UNITED COMMUNITY BANKS INC
Form 10-Q
August 06, 2018

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from ___________ to ___________

Commission file number 001-35095

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

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

(706) 781-2265
(Telephone Number)

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

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

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
Emerging growth company ¨	

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

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

Common stock, par value $1 per share 79,141,038 shares outstanding as of July 31, 2018.

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PART I - Financial Information

Part I – Financial Information
UNITED COMMUNITY BANKS, INC.
Consolidated Statements of Income (Unaudited)

(in thousands, except per share data)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Interest revenue:				
Loans, including fees	$103,492	$74,825	$199,961	$147,552
Investment securities, including tax exempt of $1,025 and $357, and $1,997 and $636	18,254	17,778	36,549	35,490
Deposits in banks and short-term investments	469	563	995	1,082
Total interest revenue	122,215	93,166	237,505	184,124
Interest expense:				
Deposits:				
NOW	1,303	635	2,416	1,232
Money market	2,583	1,559	4,758	2,985
Savings	35	28	84	55
Time	4,198	1,379	7,154	2,387
Total deposit interest expense	8,119	3,601	14,412	6,659
Short-term borrowings	198	101	498	141
Federal Home Loan Bank advances	1,636	1,464	3,760	2,894
Long-term debt	3,786	2,852	7,074	5,728
Total interest expense	13,739	8,018	25,744	15,422
Net interest revenue	108,476	85,148	211,761	168,702
Provision for credit losses	1,800	800	5,600	1,600
Net interest revenue after provision for credit losses	106,676	84,348	206,161	167,102
Noninterest income:				
Service charges and fees	8,794	10,701	17,719	21,305
Mortgage loan and other related fees	5,307	4,811	10,666	9,235
Brokerage fees	1,201	1,146	2,073	2,556
Gains from sales of SBA/USDA loans	2,401	2,626	4,179	4,585
Securities (losses) gains, net	(364)	4	(1,304)	2
Other	6,001	4,397	12,403	8,076
Total noninterest income	23,340	23,685	45,736	45,759
Total revenue	130,016	108,033	251,897	212,861
Noninterest expenses:				
Salaries and employee benefits	45,363	37,338	88,238	74,029
Communications and equipment	4,849	4,978	9,481	9,896
Occupancy	5,547	4,908	11,160	9,857
Advertising and public relations	1,384	1,260	2,899	2,321
Postage, printing and supplies	1,685	1,346	3,322	2,716
Professional fees	3,464	2,371	7,508	5,415
FDIC assessments and other regulatory charges	1,973	1,348	4,449	2,631
Amortization of intangibles	1,847	900	3,745	1,873

Merger-related and other charges	2,280	1,830	4,334	3,884
Other	8,458	6,950	15,189	13,433
Total noninterest expenses	76,850	63,229	150,325	126,055
Net income before income taxes	53,166	44,804	101,572	86,806
Income tax expense	13,532	16,537	24,280	35,015
Net income	$39,634	$28,267	$77,292	$51,791
Net income available to common shareholders	$39,359	$28,267	$76,740	$51,791
Earnings per common share:				
Basic	$0.49	$0.39	$0.97	$0.72
Diluted	0.49	0.39	0.97	0.72
Weighted average common shares outstanding:				
Basic	79,745	71,810	79,477	71,798
Diluted	79,755	71,820	79,487	71,809

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Statements 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
2018						
Net income	$53,166	$(13,532)	$39,634	$101,572	$(24,280)	$77,292
Other comprehensive loss:						
Unrealized losses on available-for-sale securities:						
Unrealized holding losses arising during period	(9,574)	2,310	(7,264)	(38,838)	9,464	(29,374)
Reclassification adjustment for losses included in net income	364	(97)	267	1,304	(317)	987
Net unrealized losses	(9,210)	2,213	(6,997)	(37,534)	9,147	(28,387)
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	218	(55)	163	439	(109)	330
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	143	(38)	105	290	(76)	214
Net actuarial loss on defined benefit pension plan	—	—	—	(5)	1	(4)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	227	(73)	154	454	(131)	323
Net defined benefit pension plan activity	227	(73)	154	449	(130)	319
Total other comprehensive loss	(8,622)	2,047	(6,575)	(36,356)	8,832	(27,524)
Comprehensive income	$44,544	$(11,485)	$33,059	$65,216	$(15,448)	$49,768
2017						
Net income	$44,804	$(16,537)	$28,267	$86,806	$(35,015)	$51,791
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	11,120	(4,217)	6,903	17,628	(6,681)	10,947
Reclassification adjustment for gains included in net income	(4)	—	(4)	(2)	(1)	(3)
Net unrealized gains	11,116	(4,217)	6,899	17,626	(6,682)	10,944
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	261	(98)	163	571	(214)	357
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	177	(69)	108	590	(230)	360
Reclassification of disproportionate tax effect related to terminated cash flow hedges	—	—	—	—	3,400	3,400
Net cash flow hedge activity	177	(69)	108	590	3,170	3,760
Net actuarial gain (loss) on defined benefit pension plan	82	(32)	50	(718)	280	(438)

Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	200	(78)	122	400	(157)	243
Net defined benefit pension plan activity	282	(110)	172	(318)	123	(195)
Total other comprehensive income	11,836	(4,494)	7,342	18,469	(3,603)	14,866
Comprehensive income	$56,640	$(21,031)	$35,609	$105,275	$(38,618)	$66,657

See accompanying notes to consolidated financial statements.

