UNITED COMMUNITY BANKS INC
Form 10-Q
May 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 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 x 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 x NO ¨

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

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

Emerging growth company ¨

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

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

YES ¨ NO x

Common stock, par value $1 per share 79,125,271 shares outstanding as of April 30, 2018.

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Part I – Financial Information

UNITED COMMUNITY BANKS, INC.

Consolidated Statements of Income *(Unaudited)*

(in thousands, except per share data)	Three Months Ended March 31, 2018	2017
Interest revenue:		
Loans, including fees	$96,469	$72,727
Investment securities, including tax exempt of $972 and $279	18,295	17,712
Deposits in banks and short-term investments	526	519
Total interest revenue	115,290	90,958
Interest expense:		
Deposits:		
NOW	1,113	597
Money market	2,175	1,426
Savings	49	27
Time	2,956	1,008
Total deposit interest expense	6,293	3,058
Short-term borrowings	300	40
Federal Home Loan Bank advances	2,124	1,430
Long-term debt	3,288	2,876
Total interest expense	12,005	7,404
Net interest revenue	103,285	83,554
Provision for credit losses	3,800	800
Net interest revenue after provision for credit losses	99,485	82,754
Fee revenue:		
Service charges and fees	8,925	10,604
Mortgage loan and other related fees	5,359	4,424
Brokerage fees	872	1,410
Gains from sales of SBA/USDA loans	1,778	1,959
Securities losses, net	(940)	(2)
Other	6,402	3,679
Total fee revenue	22,396	22,074
Total revenue	121,881	104,828
Operating expenses:		
Salaries and employee benefits	42,875	36,691

Communications and equipment	4,632	4,918
Occupancy	5,613	4,949
Advertising and public relations	1,515	1,061
Postage, printing and supplies	1,637	1,370
Professional fees	4,044	3,044
FDIC assessments and other regulatory charges	2,476	1,283
Amortization of intangibles	1,898	973
Merger-related and other charges	2,054	2,054
Other	6,731	6,483
Total operating expenses	73,475	62,826
Net income before income taxes	48,406	42,002
Income tax expense	10,748	18,478
Net income	$37,658	$23,524
Net income available to common shareholders	$37,381	$23,524
Earnings per common share:		
Basic	$.47	$.33
Diluted	.47	.33
Weighted average common shares outstanding:		
Basic	79,205	71,700
Diluted	79,215	71,708

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statements of Comprehensive Income *(Unaudited)*

(in thousands)	Three Months Ended March 31, 2018			2017		
	Before-tax Amount	**Tax (Expense) Benefit**	**Net of Tax Amount**	**Before-tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**
Net income	$48,406	$(10,748)	$37,658	$42,002	$(18,478)	$23,524
Other comprehensive income (loss):						
Unrealized gains (losses) on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	(29,265)	7,155	(22,110)	6,508	(2,464)	4,044
Reclassification adjustment for losses included in net income	940	(221)	719	2	(1)	1
Net unrealized gains (losses)	(28,325)	6,934	(21,391)	6,510	(2,465)	4,045
Amortization of losses included in net income on available-for-sale securities transferred to held-to- maturity	222	(54)	168	310	(116)	194
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	147	(38)	109	413	(161)	252
Reclassification of disproportionate tax effect related to terminated cash flow hedges	-	-	-	-	3,400	3,400
Net cash flow hedge activity	147	(38)	109	413	3,239	3,652
Net actuarial loss on defined benefit pension plan	(5)	1	(4)	(800)	312	(488)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	227	(58)	169	200	(79)	121
Net defined benefit pension plan activity	222	(57)	165	(600)	233	(367)
Total other comprehensive income (loss)	(27,734)	6,785	(20,949)	6,633	891	7,524
Comprehensive income	$20,672	$(3,963)	$16,709	$48,635	$(17,587)	$31,048

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC.

Consolidated Balance Sheets *(Unaudited)*

(in thousands, except share and per share data)	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 136,201	$ 129,108
Interest-bearing deposits in banks	216,052	185,167
Cash and cash equivalents	352,253	314,275
Securities available for sale	2,419,049	2,615,850
Securities held to maturity (fair value $308,007 and $321,276)	312,080	321,094
Loans held for sale (includes $26,493 and $26,252 at fair value)	26,493	32,734
Loans and leases, net of unearned income	8,184,249	7,735,572
Less allowance for loan and lease losses	(61,085)	(58,914)
Loans and leases, net	8,123,164	7,676,658
Premises and equipment, net	208,243	208,852
Bank owned life insurance	189,759	188,970
Accrued interest receivable	31,349	32,459
Net deferred tax asset	86,520	88,049
Derivative financial instruments	27,202	22,721
Goodwill and other intangible assets	328,328	244,397
Other assets	159,815	169,401
Total assets	$ 12,264,255	$ 11,915,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$ 3,226,111	$ 3,087,797
NOW	2,106,145	2,131,939
Money market	2,052,486	2,016,748
Savings	677,020	651,742
Time	1,520,931	1,548,460
Brokered	410,747	371,011
Total deposits	9,993,440	9,807,697
Short-term borrowings	-	50,000
Federal Home Loan Bank advances	434,574	504,651
Long-term debt	325,955	120,545
Derivative financial instruments	33,236	25,376
Accrued expenses and other liabilities	120,295	103,857
Total liabilities	10,907,500	10,612,126
Shareholders' equity:		
Common stock, $1 par value; 150,000,000 shares authorized; 79,122,620 and 77,579,561 shares issued and outstanding	79,123	77,580
Common stock issuable; 612,831 and 607,869 shares	9,392	9,083

