088	68,448
Allowance for unfunded commitments	1,930	-	-	-	612	2,542
Total allowance for credit losses	$ 73,549	$ (13,415)	$ 7,156	$ -	$ 3,700	$ 70,990

Year Ended December 31, 2014	Beginning Balance	Charge-Offs	Recoveries	Allocation of Unallocated	Provision	Ending Balance
Owner occupied commercial real estate	$ 18,823	$ (4,567)	$ 3,343	$ 1,278	$ (703)	$ 18,174
Income producing commercial real estate	10,607	(2,671)	1,009	688	4,884	14,517
Commercial & industrial	6,504	(2,145)	1,665	318	(3,090)	3,252
Commercial construction	10,702	(1,574)	503	388	882	10,901
Residential mortgage	10,787	(5,011)	572	1,452	6,333	14,133
Home equity lines of credit	5,398	(2,314)	287	391	714	4,476
Residential construction	5,219	(1,837)	135	1,728	(871)	4,374
Consumer installment	1,353	(2,008)	1,221	-	165	731
Indirect auto	1,126	(540)	54	-	421	1,061
Unallocated	6,243	-	-	(6,243)	-	-
Total allowance for loan losses	76,762	(22,667)	8,789	-	8,735	71,619
Allowance for unfunded commitments	2,165	-	-	-	(235)	1,930
Total allowance for credit losses	$ 78,927	$ (22,667)	$ 8,789	$ -	$ 8,500	$ 73,549

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

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

	Allowance for Loan Losses							
	December 31, 2016				December 31, 2015			
	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance
Owner occupied commercial real estate	$1,746	$ 14,700	$-	$16,446	$1,788	$ 16,228	$ -	$18,016
Income producing commercial real estate	885	7,919	39	8,843	1,705	9,843	-	11,548
Commercial & industrial	58	3,752	-	3,810	274	4,159	-	4,433
Commercial construction	168	13,218	19	13,405	138	9,415	-	9,553
Residential mortgage	517	7,997	31	8,545	2,818	9,901	-	12,719
Home equity lines of credit	2	4,597	-	4,599	6	5,950	-	5,956
Residential construction	64	3,198	2	3,264	55	3,947	-	4,002
Consumer installment	12	696	-	708	13	815	-	828
Indirect auto	-	1,802	-	1,802	-	1,393	-	1,393
Total allowance for loan losses	3,452	57,879	91	61,422	6,797	61,651	-	68,448
Allowance for unfunded commitments	-	2,002	-	2,002	-	2,542	-	2,542
Total allowance for credit losses	$3,452	$ 59,881	$91	$63,424	$6,797	$ 64,193	$ -	$70,990

Loans Outstanding							
December 31, 2016				December 31, 2015			
Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance
$31,421	$ 1,600,355	$18,584	$1,650,360	$40,634	$ 1,516,532	$13,822	$1,570,988

Owner occupied commercial real estate								
Income producing commercial real estate	30,459	1,225,763	25,319	1,281,541	26,443	964,563	29,458	1,020,464
Commercial & industrial	1,915	1,066,764	1,036	1,069,715	3,278	780,937	655	784,870
Commercial construction	5,050	620,543	8,328	633,921	17,158	498,838	2,339	518,335
Residential mortgage	13,706	836,624	6,395	856,725	13,831	748,003	2,341	764,175
Home equity lines of credit	63	653,337	2,010	655,410	167	587,470	1,688	589,325
Residential construction	1,594	187,516	933	190,043	1,419	173,857	926	176,202
Consumer installment	290	123,118	159	123,567	329	114,741	41	115,111
Indirect auto	1,165	458,189	-	459,354	749	455,173	49	455,971
Total loans	$85,663	$ 6,772,209	$62,764	$6,920,636	$104,008	$ 5,840,114	$51,319	$5,995,441

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

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

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

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

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

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

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

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

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

At December 31, 2016 and 2015, $870,000 and $827,000, respectively, in overdrawn deposit accounts were reclassified as commercial and industrial loans.

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

	2016			2015			2014		
	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Owner occupied commercial real estate	$33,297	$ 1,667	$ 1,704	$40,182	$ 1,970	$ 2,059	$35,641	$ 1,741	$ 1,804
Income producing commercial real estate	31,661	1,418	1,457	25,441	1,260	1,259	30,519	1,505	1,542
Commercial & industrial	2,470	123	118	4,299	163	260	4,226	172	228
Commercial construction	5,879	267	264	18,667	755	759	23,007	897	897
Total commercial	73,307	3,475	3,543	88,589	4,148	4,337	93,393	4,315	4,471
Residential mortgage	14,118	637	633	15,504	612	572	12,640	544	546
Home equity lines of credit	93	4	4	420	17	16	518	21	22
Residential construction	1,677	89	88	2,279	158	169	2,271	137	139
Consumer installment	302	22	23	223	16	16	305	19	22
Indirect auto	928	47	47	221	11	11	-	-	-
Total	$90,425	$ 4,274	$ 4,338	$107,236	$ 4,962	$ 5,121	$109,127	$ 5,036	$ 5,200

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Loans and Allowance for Credit Losses, continued

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

	December 31, 2016			December 31, 2015		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**
With no related allowance recorded:						
Owner occupied commercial real estate	$9,171	$8,477	$-	$15,584	$15,251	$-
Income producing commercial real estate	16,864	16,864	-	13,044	12,827	-
Commercial & industrial	421	334	-	493	469	-
Commercial construction	845	841	-	3,731	3,429	-
Total commercial	27,301	26,516	-	32,852	31,976	-
Residential mortgage	630	628	-	-	-	-
Home equity lines of credit	-	-	-	-	-	-
Residential construction	-	-	-	-	-	-
Consumer installment	-	-	-	-	-	-
Indirect auto	1,165	1,165	-	749	749	-
Total with no related allowance recorded	29,096	28,309	-	33,601	32,725	-