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

(in thousands, except share data)	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$125,013	$129,108
Interest-bearing deposits in banks	191,355	185,167
Cash and cash equivalents	316,368	314,275
Securities available for sale	2,536,294	2,615,850
Securities held to maturity (fair value $291,463 and $321,276)	297,569	321,094
Loans held for sale (includes $34,813 and $26,252 at fair value)	34,813	32,734
Loans and leases, net of unearned income	8,220,271	7,735,572
Less allowance for loan and lease losses	(61,071)	(58,914)
Loans and leases, net	8,159,200	7,676,658
Premises and equipment, net	202,098	208,852
Bank owned life insurance	190,649	188,970
Accrued interest receivable	33,114	32,459
Net deferred tax asset	77,274	88,049
Derivative financial instruments	29,896	22,721
Goodwill and other intangible assets	327,174	244,397
Other assets	181,091	169,401
Total assets	$12,385,540	$11,915,460
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits:		
Demand	$3,245,701	$3,087,797
NOW	2,031,396	2,131,939
Money market	2,036,588	2,016,748
Savings	683,689	651,742
Time	1,524,635	1,548,460
Brokered	444,079	371,011
Total deposits	9,966,088	9,807,697
Short-term borrowings	9,325	50,000
Federal Home Loan Bank advances	560,000	504,651
Long-term debt	308,434	120,545
Derivative financial instruments	37,261	25,376
Accrued expenses and other liabilities	125,323	103,857
Total liabilities	11,006,431	10,612,126
Shareholders' equity:		
Common stock, $1 par value; 150,000,000 shares authorized; 79,137,810 and 77,579,561 shares issued and outstanding	79,138	77,580
Common stock issuable; 616,549 and 607,869 shares	9,509	9,083
Capital surplus	1,497,517	1,451,814
Accumulated deficit	(154,290)	(209,902)
Accumulated other comprehensive loss	(52,765)	(25,241)
Total shareholders' equity	1,379,109	1,303,334
Total liabilities and shareholders' equity	$12,385,540	$11,915,460

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)	Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	$ 70,899	$ 7,327	$ 1,275,849	$ (251,857)	$ (26,483)	$ 1,075,735
Net income				51,791		51,791
Other comprehensive income					14,866	14,866
Common stock issued to dividend reinvestment plan and employee benefit plans (8,569 shares)	9		207			216
Amortization of stock option and restricted stock awards			3,149			3,149
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (40,954 shares issued, 58,784 shares deferred)	41	887	(1,612)			(684)
Deferred compensation plan, net, including dividend equivalents		216				216
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (32,279 shares)	32	(368)	229			(107)
Common stock dividends ($0.18 per share)				(12,978)		(12,978)
Cumulative effect of change in accounting principle				437		437
Balance, June 30, 2017	$ 70,981	$ 8,062	$ 1,277,822	$ (212,607)	$ (11,617)	$ 1,132,641
Balance, December 31, 2017	$ 77,580	$ 9,083	$ 1,451,814	$ (209,902)	$ (25,241)	$ 1,303,334
Net income				77,292		77,292
Other comprehensive loss					(27,524)	(27,524)
Exercise of stock options (12,000 shares)	12		130			142
Common stock issued to dividend reinvestment plan and employee benefit plans (9,853 shares)	10		275			285
Common stock issued for acquisition (1,443,987 shares)	1,444		44,302			45,746
Amortization of stock option and restricted stock awards			2,276			2,276
Vesting of restricted stock, net of shares	46	884	(1,916)			(986)

surrendered to cover payroll taxes (46,409 shares issued, 47,419 shares deferred)						
Deferred compensation plan, net, including dividend equivalents		234				234
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (46,000 shares)	46	(692)	636			(10)
Common stock dividends ($0.27 per share)				(21,680)		(21,680)
Balance, June 30, 2018	$ 79,138	$ 9,509	$ 1,497,517	$ (154,290)	$ (52,765)	$ 1,379,109