Capital surplus	1,496,307	1,451,814
Accumulated deficit	(181,877)	(209,902)
Accumulated other comprehensive loss	(46,190)	(25,241)
Total shareholders' equity	1,356,755	1,303,334
Total liabilities and shareholders' equity	$12,264,255	$11,915,460

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC.

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

For the Three Months Ended March 31,

(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				23,524		23,524
Other comprehensive income					7,524	7,524
Common stock issued to dividend reinvestment plan and employee benefit plans (4,239 shares)	4		106			110
Amortization of stock option and restricted stock awards			1,321			1,321
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (37,121 shares issued, 58,553 shares deferred)	38	883	(1,551)			(630)
Deferred compensation plan, net, including dividend equivalents		117				117
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (32,279 shares)	32	(368)	229			(107)
Common stock dividends ($.09 per share)				(6,488)		(6,488)
Cumulative effect of change in accounting principle				437		437
Balance, March 31, 2017	$ 70,973	$ 7,959	$ 1,275,954	$ (234,384)	$ (18,959)	$ 1,101,543
Balance, December 31, 2017	$ 77,580	$ 9,083	$ 1,451,814	$ (209,902)	$ (25,241)	$ 1,303,334
Net income				37,658		37,658
Other comprehensive income					(20,949)	(20,949)
Common stock issued to dividend reinvestment plan and employee benefit plans (5,204 shares)	5		139			144
Common stock issued for acquisition (1,443,987 shares)	1,444		44,302			45,746
Amortization of stock option and restricted stock awards			1,148			1,148

Vesting of restricted stock and exercise of stock options, net of shares surrendered to cover payroll taxes (48,310 shares issued, 46,074 shares deferred)	48	850	(1,725)			(827)
Deferred compensation plan, net, including dividend equivalents		143				143
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (45,558 shares)	46	(684)	629			(9)
Common stock dividends ($.12 per share)				(9,633)		(9,633)
Balance, March 31, 2018	$79,123	$9,392	$1,496,307	$(181,877)	$(46,190)	$1,356,755

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statements of Cash Flows *(Unaudited)*

	Three Months Ended March 31,	
(in thousands)	2018	2017
Operating activities:		
Net income	$37,658	$23,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	10,487	6,394
Provision for credit losses	3,800	800
Stock based compensation	1,148	1,321
Deferred income tax expense	10,225	19,059
Securities losses, net	940	2
Gains from sales of SBA/USDA loans	(1,778)	(1,959)
Net losses and write downs on sales of other real estate owned	188	373
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(385)	4,784
Accrued expenses and other liabilities	1,371	(5,115)
Loans held for sale	8,833	13,387
Net cash provided by operating activities	72,487	62,570
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	13,832	13,351
Purchases of securities held to maturity	(4,781)	(13,433)
Investment securities available for sale:		
Proceeds from sales of securities available for sale	113,961	24,197
Proceeds from maturities and calls of securities available for sale	85,331	137,312
Purchases of securities available for sale	(30,161)	(147,614)
Net increase in loans	(79,404)	(15,873)
Purchase of bank owned life insurance	-	(10,000)
Proceeds from sales of premises and equipment	195	5
Purchases of premises and equipment	(6,107)	(3,404)
Net cash paid for acquisition	(56,800)	-
Proceeds from sale of other real estate	957	3,077
Net cash provided by (used in) investing activities	37,023	(12,382)
Financing activities:		
Net change in deposits	186,089	114,828
Net change in short-term borrowings	(264,923)	(5,000)
Repayments of long-term debt	(12,309)	-
Proceeds from FHLB advances	760,000	1,510,000
Repayments of FHLB advances	(830,000)	(1,650,000)

