

UNITED COMMUNITY BANKS INC  
Form 10-Q  
August 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-35095

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

Georgia  
(State of Incorporation)

58-1807304  
(I.R.S. Employer  
Identification No.)

125 Highway 515 East  
Blairsville, Georgia  
Address of Principal  
Executive Offices

30512  
(Zip Code)

(706) 781-2265

(Telephone Number)

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

YES  NO

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

to submit and post such files).

YES  NO

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

Large accelerated filer  Accelerated filer

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

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

YES  NO

**Common stock, par value \$1 per share 43,363,414 shares voting and 14,474,810 shares non-voting outstanding as of July 31, 2013.**

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## Part I – Financial Information

## Item 1 – Financial Statements

## UNITED COMMUNITY BANKS, INC.

## Consolidated Statement of Operations (Unaudited)

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Interest revenue:				
Loans, including fees	\$50,728	\$54,178	\$101,662	\$109,937
Investment securities, including tax exempt of \$210, \$262, \$422 and \$512	9,681	11,062	19,646	24,066
Deposits in banks and short-term investments	916	1,096	1,786	2,108
Total interest revenue	61,325	66,336	123,094	136,111
Interest expense:				
Deposits:				
NOW	419	503	873	1,140
Money market	534	661	1,096	1,302
Savings	36	38	72	75
Time	2,924	5,073	6,150	11,232
Total deposit interest expense	3,913	6,275	8,191	13,749
Short-term borrowings	522	904	1,038	1,949
Federal Home Loan Bank advances	30	390	49	856
Long-term debt	2,666	2,375	5,328	4,747
Total interest expense	7,131	9,944	14,606	21,301
Net interest revenue	54,194	56,392	108,488	114,810
Provision for loan losses	48,500	18,000	59,500	33,000
Net interest revenue after provision for loan losses	5,694	38,392	48,988	81,810
Fee revenue:				
Service charges and fees	7,972	7,816	15,375	15,599
Mortgage loan and other related fees	3,003	2,322	5,658	4,421
Brokerage fees	1,063	809	1,830	1,622
Securities gains, net	-	6,490	116	7,047
Loss from prepayment of debt	-	(6,199)	-	(6,681)
Other	4,274	1,629	6,159	6,238
Total fee revenue	16,312	12,867	29,138	28,246
Total revenue	22,006	51,259	78,126	110,056
Operating expenses:				
Salaries and employee benefits	24,734	24,297	48,326	49,522
Communications and equipment	3,468	3,211	6,514	6,366
Occupancy	3,449	3,539	6,816	7,310
Advertising and public relations	1,037	1,088	1,975	1,934
Postage, printing and supplies	894	916	1,757	1,895
Professional fees	2,499	1,952	4,865	3,927
Foreclosed property	5,151	1,851	7,484	5,676
FDIC assessments and other regulatory charges	2,505	2,545	5,010	5,055

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Amortization of intangibles	491	730	1,196	1,462
Other	4,595	4,181	8,650	8,118
Total operating expenses	48,823	44,310	92,593	91,265
Net (loss) income before income taxes	(26,817 )	6,949	(14,467 )	18,791
Income tax (benefit) expense	(256,781 )	450	(256,196 )	764
Net income	229,964	6,499	241,729	18,027
Preferred stock dividends and discount accretion	3,055	3,032	6,107	6,062
Net income available to common shareholders	\$226,909	\$3,467	\$235,622	\$11,965
Earnings per common share - basic / diluted	\$3.90	\$0.06	\$4.05	\$.21
Weighted average common shares outstanding - basic / diluted	58,141	57,840	58,111	57,803

