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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2019

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
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, par value $1 per share	UCBI	Nasdaq Global Select Market

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Date File required to be submitted 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 such files).

Yes ☒ 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.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	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 Exchange Act).

Yes ☐ No ☒

Common stock, par value $1 per share 78,981,929 shares outstanding as of October 31, 2019.

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PART I - Financial Information

PART II - Other Information

Forward-looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Forward-looking statements are not statements of historical fact and generally can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "could", "should", "projects", "plans", "goal", "targets", "potential", "estimates", "pro forma", "seeks", "intends", or "anticipates", or the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions or events, and statements about the future performance, operations, products and services of United Community Banks, Inc. (the "Holding Company") and its subsidiaries (collectively referred to in this report as "United").

Forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict as to timing, extent, likelihood and degree of occurrence, which could cause actual results to differ materially from anticipated results. Such risks, uncertainties and assumptions include, but are not limited to the following factors:

- the condition of the general business, political, and economic environment, banking system and financial markets and corresponding changes in loan underwriting, credit review or loss policies associated with changes in these and other conditions;
- strategic, market, operational, liquidity and interest rate risks associated with our business;
- changes in the interest rate environment, including interest rate changes made by the Federal Reserve, the discontinuation of London Interbank Offered Rate ("LIBOR") as an interest rate benchmark, as well as cash flow reassessments may reduce net interest margin and/or the volumes and values of loans made or held as well as the value of other financial assets;
- our lack of geographic diversification and the success of the local economies in which we operate;
- the risks of expansion into new geographic or product markets;
- risks with respect to our ability to successfully expand and complete acquisitions and integrate businesses and operations that are acquired;
- our ability to attract and retain key employees;
- competition from financial institutions and other financial service providers including financial technology providers and our ability to attract customers from other financial institutions;
- losses due to fraudulent and negligent conduct of our customers, third party service providers or employees;
- cybersecurity risks and the vulnerability of United's network and online banking portals, and the systems of parties with whom United contracts, to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches that could adversely affect our business and financial performance or reputation;
- our reliance on third parties to provide key components of our business infrastructure and services required to operate our business;
- the risk that we may be required to make substantial expenditures to keep pace with regulatory initiatives and the rapid technological changes in the financial services market;
- the availability of and access to capital;
- legislative, regulatory or accounting changes that may adversely affect us;
- changes in the allowance for loan losses resulting from the adoption and implementation of the new Current Expected Credit Loss ("CECL") methodology;
- the costs, effects and outcomes of litigation, regulatory proceedings, examinations, investigations, or similar matters, or adverse facts and developments related thereto;
- deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses that exceed our current allowance for loan losses; and
- limitations on the ability of United Community Bank (the "Bank") to pay dividends to the Holding Company, which could affect Holding Company liquidity, including the ability to pay dividends to shareholders or take other capital actions.

United cautions readers that the foregoing list of factors is not exclusive, is not necessarily in order of importance and not to place undue reliance on forward-looking statements. Additional factors that may cause actual results to differ materially from those contemplated by any forward-looking statements also may be found in United's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K filed with the Securities and Exchange Commission (the "SEC") and available at the SEC's website at http://www.sec.gov. United does not intend to and hereby disclaims any obligation to update or revise any forward-looking statement contained in this Form 10-Q, which speak only as of the date hereof, whether as a result of new information, future events, or otherwise. The financial statements and information contained herein have not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation (the "FDIC") or any other regulator.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands, except share data)	September 30, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 108,389	$ 126,083
Interest-bearing deposits in banks (includes restricted cash of $5,326 and $6,702)	252,670	201,182
Cash and cash equivalents	361,059	327,265
Debt securities available for sale	2,272,046	2,628,467
Debt securities held to maturity (fair value $248,546 and $268,803)	243,028	274,407
Loans held for sale at fair value	54,625	18,935
Loans and leases, net of unearned income	8,903,266	8,383,401
Less allowance for loan and lease losses	(62,514)	(61,203)
Loans and leases, net	8,840,752	8,322,198
Premises and equipment, net	215,435	206,140
Bank owned life insurance	201,955	192,616
Accrued interest receivable	33,233	35,413
Net deferred tax asset	34,591	64,224
Derivative financial instruments	43,755	24,705
Goodwill and other intangible assets	343,340	324,072
Other assets	165,667	154,750
Total assets	$ 12,809,486	$ 12,573,192
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 3,527,815	$ 3,210,220
Interest-bearing deposits	7,228,702	7,324,293
Total deposits	10,756,517	10,534,513
Federal Home Loan Bank advances	40,000	160,000
Long-term debt	240,245	267,189
Derivative financial instruments	16,244	26,433
Accrued expenses and other liabilities	151,055	127,503
Total liabilities	11,204,061	11,115,638
Shareholders' equity:		
Common stock, $1 par value; 150,000,000 shares authorized; 78,974,199 and 79,234,077 shares issued and outstanding	78,974	79,234
Common stock issuable; 660,581 and 674,499 shares	11,327	10,744
Capital surplus	1,495,267	1,499,584
Retained earnings (accumulated deficit)	5,594	(90,419)
Accumulated other comprehensive income (loss)	14,263	(41,589)
Total shareholders' equity	1,605,425	1,457,554
Total liabilities and shareholders' equity	$ 12,809,486	$ 12,573,192