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
(in thousands)	2018	2017
Operating activities:		
Net income	$77,292	$51,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	17,068	12,932
Provision for credit losses	5,600	1,600
Stock based compensation	2,276	3,149
Deferred income tax expense	22,782	35,685
Securities losses (gains), net	1,304	(2)
Gains from sales of SBA/USDA loans	(4,179)	(4,585)
Net losses and write downs on sales of other real estate owned	260	471
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(18,799)	(425)
Accrued expenses and other liabilities	12,273	(7,191)
Mortgage loans held for sale	513	4,167
Net cash provided by operating activities	116,390	97,592
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	35,531	31,369
Purchases of securities held to maturity	(11,983)	(13,433)
Investment securities available for sale:		
Proceeds from sales of securities available for sale	140,296	94,650
Proceeds from maturities and calls of securities available for sale	174,284	309,054
Purchases of securities available for sale	(280,241)	(412,407)
Net increase in loans	(117,492)	(115,952)
Purchase of bank owned life insurance	—	(10,000)
Proceeds from sales of premises and equipment	589	5
Purchases of premises and equipment	(9,959)	(11,687)
Net cash paid for acquisition	(56,800)	—
Proceeds from sale of other real estate	1,986	5,781
Net cash used in investing activities	(123,789)	(122,620)
Financing activities:		
Net change in deposits	159,015	98,694
Net change in short-term borrowings	(255,598)	(5,000)
Repayments of long-term debt	(30,023)	—
Proceeds from FHLB advances	1,375,000	2,710,000
Repayments of FHLB advances	(1,319,003)	(2,750,000)
Proceeds from issuance of subordinated debt, net of issuance costs	98,188	—
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	285	216
Proceeds from exercise of stock options	142	—
Cash paid for shares withheld to cover payroll taxes upon vesting of restricted stock	(996)	(791)
Cash dividends on common stock	(17,518)	(12,253)

Net cash provided by financing activities	9,492	40,866
Net change in cash and cash equivalents, including restricted cash	2,093	15,838
Cash and cash equivalents, including restricted cash, at beginning of period	314,275	217,348
Cash and cash equivalents, including restricted cash, at end of period	$316,368	$233,186
Supplemental disclosures of cash flow information:		
Interest paid	$23,518	$15,346
Income taxes paid	4,345	4,651
Significant non-cash investing and financing transactions:		
Unsettled securities purchases	—	20,269
Unsettled government guaranteed loan sales	18,800	26,107
Transfers of loans to foreclosed properties	1,609	1,042
Acquisitions:		
Assets acquired	481	—
Liabilities assumed	351	—
Net assets acquired	130	—

See accompanying notes to consolidated financial statements.

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

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. ("United") and its subsidiaries conform to accounting principles generally accepted in the United States ("GAAP") and reporting guidelines of banking regulatory authorities and regulators. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. In addition to those items mentioned below, 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, 2017.

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

Cash and Cash Equivalents

Restricted Cash

The terms of securitizations acquired with NLFC Holdings Corp. ("NLFC") require various restricted cash accounts. These cash accounts were funded from either a portion of the proceeds from the issuance of notes or from the collections on leases and loans that were conveyed in the securitization. These restricted cash accounts provide additional collateral to the note holders under specific provisions of the securitizations which govern when funds in these accounts may be released as well as conditions under which collections on contracts transferred to the securitizations may be used to fund deposits into the restricted cash accounts. At June 30, 2018, these restricted cash accounts totaled $10.8 million and were included in interest-bearing deposits in banks on the consolidated balance sheet.

Loans and Leases

Equipment Financing Lease Receivables

Equipment financing lease receivables are recorded as the sum of the future minimum lease payments, initial deferred costs and estimated or contractual residual values less unearned income. The determination of residual value is derived from a variety of sources including equipment valuation services, appraisals, and publicly available market data on recent sales transactions on similar equipment. The length of time until contract termination, the cyclical nature of equipment values and the limited marketplace for re-sale of certain leased assets are important variables considered in making this determination. Interest income is recognized as earned using the effective interest method. Direct fees and costs associated with the origination of leases are deferred and included as a component of equipment financing receivables. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the lease using the effective interest method.

Note 2 –Accounting Standards Updates and Recently Adopted Standards

Accounting Standards Updates

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, 2017, future minimum lease payments amounted to $27.1 million. United does not expect the new guidance to have a material impact on the consolidated statements of income or the consolidated statements of shareholders' equity.

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

In May 2018, the FASB issued ASU No. 2018-06, Codification Improvements to Topic 942, Financial Services - Depository and Lending. This update superseded outdated guidance related to the Office of the Comptroller of the Currency’s Banking Circular 202, Accounting for Net Deferred Tax Charges. United does not expect the new guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This update expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. As a result, nonemployee share-based payment awards will be measured at the grant-date fair value of the equity instruments that an entity is obligated to issue when the service has been rendered, subject to the probability of satisfying performance conditions when applicable. For public entities, this update is effective for fiscal years beginning after December 15, 2018. United does not expect the new guidance to have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This update clarifies the guidance about whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. In addition, the guidance clarifies the determination of whether a transaction is conditional. For public entities, this update is effective for contributions made in fiscal years beginning after December 15, 2018. United does not expect the new guidance to have a material impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-09, Codification Improvements to address stakeholder suggestions for minor corrections and clarifications within the codification. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this update do not require transition guidance and will be effective upon issuance of this update. However, many of the amendments in this update do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. United does not expect the new guidance to have a material impact on the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842. Leases to address certain narrow aspects of the guidance issued in ASU No. 2016-02. This guidance did not change United’s assessment of the impact of ASU No. 2016-02 on the consolidated financial statements as described above.