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	144	110
Cash paid for shares withheld to cover payroll taxes upon vesting of restricted stock	(836)	(737)
Cash dividends on common stock	(7,885)	(5,764)
Net cash used in financing activities	(71,532)	(36,563)
Net change in cash and cash equivalents, including restricted cash	37,978	13,625
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	$352,253	$230,973
Supplemental disclosures of cash flow information:		
Interest paid	$13,069	$8,089
Income taxes paid	811	680
Significant non-cash investing and financing transactions:		
Unsettled security purchases	4,790	14,000
Unsettled government guaranteed loan purchases	-	14,674
Unsettled government guaranteed loan sales	14,240	16,115
Transfers of loans to foreclosed properties	625	561
Acquisitions:		
Assets acquired	480,679	-
Liabilities assumed	350,433	-
Net assets acquired	130,246	-
Common stock issued in acquisitions	45,746	-

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 March 31, 2018, these restricted cash accounts totaled $11.8 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 will become the basis for a full 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to 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 $394 million of assets and assumed $350 million of liabilities. Under the terms of the merger agreement, NLFC shareholders received $130 million in total consideration, $84.5 million of which 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 $87.0 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 period ended March 31, 2018 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of February 1, 2018.

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	(6,655)	358,878
Premises and equipment, net	628	(304)	324
Net deferred tax asset	-	2,737	2,737
Other assets	5,117	(1,066)	4,051
Total assets acquired	$ 398,978	$ (5,288)	$ 393,690
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		$ (4,337)	
Total identifiable net assets			$ 43,257
Consideration transferred			
Cash			84,500
Common stock issued (1,443,987 shares)			45,746
Total fair value of consideration transferred			130,246
Goodwill			$ 86,989

(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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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	$ 22,164
Non-accretable difference	4,418
Cash flows expected to be collected	17,746
Accretable yield	1,830
Fair value	$ 15,916
Excluded from ASC 310-30:	
Fair value	$ 342,962
Gross contractual amounts receivable	391,998
Estimate of contractual cash flows not expected to be collected	9,171

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 March 31, 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 $4.71 million have been excluded from the three months 2018 pro forma information presented below and included in the three months 2017 pro forma information below. The actual results and pro forma information were as follows *(in thousands)*:

	Three Months Ended March 31,	
	Revenue	Net Income
2018		
Actual NLFC results included in statement of income since acquisition date	$ 3,613	$ 810
Supplemental consolidated pro forma as if NLFC had been acquired January 1, 2017	124,831	39,065
2017		
Supplemental consolidated pro forma as if NLFC had been acquired January 1, 2017	$ 108,506	$ 20,880

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.

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)*.

March 31, 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	27,202	-	27,202	(4,065)	(12,069)	11,068
Total	$ 77,202	$ (50,000)	$ 27,202	$ (4,065)	$ (12,069)	$ 11,068
Weighted average interest rate of reverse repurchase agreements	2.25 %					

	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	33,236	-	33,236	(4,065)	(18,461)	10,710
Total	$ 83,236	$ (50,000)	$ 33,236	$ (4,065)	$ (18,461)	$ 10,710
Weighted average interest rate of repurchase agreements	1.50 %					

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 March 31, 2018, United recognized the right to reclaim cash collateral of $18.5 million and the obligation to return cash collateral of $12.1 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

Notes to Consolidated Financial Statements

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

	Remaining Contractual Maturity of the Agreements				
As of March 31, 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 March 31, 2018				
State and political subdivisions	$ 67,258	$ 1,118	$ 633	$ 67,743
Mortgage-backed securities [1]	244,822	1,372	5,930	240,264
Total	$ 312,080	$ 2,490	$ 6,563	$ 308,007
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

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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 March 31, 2018				
U.S. Treasuries	$122,156	$ -	$ 2,570	$119,586
U.S. Government agencies	25,955	265	319	25,901
State and political subdivisions	203,430	228	2,634	201,024
Mortgage-backed securities (1)	1,693,380	3,721	34,125	1,662,976
Corporate bonds	199,412	773	1,635	198,550
Asset-backed securities	210,445	992	482	210,955
Other	57	-	-	57
Total	$2,454,835	$ 5,979	$ 41,765	$2,419,049
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 $876 million and $1.04 billion were pledged to secure public deposits, derivatives and other secured borrowings at March 31, 2018 and December 31, 2017, respectively.

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2018						
State and political subdivisions	$ 37,160	$ 633	$ -	$ -	$ 37,160	$ 633
Mortgage-backed securities	110,751	3,012	62,629	2,918	173,380	5,930
Total unrealized loss position	$ 147,911	$ 3,645	$ 62,629	$ 2,918	$ 210,540	$ 6,563
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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2018						
U.S. Treasuries	$119,586	$ 2,570	$-	$ -	$119,586	$ 2,570
U.S. Government agencies	19,895	303	1,640	16	21,535	319
State and political subdivisions	155,125	2,549	5,066	85	160,191	2,634
Mortgage-backed securities	1,065,689	21,354	312,916	12,771	1,378,605	34,125
Corporate bonds	117,081	1,535	900	100	117,981	1,635
Asset-backed securities	68,962	478	5,053	4	74,015	482
Total unrealized loss position	$1,546,338	$ 28,789	$325,575	$ 12,976	$1,871,913	$ 41,765
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 March 31, 2018, there were 276 available-for-sale securities and 67 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 March 31, 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 months ended March 31, 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 months ended March 31, 2018 and 2017 *(in thousands)*.