See accompanying notes to consolidated financial statements (unaudited).

UNITED COMMUNITY BANKS, INC.
Consolidated Statements of Income *(Unaudited)*

(in thousands, except per share data)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Interest revenue:				
Loans, including fees	$ 122,645	$ 108,335	$ 357,575	$ 308,296
Investment securities, including tax exempt of $1,118 and $1,052, and $3,409 and $3,049	17,744	19,899	57,638	56,448
Deposits in banks and short-term investments	226	487	1,074	1,482
Total interest revenue	140,615	128,721	416,287	366,226
Interest expense:				
Deposits	17,113	10,941	50,185	25,353
Short-term borrowings	429	274	838	772
Federal Home Loan Bank advances	521	1,791	2,695	5,551
Long-term debt	3,214	3,605	9,813	10,679
Total interest expense	21,277	16,611	63,531	42,355
Net interest revenue	119,338	112,110	352,756	323,871
Provision for credit losses	3,100	1,800	9,650	7,400
Net interest revenue after provision for credit losses	116,238	110,310	343,106	316,471
Noninterest income:				
Service charges and fees	9,916	9,112	27,429	26,831
Mortgage loan and other related fees	8,658	5,262	17,750	15,928
Brokerage fees	1,699	1,525	4,624	3,598
Gains from sales of SBA/USDA loans	1,639	2,605	4,412	6,784
Securities gains (losses), net	—	2	(118)	(1,302)
Other	7,119	5,674	20,433	18,077
Total noninterest income	29,031	24,180	74,530	69,916
Total revenue	145,269	134,490	417,636	386,387
Noninterest expenses:				
Salaries and employee benefits	50,501	47,146	146,161	135,384
Communications and equipment	6,223	5,590	18,233	15,071
Occupancy	5,921	5,779	17,424	16,939
Advertising and public relations	1,374	1,442	4,256	4,341
Postage, printing and supplies	1,618	1,574	4,733	4,896
Professional fees	4,715	3,927	11,930	11,435
FDIC assessments and other regulatory charges	314	2,228	3,571	6,677
Amortization of intangibles	1,210	1,681	3,845	5,426
Merger-related and other charges	2,541	115	6,981	4,449
Other	8,507	8,236	23,687	23,425
Total noninterest expenses	82,924	77,718	240,821	228,043
Net income before income taxes	62,345	56,772	176,815	158,344
Income tax expense	13,983	13,090	40,106	37,370
Net income	$ 48,362	$ 43,682	$ 136,709	$ 120,974
Net income available to common shareholders	$ 48,011	$ 43,381	$ 135,727	$ 120,124
Net income per common share:				
Basic	$ 0.60	$ 0.54	$ 1.70	$ 1.51
Diluted	0.60	0.54	1.70	1.51
Weighted average common shares outstanding:				
Basic	79,663	79,806	79,714	79,588
Diluted	79,667	79,818	79,718	79,598

See accompanying notes to consolidated financial statements (unaudited).