Recently Adopted Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. This ASU provides guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance was effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and was 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, and revenue sources within scope were not materially affected, the new revenue recognition guidance did not have a material impact on the consolidated financial statements. United used the modified retrospective approach to adopting this guidance.

In January 2016, the FASB issued ASU 2016-1, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The guidance in this update requires that equity investments (except those accounted for under the equity method of accounting) be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The guidance also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. In addition, the guidance addresses various disclosure and presentation issues related to financial instruments. For public entities, this update was effective for fiscal years beginning after December 15, 2017 with early application permitted. The adoption of this update did not have a material impact on the consolidated financial statements. There was no opening balance sheet adjustment as a result of the adoption and the remainder of the standard was applied prospectively.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force). This ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance was effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and was applied retrospectively to each period presented. The adoption of this update did not have a material impact on the consolidated financial statements. There was no adjustment to prior periods as a result of the adoption.

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

Note 3 – Acquisitions

Acquisition of NLFC Holdings Corp.

On February 1, 2018, United completed the acquisition of NLFC and its wholly-owned subsidiary, Navitas Credit Corp (“Navitas”). Navitas is a specialty lending company providing equipment finance credit services to small and medium-sized businesses nationwide. In connection with the acquisition, United acquired $393 million of assets and assumed $350 million of liabilities. Under the terms of the merger agreement, NLFC shareholders received $130 million in total consideration, of which $84.5 million was paid in cash and $45.7 million was paid in United common stock. 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 $87.4 million, representing the intangible value of NLFC’s business and reputation within the markets it served. None of the goodwill recognized is expected to be deductible for income tax purposes.

United’s operating results for the three and six months ended June 30, 2018 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of February 1, 2018.

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

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 NLFC	Fair Value Adjustments (1)	As Recorded by United
Assets			
Cash and cash equivalents	$27,700	—	$27,700
Loans and leases, net	365,533	(7,181)	358,352
Premises and equipment, net	628	(304)	324
Net deferred tax asset	—	2,873	2,873
Other assets	5,117	(1,066)	4,051
Total assets acquired	$398,978	$ (5,678)	$393,300
Liabilities			
Short-term borrowings	$214,923	$ —	$214,923
Long-term debt	119,402	—	119,402
Other liabilities	17,059	(951)	16,108
Total liabilities assumed	351,384	(951)	350,433
Excess of assets acquired over liabilities assumed	$47,594		
Aggregate fair value adjustments		$ (4,727)	
Total identifiable net assets			$42,867
Consideration transferred			
Cash			84,500
Common stock issued (1,443,987 shares)			45,746
Total fair value of consideration transferred			130,246
Goodwill			$87,379

(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.

Since the acquisition date, within the one year measurement period, United received additional information regarding the fair value of loans. As a result, the provisional value assigned to the acquired loans was reduced by $526,000, partially offset by acquisition-related adjustments to deferred tax assets. The net of the adjustments was reflected as a $390,000 increase to goodwill.

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

	February 1, 2018
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	$24,711
Non-accretable difference	5,505
Cash flows expected to be collected	19,206
Accretable yield	1,977
Fair value	$17,229

Excluded from ASC 310-30:

Fair value	$341,123
Gross contractual amounts receivable	389,432
Estimate of contractual cash flows not expected to be collected	8,624

In January 2018, after announcement of its intention to acquire NLFC but prior to the completion of the acquisition, United purchased $19.9 million in loans from NLFC in a transaction separate from the business combination.

Pro forma information

The following table discloses the impact of the merger with NLFC since the acquisition date through June 30, 2018. The table also presents certain pro forma information as if NLFC had been acquired on January 1, 2017. These results combine the historical results of the acquired entity with United's consolidated statement of income and, while 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 acquisition taken place in earlier years.

Merger-related costs from the NLFC acquisition of $118,000 and $4.83 million, respectively, have been excluded from the three and six months 2018 pro forma information presented below and included in the three and six months 2017 pro forma information below. The actual results and pro forma information were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	Revenue	Net Income	Revenue	Net Income
2018				
Actual NLFC results included in statement of income since acquisition date	$6,624	$2,686	$10,237	$3,496
Supplemental consolidated pro forma as if NLFC had been acquired January 1, 2017	130,288	39,924	255,119	78,989
2017				
Supplemental consolidated pro forma as if NLFC had been acquired January 1, 2017	$112,004	$28,715	$220,510	$49,595

Acquisition of Four Oaks Fincorp, Inc.