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended June 30,			Six Months Ended June 30		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
2013						
Net (loss) income	\$(26,817)	\$256,781	\$229,964	\$(14,467)	\$256,196	\$241,729
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	(15,358)	5,798	(9,560 )	(13,717)	5,177	(8,540 )
Reclassification adjustment for gains included in net income	-	-	-	(116 )	45	(71 )
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities and release of valuation allowance	-	(3,526 )	(3,526 )	-	(2,950 )	(2,950 )
Net unrealized gains (losses)	(15,358)	2,272	(13,086 )	(13,833)	2,272	(11,561 )
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	(271 )	103	(168 )	(590 )	227	(363 )
Adjustment of valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity and release of valuation allowance	-	1,415	1,415	-	1,293	1,293
Net unrealized losses	(271 )	1,518	1,247	(590 )	1,520	930
Amounts reclassified into net income on cash flow hedges	(306 )	119	(187 )	(844 )	328	(516 )
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	11,672	(4,540 )	7,132	12,102	(4,707 )	7,395
Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges and release of valuation allowance	-	13,740	13,740	-	13,698	13,698
Net unrealized losses	11,366	9,319	20,685	11,258	9,319	20,577
Net actuarial loss on defined benefit pension plan	-	-	-	(415 )	161	(254 )
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	133	(52 )	81	265	(103 )	162
Adjustment of valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses and release of valuation allowance	-	110	110	-	-	-
Net defined benefit pension plan activity	133	58	191	(150 )	58	(92 )
Total other comprehensive income (loss)	(4,130 )	13,167	9,037	(3,315 )	13,169	9,854
Comprehensive income	\$(30,947)	\$269,948	\$239,001	\$(17,782)	\$269,365	\$251,583

2012

Net (loss) income	\$6,949	\$(450 )	\$6,499	\$18,791	\$(764 )	\$18,027
Other comprehensive income (loss):						
Unrealized (losses) gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	4,264	(1,645 )	2,619	924	(277 )	647
Reclassification adjustment for gains included in net income	(6,490 )	2,425	(4,065 )	(7,047 )	2,631	(4,416 )
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities	-	(780 )	(780 )	-	(2,354 )	(2,354 )
Net unrealized gains (losses)	(2,226 )	-	(2,226 )	(6,123 )	-	(6,123 )
Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity	(400 )	151	(249 )	(813 )	308	(505 )
Valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity	-	(151 )	(151 )	-	(308 )	(308 )
Net unrealized losses	(400 )	-	(400 )	(813 )	-	(813 )
Amortization of gains included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	(714 )	278	(436 )	(2,314 )	900	(1,414 )
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	(4,855 )	1,889	(2,966 )	(4,855 )	1,889	(2,966 )
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges	-	(2,167 )	(2,167 )	-	(2,789 )	(2,789 )
Net unrealized losses	(5,569 )	-	(5,569 )	(7,169 )	-	(7,169 )
Net actuarial loss on defined benefit pension plan	-	-	-	-	-	-
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	154	(60 )	94	308	(120 )	188
Valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses		60	60		120	120
Net defined benefit pension plan activity	154	-	154	308	-	308
Total other comprehensive income (loss)	(8,041 )	-	(8,041 )	(13,797 )	-	(13,797 )
Comprehensive income	\$(1,092 )	\$(450 )	\$(1,542 )	\$4,994	\$(764 )	\$4,230

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	June 30, 2013	December 31, 2012	June 30, 2012
<b>ASSETS</b>			
Cash and due from banks	\$62,564	\$66,536	\$50,596
Interest-bearing deposits in banks	141,016	124,613	133,857
Short-term investments	57,000	60,000	120,000
Cash and cash equivalents	260,580	251,149	304,453
Securities available-for-sale	1,937,264	1,834,593	1,701,583
Securities held-to-maturity (fair value \$226,695, \$261,131 and \$299,791)	214,947	244,184	282,750
Mortgage loans held for sale	19,150	28,821	18,645
Loans, net of unearned income	4,189,368	4,175,008	4,119,235
Less allowance for loan losses	(81,845 )	(107,137 )	(112,705 )
Loans, net	4,107,523	4,067,871	4,006,530
Assets covered by loss sharing agreements with the FDIC	35,675	47,467	65,914
Premises and equipment, net	167,197	168,920	172,200
Bank owned life insurance	82,276	81,867	81,265
Accrued interest receivable	19,279	18,659	20,151
Goodwill and other intangible assets	4,315	5,510	6,965
Foreclosed property	3,936	18,264	30,421
Net deferred tax asset	272,287	-	-
Unsettled securities sales	-	5,763	-
Other assets	38,206	29,191	46,229
Total assets	\$7,162,635	\$6,802,259	\$6,737,106
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Demand	\$1,349,804	\$1,252,605	\$1,150,444
NOW	1,225,664	1,316,453	1,196,507
Money market	1,167,889	1,149,912	1,117,139
Savings	247,821	227,308	219,077
Time:			
Less than \$100,000	982,009	1,055,271	1,164,451
Greater than \$100,000	664,112	705,558	764,343
Brokered	374,530	245,033	210,506
Total deposits	6,011,829	5,952,140	5,822,467
Short-term borrowings	54,163	52,574	53,656
Federal Home Loan Bank advances	70,125	40,125	125,125
Long-term debt	124,845	124,805	120,265
Accrued expenses and other liabilities	72,370	51,210	39,598
Total liabilities	6,333,332	6,220,854	6,161,111