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

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	Before-tax Amount	**Tax (Expense) Benefit**	**Net of Tax Amount**	**Before-tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**
2019						
Net income	$ 62,345	$ (13,983)	$ 48,362	$ 176,815	$ (40,106)	$ 136,709
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	8,014	(1,897)	6,117	70,944	(17,194)	53,750
Reclassification adjustment for losses included in net income	—	—	—	118	(30)	88
Net unrealized gains	8,014	(1,897)	6,117	71,062	(17,224)	53,838
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	105	(25)	80	282	(67)	215
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	—	—	—	337	(86)	251
Defined benefit pension plan activity:						
Termination of defined benefit pension plan	1,558	(398)	1,160	1,558	(398)	1,160
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	174	(45)	129	521	(133)	388
Net defined benefit pension plan activity	1,732	(443)	1,289	2,079	(531)	1,548
Total other comprehensive income	9,851	(2,365)	7,486	73,760	(17,908)	55,852
Comprehensive income	$ 72,196	$ (16,348)	$ 55,848	$ 250,575	$ (58,014)	$ 192,561
2018						
Net income	$ 56,772	$ (13,090)	$ 43,682	$ 158,344	$ (37,370)	$ 120,974
Other comprehensive loss:						
Unrealized losses on available-for-sale securities:						
Unrealized holding losses arising during period	(14,022)	3,397	(10,625)	(52,860)	12,861	(39,999)
Reclassification adjustment for (gains) losses included in net income	(2)	5	3	1,302	(312)	990
Net unrealized losses	(14,024)	3,402	(10,622)	(51,558)	12,549	(39,009)
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	168	(40)	128	607	(149)	458
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	105	(27)	78	395	(103)	292
Defined benefit pension plan activity:						
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	(57)	170	681	(188)	493
Net defined benefit pension plan activity	227	(57)	170	676	(187)	489
Total other comprehensive loss	(13,524)	3,278	(10,246)	(49,880)	12,110	(37,770)
Comprehensive income	$ 43,248	$ (9,812)	$ 33,436	$ 108,464	$ (25,260)	$ 83,204

See accompanying notes to consolidated financial statements (unaudited).

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Changes in Shareholders' Equity *(Unaudited)*

	Three Months Ended September 30,						Nine Months Ended September 30,					
(in thousands, except share and per share data)	Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
2019												
Balance at beginning of period	$ 79,075	$ 10,858	$ 1,498,740	$ (29,116)	$ 6,777	$ 1,566,334	$ 79,234	$ 10,744	$ 1,499,584	$ (90,419)	$ (41,589)	$ 1,457,554
Net income				48,362		48,362				136,709		136,709
Other comprehensive income					7,486	7,486					55,852	55,852
Exercise of stock options (12,000 shares)						—	12		185			197
Common stock issued to dividend reinvestment plan and employee benefit plans 34,190 and 76,613 shares, respectively)	34		879			913	76		1,928			2,004
Amortization of restricted stock awards			1,678			1,678			7,680			7,680
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (60,199 and 81,178 shares issued, respectively, and 14,919 and 51,580 shares deferred, respectively)	60	356	(1,046)			(630)	81	1,365	(2,468)			(1,022)
Purchases of common stock (195,443 and 500,495 shares, respectively)	(195)		(4,985)			(5,180)	(500)		(12,520)			(13,020)
Deferred compensation plan, net, including dividend equivalents		114				114		406				406
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (34 and 70,826 shares, respectively)	—	(1)	1			—	71	(1,188)	878			(239)
Common stock dividends ($0.17 and $0.50 per share, respectively)				(13,652)		(13,652)				(40,147)		(40,147)
Adoption of new accounting standard						—				(549)		(549)
Balance, September 30, 2019	$ 78,974	$ 11,327	$ 1,495,267	$ 5,594	$ 14,263	$ 1,605,425	$ 78,974	$ 11,327	$ 1,495,267	$ 5,594	$ 14,263	$ 1,605,425
2018												
Balance at beginning of period	$ 79,138	$ 9,509	$ 1,497,517	$ (154,290)	$ (52,765)	$ 1,379,109	$ 77,580	$ 9,083	$ 1,451,814	$ (209,902)	$ (25,241)	$ 1,303,334
Net income				43,682		43,682				120,974		120,974
Other comprehensive loss					(10,246)	(10,246)					(37,770)	(37,770)
Exercise of stock options (12,000 shares)						—	12		130			142
Common stock issued to dividend reinvestment plan and employee benefit plans 7,903 and 17,756 shares, respectively)	8		211			219	18		486			504
Common stock issued for acquisition (1,443,987 shares)						—	1,444		44,302			45,746
Amortization of stock option and restricted stock awards			1,799			1,799			4,075			4,075
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (54,551 and 100,960 shares issued, respectively, 32,437 and 79,856 shares deferred, respectively)	54	589	(1,363)			(720)	100	1,473	(3,279)			(1,706)
Deferred compensation plan, net, including dividend equivalents		110				110		344				344
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (2,215 and 48,215 shares, respectively)	2	(37)	35			—	48	(729)	671			(10)
Common stock dividends ($0.15 and $0.42 per share, respectively)				(12,071)		(12,071)				(33,751)		(33,751)
Balance, September 30, 2018	$ 79,202	$ 10,171	$ 1,498,199	$ (122,679)	$ (63,011)	$ 1,401,882	$ 79,202	$ 10,171	$ 1,498,199	$ (122,679)	$ (63,011)	$ 1,401,882