	Three Months Ended March 31, 2018	2017
Proceeds from sales	$ 113,961	$ 24,197
Gross gains on sales	$ 417	$ 98
Gross losses on sales	(1,357)	(100)
Net losses on sales of securities	$ (940)	$ (2)
Income tax benefit attributable to sales	$ (221)	$ (1)

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The amortized cost and fair value of held-to-maturity and available-for-sale securities at March 31, 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	$74,495	$72,916	$-	$-
5 to 10 years	47,661	46,670	-	-
	122,156	119,586	-	-
US Government agencies:				
1 to 5 years	18,859	18,588	-	-
5 to 10 years	1,990	1,945	-	-
More than 10 years	5,106	5,368	-	-
	25,955	25,901	-	-
State and political subdivisions:				
Within 1 year	1,500	1,503	5,431	5,475
1 to 5 years	45,297	44,826	13,075	13,497
5 to 10 years	27,558	27,167	10,509	11,160
More than 10 years	129,075	127,528	38,243	37,611
	203,430	201,024	67,258	67,743
Corporate bonds:				
1 to 5 years	181,136	180,705	-	-
5 to 10 years	17,276	16,945	-	-
More than 10 years	1,000	900	-	-
	199,412	198,550	-	-
Asset-backed securities:				
1 to 5 years	5,842	5,995	-	-
5 to 10 years	48,479	48,643	-	-
More than 10 years	156,124	156,317	-	-
	210,445	210,955	-	-
Other:				
More than 10 years	57	57	-	-

	57	57	-	-
Total securities other than mortgage-backed securities:				
Within 1 year	1,500	1,503	5,431	5,475
1 to 5 years	325,629	323,030	13,075	13,497
5 to 10 years	142,964	141,370	10,509	11,160
More than 10 years	291,362	290,170	38,243	37,611
Mortgage-backed securities	1,693,380	1,662,976	244,822	240,264
	$2,454,835	$2,419,049	$312,080	$ 308,007

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

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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)*.

	March 31, 2018	December 31, 2017
Owner occupied commercial real estate	$1,897,826	$ 1,923,993
Income producing commercial real estate	1,677,300	1,595,174
Commercial & industrial	1,142,428	1,130,990
Commercial construction	690,530	711,936
Equipment financing	422,532	-
Total commercial	5,830,616	5,362,093
Residential mortgage	992,111	973,544
Home equity lines of credit	712,275	731,227
Residential construction	189,662	183,019
Consumer direct	143,737	127,504
Indirect auto	315,848	358,185
Total loans	8,184,249	7,735,572
Less allowance for loan losses	(61,085)	(58,914)
Loans, net	$8,123,164	$ 7,676,658

At March 31, 2018 and December 31, 2017, loans totaling $3.84 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 March 31, 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 $101 million and $146 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 March 31, 2018		2017	
Balance at beginning of period	$	17,686	$	7,981
Additions due to acquisitions		1,830		-
Accretion		(2,546)		(1,690)
Reclassification from nonaccretable difference		591		889
Changes in expected cash flows that do not affect nonaccretable difference		475		582
Balance at end of period	$	18,036	$	7,762

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 March 31, 2018 and December 31, 2017, the remaining accretable fair value discount on loans acquired through a business combination and not accounted for under ASC 310-30 were $4.97 million and $14.7 million, respectively. In addition, indirect auto loans purchased at a premium outside of a business combination have a remaining premium of $6.55 million and $7.84 million, respectively, as of March 31, 2018 and December 31, 2017. During the three months ended March 31, 2018, United did not purchase any indirect auto loans. During the three months ended March 31, 2017, United purchased indirect auto loans of $39.8 million.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At March 31, 2018, equipment financing assets included leases of $24.9 million. The components of the net investment in leases are presented below *(in thousands)*.