Commitments and contingencies



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Shareholders' equity:

Preferred stock, \$1 par value; 10,000,000 shares authorized;			
Series A; \$10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; \$1,000 stated value; 180,000 shares issued and outstanding	179,323	178,557	177,814
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613	16,613	16,613
Common stock, \$1 par value; 100,000,000 shares authorized;			
43,356,492, 42,423,870 and 41,726,509 shares issued and			
outstanding	43,356	42,424	41,727
Common stock, non-voting, \$1 par value; 30,000,000 shares			
authorized;			
14,474,810, 15,316,794 and 15,914,209 shares issued and outstanding	14,475	15,317	15,914
Common stock issuable; 271,215, 133,238 and 94,657 shares	4,705	3,119	2,893
Capital surplus	1,057,931	1,057,951	1,056,819
Accumulated deficit	(473,531 )	(709,153 )	(718,896 )
Accumulated other comprehensive loss	(13,786 )	(23,640 )	(17,106 )
Total shareholders' equity	829,303	581,405	575,995
Total liabilities and shareholders' equity	\$7,162,635	\$6,802,259	\$6,737,106

See accompanying notes to consolidated financial statements.

## UNITED COMMUNITY BANKS, INC.

## Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the Six Months Ended June 30,

(in thousands, except share and per share data)	Preferred Stock			Non-Voting Common			Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Series A	Series B	Series D	Common Stock	Common Stock	Stock Issuable				
Balance, December 31, 2011	\$217	\$177,092	\$16,613	\$41,647	\$15,914	\$3,233	\$1,054,940	\$(730,861)	\$(3,309)	\$575,486
Net loss								18,027		18,027
Other comprehensive loss									(13,797)	(13,797)
Common stock issued to dividend reinvestment plan and employee benefit plans (60,982 shares)				61			440			501
Amortization of stock options and restricted stock awards							946			946
Vesting of restricted stock (15,790 shares issued, 8,399 shares deferred)				16		(151)	206			71
Deferred compensation plan, net, including dividend equivalents							101			101
Shares issued from deferred compensation plan (2,637 shares)				3		(290)	287			-

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Preferred stock dividends:										
Series A							(6 )		(6 )	
Series B	722						(5,222 )		(4,500 )	
Series D							(834 )		(834 )	
Balance, June 30, 2012	\$217	\$177,814	\$16,613	\$41,727	\$15,914	\$2,893	\$1,056,819	\$(718,896)	\$(17,106)	\$575,995
Balance, December 31, 2012	\$217	\$178,557	\$16,613	\$42,424	\$15,317	\$3,119	\$1,057,951	\$(709,153)	\$(23,640)	\$581,405
Net income								241,729		241,729
Other comprehensive income									9,854	9,854
Common stock issued to dividend reinvestment plan and to employee benefit plans (35,667 shares)				35			348			383
Conversion of non-voting common stock to voting (841,984 shares)				842	(842 )					
Amortization of stock options and restricted stock awards							1,359			1,359
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (50,450 shares issued, 133,914 shares deferred)				50		1,934	(2,161 )			(177 )
Deferred compensation plan, net, including dividend equivalents						91				91

Shares issued from deferred compensation plan (4,521 shares)				5			(439 )	434			-
Preferred stock dividends:											
Series A							(6 )				(6 )
Series B	766						(5,266 )				(4,500 )
Series D							(835 )				(835 )
Balance, June 30, 2013	\$217	\$179,323	\$16,613	\$43,356	\$14,475	\$4,705	\$1,057,931	\$(473,531)	\$(13,786)		\$829,303

See accompanying notes to consolidated financial statements.