On November 1, 2017, United completed the acquisition of Four Oaks FinCorp, Inc. ("FOFN") and its wholly-owned bank subsidiary, Four Oaks Bank & Trust Company. Information related to the fair value of assets and liabilities acquired from FOFN is included in United's Annual Report on Form 10-K for the year ended December 31, 2017. During first quarter 2018, within the one-year measurement period, United received additional information regarding the acquisition date fair values of loans held for sale and servicing assets. As a result, the provisional values assigned to the acquired loans held for sale and servicing assets have been adjusted to $10.7 million and $65,000, respectively, which represent an increase of $2.59 million and a decrease of $354,000, respectively, from amounts previously disclosed. The tax effect of these adjustments was reflected as a decrease to the deferred tax asset of $1.08 million, with the net amount of $1.16 million reflected as a decrease to goodwill.

Acquisition of HCSB Financial Corporation

On July 31, 2017, United completed the acquisition of HCSB Financial Corporation ("HCSB") and its wholly-owned bank subsidiary, Horry County State Bank. Information related to the fair value of assets and liabilities acquired from HCSB is included in United's Annual Report on Form 10-K for the year ended December 31, 2017. During second quarter 2018, within the one-year measurement period, United received additional information regarding the acquisition date fair value of premises and equipment. As a result, the provisional value assigned to the acquired premises and equipment has been adjusted to $7.42 million, which represents a decrease of $493,000 from the amount previously disclosed. The tax effect of this adjustment was reflected as an increase to the deferred tax asset of

$190,000, resulting in a net $303,000 increase to goodwill.

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

Note 4 – Balance Sheet Offsetting and Repurchase Agreements Accounted for as Secured Borrowings

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

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

June 30, 2018	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	$50,000	$(50,000)	$—	$—	$—	$—
Derivatives	29,896	—	29,896	(553)	(13,799)	15,544
Total	$79,896	$(50,000)	$29,896	$(553)	$(13,799)	$15,544
Weighted average interest rate of reverse repurchase agreements	2.70 %					

	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	$50,000	$(50,000)	$—	$—	$—	$—
Derivatives	37,261	—	37,261	(553)	(18,438)	18,270
Total	$87,261	$(50,000)	$37,261	$(553)	$(18,438)	$18,270
Weighted average interest rate of repurchase agreements	1.95 %					

December 31, 2017	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet		
				Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$100,000	$(100,000)	$—	$—	$—	$—

Derivatives	22,721	—	22,721	(1,490)	(6,369)	14,862
Total	$122,721	$(100,000)	$22,721	$(1,490)	$(6,369)	$14,862
Weighted average interest rate of reverse repurchase agreements	1.95 %					

	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	$100,000	$(100,000)	$—	$—	$—	$—
Derivatives	25,376	—	25,376	(1,490)	(17,190)	6,696
Total	$125,376	$(100,000)	$25,376	$(1,490)	$(17,190)	$6,696
Weighted average interest rate of repurchase agreements	1.20 %					

At June 30, 2018, United recognized the right to reclaim cash collateral of $18.4 million and the obligation to return cash collateral of $13.8 million. At December 31, 2017, United recognized the right to reclaim cash collateral of $17.2 million and the obligation to return cash collateral of $6.37 million. The right to reclaim cash collateral and the obligation to return cash collateral were included in the consolidated balance sheets in other assets and other liabilities, respectively.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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The following table presents additional detail regarding repurchase agreements accounted for as secured borrowings and the securities underlying these agreements as of the dates indicated (in thousands).

	Remaining Contractual Maturity of the Agreements				
As of June 30, 2018	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
Mortgage-backed securities	$—	$ —	$ —	$50,000	$50,000
Total	$—	$ —	$ —	$50,000	$50,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$50,000
Amounts related to agreements not included in offsetting disclosure					$—

	Remaining Contractual Maturity of the Agreements				
As of December 31, 2017	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
Mortgage-backed securities	$—	$ —	$100,000	$ —	$100,000
Total	$—	$ —	$100,000	$ —	$100,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$100,000
Amounts related to agreements not included in offsetting disclosure					$—

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

Note 5 – Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2018				

State and political subdivisions	$ 71,125	$ 954	$ 1,238	$ 70,841
Mortgage-backed securities[1]	226,444	987	6,809	220,622
Total	$ 297,569	$ 1,941	$ 8,047	$ 291,463
As of December 31, 2017				
State and political subdivisions	$ 71,959	$ 1,574	$ 178	$ 73,355
Mortgage-backed securities[1]	249,135	2,211	3,425	247,921
Total	$ 321,094	$ 3,785	$ 3,603	$ 321,276

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

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of June 30, 2018				
U.S. Treasuries	$122,290	$ —	$ 3,251	$119,039
U.S. Government agencies	25,778	240	440	25,578
State and political subdivisions	200,486	123	2,978	197,631
Mortgage-backed securities[1]	1,844,310	1,992	39,441	1,806,861
Corporate bonds	199,303	793	1,931	198,165
Asset-backed securities	189,067	610	714	188,963
Other	57	—	—	57
Total	$2,581,291	$ 3,758	$ 48,755	$2,536,294
As of December 31, 2017				
U.S. Treasuries	$122,025	$ —	$ 912	$121,113
U.S. Government agencies	26,129	269	26	26,372
State and political subdivisions	195,663	2,019	396	197,286
Mortgage-backed securities[1]	1,738,056	7,089	17,934	1,727,211
Corporate bonds	305,265	1,513	425	306,353
Asset-backed securities	236,533	1,078	153	237,458
Other	57	—	—	57
Total	$2,623,728	$ 11,968	$ 19,846	$2,615,850