	March 31, 2018
Minimum future lease payments receivable	$ 26,098
Estimated residual value of leased equipment	3,480
Initial direct costs	111
Security deposits	(1,184)
Purchase accounting premium	1,388
Unearned income	(4,949)
Net investment in leases	$ 24,944

Minimum future lease payments expected to be received from lease contracts as of March 31, 2018 are as follows *(in thousands)*:

Year	
Remainder of 2018	$8,469
2019	8,337
2020	5,504
2021	2,656
2022	1,053
Thereafter	79
Total	$26,098

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Allowance for Credit Losses

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 March 31, 2018	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$ 14,776	$ (60)	$ 103	$ (258)	$ 14,561
Income producing commercial real estate	9,381	(657)	235	817	9,776
Commercial & industrial	3,971	(384)	389	99	4,075
Commercial construction	10,523	(363)	97	(223)	10,034
Equipment financing	-	(139)	97	2,333	2,291
Residential mortgage	10,097	(70)	123	71	10,221
Home equity lines of credit	5,177	(124)	35	(156)	4,932
Residential construction	2,729	-	64	251	3,044
Consumer direct	710	(651)	160	514	733
Indirect auto	1,550	(436)	80	224	1,418
Total allowance for loan losses	58,914	(2,884)	1,383	3,672	61,085
Allowance for unfunded commitments	2,312	-	-	128	2,440
Total allowance for credit losses	$ 61,226	$ (2,884)	$ 1,383	$ 3,800	$ 63,525

Three Months Ended March 31, 2017	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$ 16,446	$ (25)	$ 237	$ (989)	$ 15,669
Income producing commercial real estate	8,843	(897)	27	905	8,878

Commercial & industrial	3,810	(216)	368	(237)	3,725
Commercial construction	13,405	(202)	572	(985)	12,790
Residential mortgage	8,545	(542)	12	1,056	9,071
Home equity lines of credit	4,599	(471)	49	353	4,530
Residential construction	3,264	-	9	(6)	3,267
Consumer direct	708	(442)	207	136	609
Indirect auto	1,802	(420)	55	567	2,004
Total allowance for loan losses	61,422	(3,215)	1,536	800	60,543
Allowance for unfunded commitments	2,002	-	-	-	2,002
Total allowance for credit losses	$ 63,424	$ (3,215)	$ 1,536	$ 800	$ 62,545

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Allowance for Credit Losses							
	March 31, 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	$1,686	$ 12,875	$-	$14,561	$1,255	$ 13,521	$-	$14,776
Income producing commercial real estate	631	9,085	60	9,776	562	8,813	6	9,381
Commercial & industrial	61	4,014	-	4,075	27	3,944	-	3,971
Commercial construction	151	9,775	108	10,034	156	10,367	-	10,523
Equipment financing	-	2,291	-	2,291	-	-	-	-
Residential mortgage	1,151	9,070	-	10,221	1,174	8,919	4	10,097
Home equity lines of credit	90	4,842	-	4,932	-	5,177	-	5,177
Residential construction	73	2,962	9	3,044	75	2,654	-	2,729
Consumer direct	7	724	2	733	7	700	3	710
Indirect auto	35	1,383	-	1,418	-	1,550	-	1,550
Total allowance for loan losses	3,885	57,021	179	61,085	3,256	55,645	13	58,914
Allowance for unfunded commitments	-	2,440	-	2,440	-	2,312	-	2,312
Total allowance for credit losses	$3,885	$ 59,461	$179	$63,525	$3,256	$ 57,957	$13	$61,226

Loans Outstanding							
March 31, 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	$24,051	$ 1,853,032	$20,743	$1,897,826	$21,823	$ 1,876,411	$25,759	$1,923,993
Income producing commercial real estate	16,320	1,621,347	39,633	1,677,300	16,483	1,533,851	44,840	1,595,174
Commercial & industrial	2,536	1,139,101	791	1,142,428	2,654	1,126,894	1,442	1,130,990
Commercial construction	3,910	676,727	9,893	690,530	3,813	699,266	8,857	711,936
Equipment financing	-	408,935	13,597	422,532	-	-	-	-
Residential mortgage	14,921	964,665	12,525	992,111	14,193	946,210	13,141	973,544
Home equity lines of credit	341	709,853	2,081	712,275	101	728,235	2,891	731,227
Residential construction	1,571	187,642	449	189,662	1,577	180,978	464	183,019
Consumer direct	268	142,090	1,379	143,737	270	126,114	1,120	127,504
Indirect auto	1,355	314,493	-	315,848	1,396	356,789	-	358,185
Total loans	$65,273	$ 8,017,885	$101,091	$8,184,249	$62,310	$ 7,574,748	$98,514	$7,735,572

Impaired Loans

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

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

Management calculates the loss emergence period for each pool 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.

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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 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.