See accompanying notes to consolidated financial statements (unaudited).

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

(in thousands)	Nine Months Ended September 30, 2019	2018
Operating activities:		
Net income	$ 136,709	$ 120,974
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	18,009	24,486
Provision for credit losses	9,650	7,400
Stock based compensation	7,680	4,075
Deferred income tax expense	12,149	36,335
Securities losses, net	118	1,302
Gains from sales of other loans	(4,783)	(6,784)
Net (gains) losses on sales and write downs of other real estate owned	(307)	316
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(47,236)	(13,515)
Accrued expenses and other liabilities	(188)	17,593
Loans held for sale	(35,690)	8,001
Net cash provided by operating activities	96,111	200,183
Investing activities:		
Debt securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	39,787	47,325
Purchases of securities held to maturity	(8,499)	(11,983)
Debt securities available for sale and equity securities:		
Proceeds from sales of securities available for sale	225,883	156,679
Proceeds from maturities and calls of securities available for sale	238,514	249,750
Purchases of securities available for sale and equity securities	(45,629)	(425,093)
Net increase in loans	(296,076)	(123,438)
Proceeds from sales of premises and equipment	5,870	4,126
Purchases of premises and equipment	(16,532)	(14,449)
Net cash paid for acquisition	(19,545)	(56,800)
Proceeds from sale of other real estate	2,344	3,645
Net cash provided by (used in) investing activities	126,117	(170,238)
Financing activities:		
Net increase in deposits	10,538	422,622
Net decrease in short-term borrowings	—	(264,923)
Repayment of long-term debt	(27,500)	(53,503)
Proceeds from FHLB advances	1,625,000	2,240,000
Repayment of FHLB advances	(1,745,000)	(2,444,003)
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	2,004	504
Proceeds from exercise of stock options	197	142
Cash paid for shares withheld to cover payroll taxes upon vesting of restricted stock	(1,261)	(1,716)
Repurchase of common stock	(13,020)	—
Cash dividends on common stock	(39,392)	(29,563)
Net cash (used in) provided by financing activities	(188,434)	(32,252)
Net change in cash and cash equivalents, including restricted cash	33,794	(2,307)
Cash and cash equivalents, including restricted cash, at beginning of period	327,265	314,275
Cash and cash equivalents, including restricted cash, at end of period	$ 361,059	$ 311,968
Supplemental disclosures of cash flow information:		
Significant non-cash investing and financing transactions:		
Unsettled government guaranteed loan sales	$ 6,850	$ 25,680
Transfers of loans to foreclosed properties	853	2,063
Unsettled securities purchases	—	15,450
Unsettled government guaranteed loan purchases	—	5,214
Acquisitions:		
Assets acquired	264,937	480,679
Liabilities assumed	212,844	350,433
Net assets acquired	52,093	130,246
Common stock issued in acquisitions	—	45,746

See accompanying notes to consolidated financial statements (unaudited).

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. and its subsidiaries (collectively referred to herein as "United") 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. 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, 2018 (the "2018 10-K").