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

Securities with a carrying value of $816 million and $1.04 billion were pledged to secure public deposits, derivatives and other secured borrowings at June 30, 2018 and December 31, 2017, respectively.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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The following table summarizes held-to-maturity securities in an unrealized loss position as of the dates indicated (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2018						
State and political subdivisions	$43,131	$ 1,238	$—	$ —	$43,131	$ 1,238
Mortgage-backed securities	82,473	2,856	79,198	3,953	161,671	6,809
Total unrealized loss position	$125,604	$ 4,094	$79,198	$ 3,953	$204,802	$ 8,047
As of December 31, 2017						
State and political subdivisions	$8,969	$ 178	$—	$ —	$8,969	$ 178
Mortgage-backed securities	95,353	1,448	65,868	1,977	161,221	3,425
Total unrealized loss position	$104,322	$ 1,626	$65,868	$ 1,977	$170,190	$ 3,603

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of June 30, 2018						
U.S. Treasuries	$119,039	$ 3,251	$—	$ —	$119,039	$ 3,251
U.S. Government agencies	19,790	413	1,624	27	21,414	440
State and political subdivisions	171,147	2,899	5,061	79	176,208	2,978
Mortgage-backed securities	1,212,603	24,160	339,456	15,281	1,552,059	39,441
Corporate bonds	116,563	1,921	990	10	117,553	1,931
Asset-backed securities	75,232	714	—	—	75,232	714
Total unrealized loss position	$1,714,374	$ 33,358	$347,131	$ 15,397	$2,061,505	$ 48,755
As of December 31, 2017						
U.S. Treasuries	$121,113	$ 912	$—	$ —	$121,113	$ 912
U.S. Government agencies	1,976	13	1,677	13	3,653	26
State and political subdivisions	61,494	365	5,131	31	66,625	396
Mortgage-backed securities	964,205	8,699	328,923	9,235	1,293,128	17,934
Corporate bonds	55,916	325	900	100	56,816	425
Asset-backed securities	28,695	126	5,031	27	33,726	153
Total unrealized loss position	$1,233,399	$ 10,440	$341,662	$ 9,406	$1,575,061	$ 19,846

At June 30, 2018, there were 294 available-for-sale securities and 70 held-to-maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2018 were primarily attributable to changes in interest rates.

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. No impairment charges were recognized during the three and six months ended June 30, 2018 or 2017.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes available-for-sale securities sales activity for the three and six months ended June 30, 2018 and 2017 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sales	$26,335	$70,453	$140,296	$94,650
Gross gains on sales	$232	$227	$649	$325
Gross losses on sales	(596)	(223)	(1,953)	(323)
Net (losses) gains on sales of securities	$(364)	$4	$(1,304)	$2
Income tax benefit attributable to sales	$(97)	$—	$(317)	$(1)

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The amortized cost and fair value of held-to-maturity and available-for-sale securities at June 30, 2018, 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	$74,525	$72,568	$—	$—
5 to 10 years	47,765	46,471	—	—
	122,290	119,039	—	—
US Government agencies:				
1 to 5 years	20,854	20,422	—	—
More than 10 years	4,924	5,156	—	—
	25,778	25,578	—	—
State and political subdivisions:				
Within 1 year	1,500	1,510	5,929	5,991
1 to 5 years	44,769	44,024	10,670	10,960
5 to 10 years	26,393	25,908	10,157	10,759
More than 10 years	127,824	126,189	44,369	43,131
	200,486	197,631	71,125	70,841
Corporate bonds:				
1 to 5 years	181,027	180,412	—	—
5 to 10 years	17,276	16,763	—	—
More than 10 years	1,000	990	—	—
	199,303	198,165	—	—
Asset-backed securities:				
1 to 5 years	5,624	5,771	—	—
5 to 10 years	31,025	31,105	—	—
More than 10 years	152,418	152,087	—	—
	189,067	188,963	—	—
Other:				
More than 10 years	57	57	—	—
	57	57	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	1,500	1,510	5,929	5,991
1 to 5 years	326,799	323,197	10,670	10,960
5 to 10 years	122,459	120,247	10,157	10,759
More than 10 years	286,223	284,479	44,369	43,131
Mortgage-backed securities	1,844,310	1,806,861	226,444	220,622
	$2,581,291	$2,536,294	$297,569	$291,463

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
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Note 6 – Loans and Leases and Allowance for Credit Losses

Major classifications of the loan and lease portfolio (collectively referred to as the "loan portfolio" or "loans") are summarized as of the dates indicated as follows (in thousands).