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

	March 31, 2018			December 31, 2017		
	Unpaid Principal	**Recorded Investment**	**Allowance for Loan**	**Unpaid Principal**	**Recorded Investment**	**Allowance for Loan**

	Balance		Losses Allocated	Balance		Losses Allocated
With no related allowance recorded:						
Owner occupied commercial real estate	$6,804	$5,880	$-	$1,238	$1,176	$-
Income producing commercial real estate	7,632	7,610	-	2,177	2,165	-
Commercial & industrial	248	134	-	1,758	1,471	-
Commercial construction	130	130	-	134	134	-
Equipment financing	-	-	-	-	-	-
Total commercial	14,814	13,754	-	5,307	4,946	-
Residential mortgage	3,587	3,404	-	2,661	2,566	-
Home equity lines of credit	550	234	-	393	101	-
Residential construction	455	395	-	405	330	-
Consumer direct	23	23	-	29	29	-
Indirect auto	62	61	-	1,396	1,396	-
Total with no related allowance recorded	19,491	17,871	-	10,191	9,368	-
With an allowance recorded:						
Owner occupied commercial real estate	18,912	18,171	1,686	21,262	20,647	1,255
Income producing commercial real estate	8,979	8,710	631	14,419	14,318	562
Commercial & industrial	2,869	2,402	61	1,287	1,183	27
Commercial construction	4,028	3,780	151	3,917	3,679	156
Equipment financing	-	-	-	-	-	-
Total commercial	34,788	33,063	2,529	40,885	39,827	2,000
Residential mortgage	11,961	11,517	1,151	12,086	11,627	1,174
Home equity lines of credit	116	107	90	-	-	-
Residential construction	1,262	1,176	73	1,325	1,247	75
Consumer direct	251	245	7	244	241	7
Indirect auto	1,295	1,294	35	-	-	-
Total with an allowance recorded	49,673	47,402	3,885	54,540	52,942	3,256
Total	$69,164	$65,273	$3,885	$64,731	$62,310	$3,256

As of March 31, 2018 and December 31, 2017, $3.89 million and $3.26 million, respectively, of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to $82,000 and $75,000 as of March 31, 2018 and December 31, 2017, respectively, to customers with outstanding loans that are classified as TDRs.

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

Loans modified under the terms of a TDR during the three months ended March 31, 2018 and 2017 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that defaulted (became 90 days or more delinquent) during the periods presented and were initially restructured within one year prior to default *(dollars in thousands)*.

	New TDRs						TDRs Modified Within the Previous Twelve Months That Have Subsequently Defaulted during the Three Months Ended March 31,	
		Pre-Modification Outstanding	Post-Modification Outstanding Recorded Investment by Type of Modification					
	Number of Contracts	Recorded Investment	Rate Reduction	Structure	Other	Total	Number of Contracts	Recorded Investment
Three Months Ended March 31, 2018								
Owner occupied commercial real estate	3	$ 994	$ -	$ 978	$ -	$ 978	2	$ 1,586
Income producing commercial real estate	-	-	-	-	-	-	-	-
Commercial & industrial	1	81	-	5	-	5	-	-
Commercial construction	-	-	-	-	-	-	-	-
Equipment financing	-	-	-	-	-	-	-	-

Total commercial	4	1,075	-	983	-	983	2	1,586
Residential mortgage	2	340	-	340	-	340	-	-
Home equity lines of credit	-	-	-	-	-	-	-	-
Residential construction	-	-	-	-	-	-	-	-
Consumer direct	-	-	-	-	-	-	-	-
Indirect auto	-	-	-	-	-	-	-	-
Total loans	$6	$ 1,415	$ -	$ 1,323	$ -	$ 1,323	2	$ 1,586
Three Months Ended March 31, 2017								
Owner occupied commercial real estate	-	$ -	$ -	$ -	$ -	$ -	-	$ -
Income producing commercial real estate	-	-	-	-	-	-	-	-
Commercial & industrial	1	25	-	25	-	25	-	-
Commercial construction	-	-	-	-	-	-	-	-
Total commercial	1	25	-	25	-	25	-	-
Residential mortgage	7	353	-	353	-	353	2	655
Home equity lines of credit	-	-	-	-	-	-	-	-
Residential construction	1	40	40	-	-	40	-	-
Consumer direct	1	6	-	6	-	6	-	-
Indirect auto	-	-	-	-	-	-	-	-
Total loans	10	$ 424	$ 40	$ 384	$ -	$ 424	2	$ 655

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

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

Three Months Ended March 31,	2018 Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	2017 Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Owner occupied commercial real estate	$24,658	$ 245	$ 280	$29,858	$ 345	$ 336
Income producing commercial real estate	16,433	210	235	28,410	351	345
Commercial & industrial	2,596	40	42	1,939	27	28
Commercial construction	3,936	51	52	5,001	53	53
Equipment financing	-	-	-	-	-	-
Total commercial	47,623	546	609	65,208	776	762
Residential mortgage	14,993	149	150	13,608	138	143
Home equity lines of credit	344	4	4	63	1	1
Residential construction	1,590	24	24	1,619	23	23
Consumer direct	291	5	5	287	5	6
Indirect auto	1,378	18	18	1,122	14	14
Total	$66,219	$ 746	$ 810	$81,907	$ 957	$ 949

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

PCI loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered to be performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or future period yield adjustments. The accrual of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at March 31, 2018 or December 31, 2017 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

The gross additional interest revenue that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately $342,000 and $277,000 for the three months ended March 31, 2018 and 2017, respectively.