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes appearing in United's 2018 10-K. Certain amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

Note 2 –Accounting Standards Updates and Recently Adopted Standards

Accounting Standards Updates

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance was further modified in November 2018 by ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses,* in April 2019 by ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825 Financial Instruments* and in May 2019 by ASU No. 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief.* The new guidance replaces the incurred loss impairment methodology in current GAAP with a current expected credit loss ("CECL") methodology, requires consideration of a broader range of information to determine credit loss estimates and generally applies to financial assets measured at amortized cost and some off-balance sheet credit exposures. 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 deteriorated ("PCD") 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 Accounting Standards Codification 310-30 ("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 impact. During the third quarter of 2019, management's CECL steering committee analyzed the results of ongoing parallel runs for both securities held to maturity and loans and continued to monitor the impact of various model assumptions in order to improve the precision of the model. The committee remains focused on developing its CECL policy, procedures, and internal control structure in preparation for adoption of Topic 326. During the remainder of the pre-adoption period, management will run additional parallel runs of the allowance model under the expected credit loss methodology. During monthly steering committee meetings, management regularly reviews project status, gap remediation efforts and project priorities.

As referenced above, in April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825 Financial Instruments*. In addition to amending guidance related to the new CECL standard, this update clarifies certain aspects of hedge accounting and recognition and measurement of financial instruments. The non-CECL provisions of this update are effective for United as of January 1, 2020. United does not expect the new guidance to have a material impact on the consolidated financial statements.

Recently Adopted Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance was further modified by ASU No. 2018-10, *Codification Improvements to Topic 842 Leases*, ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors* and ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*. These standards require a lessee to recognize in the consolidated balance sheet 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. United adopted the standard on January 1, 2019 using the optional transition method, which allowed for a modified retrospective method of adoption with a cumulative effect adjustment to shareholders' equity without restating comparable periods. United also elected the relief package of practical expedients for which there is no requirement to reassess existence of leases, their classification, and initial direct costs as well as an exemption for short-term leases with a term of less than one year, whereby United does not recognize a lease liability or right-of-use asset on the consolidated balance sheet but instead recognizes lease payments as an expense over the lease term as appropriate. The adoption of this guidance resulted in recognition of a right-of-use asset of $23.8 million, a lease liability of $26.8 million and a reduction of shareholders' equity of $549,000, net of tax, related to its operating leases. In addition, United has equipment financing leases for which it is the lessor, which were previously accounted for as capital leases. Upon adoption of Topic 842, these leases were classified as sales-type or direct financing leases, which required no significant change in accounting policy or treatment. These lease agreements may include options to renew and for the lessee to purchase the leased equipment at the end of the lease term. As a lessor, United elected to exclude sales taxes from consideration in lease contracts. In the opinion of management, the changes described above resulting from the adoption of the standard did not have a material impact on the consolidated financial statements. See Notes 6 and 16 for additional information on equipment financing leases and operating leases, respectively.

In July of 2019, the FASB issued ASU No. 2019-07, *Codification updates to SEC sections: amendments to SEC paragraphs pursuant to SEC final rule releases No. 33-10532, disclosure update and simplification, and nos. 33-10231 and 33-10442, investment company reporting modernization, and miscellaneous updates.* This standard updates various SEC financial statement disclosure requirements, including disclosures related to bank holding companies. The standard is effective immediately, and United does not expect the new guidance to have a material impact on its disclosures.

Note 3 – Acquisitions

Acquisition of First Madison Bank and Trust

On May 1, 2019, United completed the acquisition of First Madison Bank & Trust ("FMBT"). FMBT operated four banking offices in Athens-Clarke County, Georgia. In connection with the acquisition, United acquired $245 million of assets and assumed $213 million of liabilities. Under the terms of the merger agreement, FMBT shareholders received $52.1 million in cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of $20.3 million, representing the intangible value of FMBT's business and reputation within the markets it served. None of the goodwill is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of $2.80 million using the sum-of-the-years-digits method over 9.25 years, which represents the expected useful life of the asset.

United's operating results for the three and nine months ended September 30, 2019 include the operating results of the acquired business for the period subsequent to the acquisition date of May 1, 2019.