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

(in thousands)	Six Months Ended June 30,	
	2013	2012
Operating activities:		
Net income	\$241,729	\$18,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	14,574	16,511
Provision for loan losses	59,500	33,000
Stock based compensation	1,359	946
Deferred income tax benefit	(258,987 )	-
Securities gains, net	(116 )	(7,047 )
Losses and write downs on sales of other real estate owned	5,460	2,943
Loss on prepayment of borrowings	-	6,681
Changes in assets and liabilities:		
Other assets and accrued interest receivable	12,872	22,783
Accrued expenses and other liabilities	19,487	(6,754 )
Mortgage loans held for sale	9,671	5,236
Net cash provided by operating activities	105,549	92,326
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	33,141	45,741
Purchases	(4,993 )	-
Investment securities available-for-sale:		
Proceeds from sales	15,751	371,103
Proceeds from maturities and calls	260,967	289,985
Purchases	(397,907 )	(580,652 )
Net increase in loans	(203,903 )	(58,765 )
Proceeds from note sales	91,913	-
Collections from FDIC under loss sharing agreements	3,714	5,054
Proceeds from sales of premises and equipment	1,547	664
Purchases of premises and equipment	(4,488 )	(2,581 )
Proceeds from sale of other real estate	21,815	14,620
Net cash (used in) provided by investing activities	(182,443 )	85,169
Financing activities:		
Net change in deposits	59,689	(275,516 )
Net change in short-term borrowings	1,589	(53,401 )
Proceeds from Federal Home Loan Bank advances	485,000	1,489,000
Settlement of Federal Home Loan Bank advances	(455,000 )	(1,406,701)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	383	501
Cash dividends on preferred stock	(5,336 )	(5,341 )
Net cash provided by (used in) financing activities	86,325	(251,458 )
Net change in cash and cash equivalents	9,431	(73,963 )

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Cash and cash equivalents at beginning of period	251,149	378,416
Cash and cash equivalents at end of period	\$260,580	\$304,453
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$16,768	\$23,222
Income taxes	2,355	(27,105 )
Unsettled securities purchases	1,582	-
Transfers of loans to foreclosed property	9,433	9,319

See accompanying notes to consolidated financial statements.

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

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United’s accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2012.

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

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. The 2012 reclassifications were not material to the financial statement presentation.

Note 2 – Accounting Standards Updates and Recently Adopted Standards

In January 2013, the FASB issued Accounting Standards Update No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU limits the scope of the new balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting agreement. The disclosure requirements were effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. This guidance did not have a material impact on United’s financial position or results of operations, and resulted in additional disclosures.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this update require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and by the respective line items of net income. The standard was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. This guidance did not have a material impact on United’s financial position or results of operations, and resulted in additional disclosures.

In July 2013, the FASB issued Accounting Standards Update No. 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this update permit the Fed Funds Effective Swap Rate (OIS) to be used as a benchmark interest rate for hedge accounting in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The standard is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. This guidance did not have a material impact on United’s financial position, results of operations or disclosures.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward exists*. This ASU provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net

operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Since United has both unrecognized tax benefits and net operating loss and tax credit carryforwards, this ASU could have an impact on United's financial position, results of operations or disclosures. United is currently in the process of quantifying this impact.

#### Note 3 – Offsetting Assets and Liabilities

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

United also enters into derivative transactions that are subject to master netting arrangements; however there were no offsetting positions at June 30, 2013, December 31, 2012 or June 30, 2012.

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

The following table presents a summary of amounts outstanding under master netting agreements as of June 30, 2013 and December 31, 2012, and June 30, 2012 (in thousands).

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Sheet	Net Asset Balance	Financial Instrument Pledged	Gross Amounts not Offset in the Balance Sheet	Collateral Received	Net Amount
June 30, 2013							
Repurchase agreements / reverse repurchase agreements	\$400,000	\$(350,000)	\$50,000	\$-	\$-	\$50,000	
Derivatives	9,017	-	9,017	-	-	9,017	
Total	\$409,017	\$(350,000)	\$59,017	\$-	\$-	\$59,017	
Weighted average interest rate of reverse repurchase agreements	1.09	%					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Sheet	Net Liability Balance	Financial Instrument Pledged	Gross Amounts not Offset in the Balance Sheet	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	\$350,000	\$(350,000)	\$-	\$-	\$-	\$-	
Derivatives	29,330						