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

	March 31, 2018	December 31, 2017
Owner occupied commercial real estate	$ 6,757	$ 4,923
Income producing commercial real estate	3,942	3,208
Commercial & industrial	1,917	2,097
Commercial construction	574	758
Equipment financing	428	-
Total commercial	13,618	10,986
Residential mortgage	8,724	8,776
Home equity lines of credit	2,149	2,024
Residential construction	378	192
Consumer direct	146	43
Indirect auto	1,225	1,637
Total	$ 26,240	$ 23,658

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Excluding PCI loans, substantially all loans more than 90 days past due were on nonaccrual status at March 31, 2018 and December 31, 2017. The following table presents the aging of the recorded investment in past due loans by class of loans as of the dates indicated *(in thousands)*.

As of March 31, 2018	Loans Past Due 30 - 59 Days	60 - 89 Days	> 90 Days	Total	Loans Not Past Due	PCI Loans	Total
Owner occupied commercial real estate	$2,515	$ 3,034	$ 2,295	$7,844	$1,869,239	$20,743	$1,897,826
Income producing commercial real estate	518	732	2,865	4,115	1,633,552	39,633	1,677,300
Commercial & industrial	1,591	762	165	2,518	1,139,119	791	1,142,428
Commercial construction	643	261	316	1,220	679,417	9,893	690,530
Equipment financing	1,227	171	426	1,824	407,111	13,597	422,532
Total commercial	6,494	4,960	6,067	17,521	5,728,438	84,657	5,830,616
Residential mortgage	4,040	2,325	3,373	9,738	969,848	12,525	992,111
Home equity lines of credit	2,405	236	759	3,400	706,794	2,081	712,275
Residential construction	1,031	75	246	1,352	187,861	449	189,662
Consumer direct	724	92	85	901	141,457	1,379	143,737
Indirect auto	425	278	1,004	1,707	314,141	-	315,848
Total loans	15,119	7,966	11,534	34,619	8,048,539	101,091	8,184,249

As of December 31, 2017	Loans Past Due 30 - 59 Days	60 - 89 Days	> 90 Days	Total	Loans Not Past Due	PCI Loans	Total
Owner occupied commercial real estate	$3,810	$ 1,776	$ 1,530	$7,116	$1,891,118	$ 25,759	$1,923,993
Income producing commercial real estate	1,754	353	1,939	4,046	1,546,288	44,840	1,595,174
Commercial & industrial	2,139	869	1,133	4,141	1,125,407	1,442	1,130,990
Commercial construction	568	132	158	858	702,221	8,857	711,936
Total commercial	8,271	3,130	4,760	16,161	5,265,034	80,898	5,362,093
Residential mortgage	6,717	1,735	3,438	11,890	948,513	13,141	973,544
Home equity lines of credit	3,246	225	578	4,049	724,287	2,891	731,227

Residential construction	885	105	93	1,083	181,472	464	183,019
Consumer direct	739	133	-	872	125,512	1,120	127,504
Indirect auto	1,152	459	1,263	2,874	355,311	-	358,185
Total loans	$21,010	$ 5,787	$ 10,132	$36,929	$7,600,129	$ 98,514	$7,735,572

Risk Ratings

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

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

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

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

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

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

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

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

	Pass	Watch	Substandard	Doubtful / Loss	Total
As of March 31, 2018					
Owner occupied commercial real estate	$1,807,564	$31,628	$ 37,891	$ -	$1,877,083
Income producing commercial real estate	1,596,626	17,825	23,216	-	1,637,667
Commercial & industrial	1,108,779	20,129	12,729	-	1,141,637
Commercial construction	653,223	22,459	4,955	-	680,637
Equipment financing	408,509	-	426	-	408,935
Total commercial	5,574,701	92,041	79,217	-	5,745,959
Residential mortgage	959,613	37	19,936	-	979,586
Home equity lines of credit	703,199	-	6,995	-	710,194
Residential construction	187,382	-	1,831	-	189,213
Consumer direct	140,783	595	980	-	142,358
Indirect auto	313,124	-	2,724	-	315,848
Total loans, excluding PCI loans	$7,878,802	$92,673	$ 111,683	$ -	$8,083,158
Owner occupied commercial real estate	$4,816	$4,970	$ 10,957	$ -	$20,743
Income producing commercial real estate	13,695	20,265	5,673	-	39,633
Commercial & industrial	330	270	191	-	791
Commercial construction	4,166	1,722	4,005	-	9,893
Equipment financing	13,183	-	414	-	13,597
Total commercial	36,190	27,227	21,240	-	84,657
Residential mortgage	8,555	395	3,575	-	12,525
Home equity lines of credit	1,436	-	645	-	2,081
Residential construction	396	-	53	-	449
Consumer direct	891	193	295	-	1,379
Indirect auto	-	-	-	-	-
Total PCI loans	$47,468	$27,815	$ 25,808	$ -	$101,091
As of December 31, 2017					
Owner occupied commercial real estate	$1,833,469	$33,571	$ 31,194	$ -	$1,898,234
Income producing commercial real estate	1,495,805	30,780	23,749	-	1,550,334
Commercial & industrial	1,097,907	18,052	13,589	-	1,129,548
Commercial construction	693,873	2,947	6,259	-	703,079