	June 30, 2018	December 31, 2017
Owner occupied commercial real estate	$1,681,737	$1,923,993
Income producing commercial real estate	1,821,384	1,595,174
Commercial & industrial	1,193,046	1,130,990
Commercial construction	735,575	711,936
Equipment financing	464,594	—
Total commercial	5,896,336	5,362,093
Residential mortgage	1,020,606	973,544
Home equity lines of credit	707,718	731,227
Residential construction	195,580	183,019
Consumer direct	122,756	127,504
Indirect auto	277,275	358,185
Total loans	8,220,271	7,735,572
Less allowance for loan losses	(61,071)	(58,914)
Loans, net	$8,159,200	$7,676,658

At June 30, 2018 and December 31, 2017, loans totaling $3.95 billion and $3.73 billion, respectively, were pledged as collateral to secure Federal Home Loan Bank advances, securitized notes payable and other contingent funding sources.

At June 30, 2018, the carrying value and outstanding balance of purchased credit impaired ("PCI") loans accounted for under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, were $89.8 million and $131 million, respectively. At December 31, 2017, the carrying value and outstanding balance of PCI loans were $98.5 million and $142 million, respectively. The following table presents changes in the value of the accretable yield for PCI loans for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Balance at beginning of period	$18,036	$7,762	$17,686	$7,981
Additions due to acquisitions	147	—	1,977	—
Accretion	(2,965)	(1,412)	(5,511)	(3,102)
Reclassification from nonaccretable difference	6,527	3,827	7,118	4,716
Changes in expected cash flows that do not affect nonaccretable difference	1,661	1,188	2,136	1,770
Balance at end of period	$23,406	$11,365	$23,406	$11,365

In addition to the accretable yield on PCI loans, the fair value adjustments on purchased loans outside the scope of ASC 310-30 are also accreted to interest revenue over the life of the loans. At June 30, 2018 and December 31, 2017, the remaining accretable net fair value discount on loans acquired through a business combination and not accounted for under ASC 310-30 was $4.41 million and $14.7 million, respectively. At June 30, 2018, the net fair value discount of $4.41 million included a net premium on loans acquired with NLFC. In addition, indirect auto loans purchased at a premium outside of a business combination had a remaining premium of $5.47 million and $7.84 million, respectively, as of June 30, 2018 and December 31, 2017. During the three and six months ended June 30, 2018, United did not purchase any indirect auto loans. During the three and six months ended June 30, 2017, United purchased indirect auto loans of $40.5 million and $81.7 million, respectively.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
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At June 30, 2018, equipment financing assets included leases of $25.5 million. The components of the net investment in leases are presented below (in thousands).

	June 30, 2018
Minimum future lease payments receivable	$ 26,396
Estimated residual value of leased equipment	3,314
Initial direct costs	764
Security deposits	(1,192)
Purchase accounting premium	1,197
Unearned income	(4,930)
Net investment in leases	$ 25,549

Minimum future lease payments expected to be received from lease contracts as of June 30, 2018 are as follows (in thousands):

Year	
Remainder of 2018	$5,900
2019	9,325
2020	6,396
2021	3,185
2022	1,373
Thereafter	217
Total	$26,396

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Allowance for Credit Losses and Loans Individually Evaluated for Impairment

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).

Three Months Ended June 30,	2018 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	2017 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$14,561	$(7)	$585	$(2,230)	$12,909	$15,669	$(158)	$120	$(209)	$15,422
Income producing commercial real estate	9,776	(1,653)	232	2,507	10,862	8,878	(203)	20	659	9,354
Commercial & industrial	4,075	(233)	217	146	4,205	3,725	(598)	244	249	3,620
Commercial construction	10,034	(53)	159	(17)	10,123	12,790	(361)	20	(1,411)	11,038
Equipment financing	2,291	(23)	71	1,222	3,561	—	—	—	—	—
Residential mortgage	10,221	(112)	101	(365)	9,845	9,071	(131)	105	753	9,798
Home equity lines of credit	4,932	(211)	190	32	4,943	4,530	(424)	171	313	4,590
Residential construction	3,044	(8)	67	(513)	2,590	3,267	(70)	123	(236)	3,084
Consumer direct	733	(552)	195	389	765	609	(457)	195	237	584
Indirect auto	1,418	(379)	55	174	1,268	2,004	(313)	94	225	2,010
Total allowance for loan losses	61,085	(3,231)	1,872	1,345	61,071	60,543	(2,715)	1,092	580	59,500
Allowance for unfunded commitments	2,440	—	—	455	2,895	2,002	—	—	220	2,222
Total allowance for credit losses	$63,525	$(3,231)	$1,872	$1,800	$63,966	$62,545	$(2,715)	$1,092	$800	$61,722

Six Months Ended June 30,	2018 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	2017 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$14,776	$(67)	$688	$(2,488)	$12,909	$16,446	$(183)	$357	$(1,198)	$15,422