Total commercial	5,121,054	85,350	74,791	-	5,281,195
Residential mortgage	939,706	-	20,697	-	960,403
Home equity lines of credit	721,142	-	7,194	-	728,336
Residential construction	180,567	-	1,988	-	182,555
Consumer direct	125,860	-	524	-	126,384
Indirect auto	354,788	-	3,397	-	358,185
Total loans, excluding PCI loans	$7,443,117	$85,350	$ 108,591	$ -	$7,637,058
Owner occupied commercial real estate	$2,400	$8,163	$ 15,196	$ -	$25,759
Income producing commercial real estate	13,392	21,928	9,520	-	44,840
Commercial & industrial	383	672	387	-	1,442
Commercial construction	3,866	2,228	2,763	-	8,857
Total commercial	20,041	32,991	27,866	-	80,898
Residential mortgage	9,566	173	3,402	-	13,141
Home equity lines of credit	1,579	427	885	-	2,891
Residential construction	423	-	41	-	464
Consumer direct	1,076	10	34	-	1,120
Indirect auto	-	-	-	-	-
Total PCI loans	$32,685	$33,601	$ 32,228	$ -	$98,514

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Note 7 – Reclassifications Out of Accumulated Other Comprehensive Income

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

Details about Accumulated Other **Comprehensive Income Components**	**Amounts Reclassified from Accumulated Other Comprehensive Income** For the three months ended March 31, 2018	2017	Affected Line Item in the Statement **Where Net Income is Presented**
Realized losses on available-for-sale securities:			
	$ (940)	$ (2)	Securities losses, net
	221	1	Income tax benefit
	$ (719)	$ (1)	Net of tax
Amortization of losses included in net income on available-for-sale securities transferred to held to maturity:			
	$ (222)	$ (310)	Investment securities interest revenue
	54	116	Income tax benefit
	$ (168)	$ (194)	Net of tax
Amortization of losses included in net income on derivative financial instruments accounted for as cash flow hedges:			
Amortization of losses on de-designated positions	$ (147)	$ (149)	Money market deposit interest expense
Amortization of losses on de-designated positions	-	(264)	Federal Home Loan Bank advances interest expense
	(147)	(413)	Total before tax
	38	161	Income tax benefit
	$ (109)	$ (252)	Net of tax
Reclassification of disproportionate tax effect related to terminated cash flow hedges:			
	$ -	$ (3,400)	Income tax expense

Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan:					
Prior service cost	$ (167	)	$ (140	)	Salaries and employee benefits expense
Actuarial losses	(60	)	(60	)	Salaries and employee benefits expense
	(227	)	(200	)	Total before tax
	58		79		Income tax benefit
	$ (169	)	$ (121	)	Net of tax
Total reclassifications for the period	$ (1,165	)	$ (3,968	)	Net of tax

Amounts shown above in parentheses reduce earnings.

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Note 8 – Earnings Per Share

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

	Three Months Ended March 31, 2018	2017
Net income	$ 37,658	$ 23,524
Dividends and undistributed earnings allocated to unvested shares	(277)	-
Net income available to common shareholders	$ 37,381	$ 23,524
Weighted average shares outstanding:		
Basic	79,205	71,700
Effect of dilutive securities		
Stock options	10	8
Diluted	79,215	71,708
Net income per common share:		
Basic	$ .47	$ .33
Diluted	$ .47	$ .33

At March 31, 2018, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at $61.40 per share; 32,464 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $31.50.

At March 31, 2017, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at $61.40 per share; 64,942 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of $28.34; and 575,835 shares of common stock issuable upon the vesting of restricted stock unit awards.

Note 9 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

United is exposed to certain risks arising from both its business operations and economic conditions. United principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. United manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and wholesale funding and through the use of derivative financial instruments. Specifically, United enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Derivative financial instruments are used to manage differences in the amount, timing, and duration of known or expected cash receipts and known or expected cash payments principally related to loans, investment securities, wholesale borrowings and deposits.

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

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

Interest Rate Products	Balance Sheet Location	March 31, 2018	December 31, 2017
Fair value hedge of corporate bonds	Derivative assets	$ -	