Income producing commercial real estate	9,381	(2,310)	467	3,324	10,862	8,843	(1,100)	47	1,564	9,354
Commercial & industrial	3,971	(617)	606	245	4,205	3,810	(814)	612	12	3,620
Commercial construction	10,523	(416)	256	(240)	10,123	13,405	(563)	592	(2,396)	11,038
Equipment financing	—	(162)	168	3,555	3,561	—	—	—	—	—
Residential mortgage	10,097	(182)	224	(294)	9,845	8,545	(673)	117	1,809	9,798
Home equity lines of credit	5,177	(335)	225	(124)	4,943	4,599	(895)	220	666	4,590
Residential construction	2,729	(8)	131	(262)	2,590	3,264	(70)	132	(242)	3,084
Consumer direct	710	(1,203)	355	903	765	708	(899)	402	373	584
Indirect auto	1,550	(815)	135	398	1,268	1,802	(733)	149	792	2,010
Total allowance for loan losses	58,914	(6,115)	3,255	5,017	61,071	61,422	(5,930)	2,628	1,380	59,500
Allowance for unfunded commitments	2,312	—	—	583	2,895	2,002	—	—	220	2,222
Total allowance for credit losses	$61,226	$(6,115)	$3,255	$5,600	$63,966	$63,424	$(5,930)	$2,628	$1,600	$61,722

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

	Allowance for Credit Losses							
	June 30, 2018				December 31, 2017			
	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	$985	$ 11,647	$277	$12,909	$1,255	$ 13,521	$—	$14,776
Income producing commercial real estate	609	10,193	60	10,862	562	8,813	6	9,381
Commercial & industrial	35	4,135	35	4,205	27	3,944	—	3,971
Commercial construction	98	10,025	—	10,123	156	10,367	—	10,523
Equipment financing	—	3,561	—	3,561	—	—	—	—
Residential mortgage	1,007	8,838	—	9,845	1,174	8,919	4	10,097
Home equity lines of credit	—	4,943	—	4,943	—	5,177	—	5,177
Residential construction	52	2,538	—	2,590	75	2,654	—	2,729
Consumer direct	6	758	1	765	7	700	3	710
Indirect auto	29	1,239	—	1,268	—	1,550	—	1,550
Total allowance for loan losses	2,821	57,877	373	61,071	3,256	55,645	13	58,914
Allowance for unfunded commitments	—	2,895	—	2,895	—	2,312	—	2,312
Total allowance for credit losses	$2,821	$ 60,772	$373	$63,966	$3,256	$ 57,957	$13	$61,226

	Loans Outstanding							
	June 30, 2018				December 31, 2017			
	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	$18,932	$1,649,437	$13,368	$1,681,737	$21,823	$1,876,411	$25,759	$1,923,993
Income producing commercial real estate	16,245	1,762,960	42,179	1,821,384	16,483	1,533,851	44,840	1,595,174
Commercial & industrial	1,510	1,190,900	636	1,193,046	2,654	1,126,894	1,442	1,130,990
Commercial construction	3,528	725,474	6,573	735,575	3,813	699,266	8,857	711,936
Equipment financing	—	452,620	11,974	464,594	—	—	—	—
Residential mortgage	14,012	995,072	11,522	1,020,606	14,193	946,210	13,141	973,544
Home equity lines of credit	232	705,591	1,895	707,718	101	728,235	2,891	731,227
Residential construction	1,498	193,156	926	195,580	1,577	180,978	464	183,019
Consumer direct	249	121,737	770	122,756	270	126,114	1,120	127,504
Indirect auto	1,215	276,060	—	277,275	1,396	356,789	—	358,185
Total loans	$57,421	$8,073,007	$89,843	$8,220,271	$62,310	$7,574,748	$98,514	$7,735,572

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. Management individually evaluates certain impaired loans, including all non-PCI relationships that are on nonaccrual with a balance of $500,000 or greater and all troubled debt restructurings (“TDRs”) regardless of accrual status, for impairment. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A specific reserve is established for impaired loans for the amount of calculated impairment, if any. Interest payments received on impaired nonaccrual loans are applied as a reduction of the recorded investment in the loan. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Loans are evaluated for impairment quarterly and specific reserves are established in the allowance for loan losses for any measured impairment.

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

Management calculates the loss emergence period for each pool in the loan portfolio 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 and evaluated for impairment, which, if necessary, could result in fully or partially charging off the loan or establishing a specific reserve. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department, the Loss Mitigation Department and the Foreclosure/OREO Department. Nonaccrual real estate loans are generally charged down to fair value less costs to sell at the time they are placed on nonaccrual status.

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

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

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

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

	June 30, 2018			December 31, 2017		
	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	$8,292	$ 6,763	$ —	$1,238	$ 1,176	$ —
Income producing commercial real estate	7,568	7,496	—	2,177	2,165	—
Commercial & industrial	160	123	—	1,758	1,471	—
Commercial construction	564	558	—	134	134	—
Equipment financing	—	—	—	—	—	—
Total commercial	16,584	14,940	—	5,307	4,946	—
Residential mortgage	5,125	4,520	—	2,661	2,566	—
Home equity lines of credit	284	229	—	393	101	—
Residential construction	712	576	—	405	330	—
Consumer direct	49	49	—	29	29	—
Indirect auto	139	137	—	1,396		