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 FMBT	Fair Value Adjustments [1]	As Recorded by United
Assets			
Cash and cash equivalents	$ 32,548	—	$ 32,548
Loans	197,682	(5,188)	192,494
Allowance for loan losses	(6,338)	6,338	—
Premises and equipment, net	7,124	1,400	8,524
Bank owned life insurance	6,823	—	6,823
Net deferred tax asset	1,386	(1,229)	157
Core deposit intangible	—	2,800	2,800
Other assets	1,032	246	1,278
Total assets acquired	$ 240,257	$ 4,367	$ 244,624
Liabilities			
Deposits	$ 211,884	$ 243	$ 212,127
Other liabilities	924	(207)	717
Total liabilities assumed	212,808	36	212,844
Excess of assets acquired over liabilities assumed	$ 27,449		
Aggregate fair value adjustments		$ 4,331	
Total identifiable net assets			31,780
Cash consideration transferred			52,093
Goodwill			$ 20,313

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

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

	May 1, 2019
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	$ 13,145
Non-accretable difference	2,517
Cash flows expected to be collected	10,628
Accretable yield	1,300
Fair value	$ 9,328
Excluded from ASC 310-30:	
Fair value	$ 183,166
Gross contractual amounts receivable	218,855
Estimate of contractual cash flows not expected to be collected	8,826

Pro forma information

United acquired NLFC Holdings Corp. and its subsidiaries, collectively known as "Navitas," on February 1, 2018, as described in United's 2018 10-K. The following table discloses the impact of the acquisitions of FMBT and Navitas since the acquisition dates through September 30 in the year of acquisition. The table also presents certain pro forma information as if FMBT had been acquired on January 1, 2018 and Navitas had been acquired on January 1, 2017. These results combine the historical results of the acquired entities 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 acquisitions taken place in earlier years.

Merger-related costs from the FMBT acquisition of $756,000 and $1.78 million, respectively, have been excluded from the three and nine months 2019 pro forma information presented below and included in the three and nine months 2018 pro forma information below. Merger-related costs from the Navitas acquisition of $103,000 and $4.93 million, respectively, have been excluded from the three and nine months 2018 pro forma information presented below. The actual results and pro forma information were as follows *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Revenue	**Net Income**	**Revenue**	**Net Income**
2019				
Actual FMBT results included in statement of income since acquisition date	$ 2,697	$ 1,403	$ 5,024	$ 2,590
Supplemental consolidated pro forma as if FMBT had been acquired January 1, 2018	144,881	48,653	420,872	138,157
2018				
Actual Navitas results included in statement of income since acquisition date	$ 7,006	$ 1,884	$ 17,243	$ 5,380
Supplemental consolidated pro forma as if FMBT had been acquired January 1, 2018 and Navitas had been acquired January 1, 2017	138,036	44,846	399,692	124,599

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, of which there were none as of September 30, 2019, and derivative financial instruments including those entered into in connection with the same counterparty under master netting agreements as of the dates indicated *(in thousands).*

				Gross Amounts not Offset in the Balance Sheet		
September 30, 2019	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset on the Balance Sheet**	**Net Asset Balance**	**Financial Instruments**	**Collateral Received**	**Net Amount**
Derivatives	$ 43,755	$ —	$ 43,755	$ (122)	$ —	$ 43,633
Total	$ 43,755	$ —	$ 43,755	$ (122)	$ —	$ 43,633

				Gross Amounts not Offset in the Balance Sheet		
	Gross Amounts of Recognized Liabilities	**Gross Amounts Offset on the Balance Sheet**	**Net Liability Balance**	**Financial Instruments**	**Collateral Pledged**	**Net Amount**
Derivatives	$ 16,244	$ —	$ 16,244	$ (122)	$ (16,316)	$ —
Total	$ 16,244	$ —	$ 16,244	$ (122)	$ (16,316)	$ —

				Gross Amounts not Offset in the Balance Sheet		
December 31, 2018	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset on the Balance Sheet**	**Net Asset Balance**	**Financial Instruments**	**Collateral Received**	**Net Amount**
Repurchase agreements / reverse repurchase agreements	$ 50,000	$ (50,000)	$ —	$ —	$ —	$ —
Derivatives	24,705	—	24,705	(973)	(8,029)	15,703
Total	$ 74,705	$ (50,000)	$ 24,705	$ (973)	$ (8,029)	$ 15,703
Weighted average interest rate of reverse repurchase agreements	3.20%					

				Gross Amounts not Offset in the Balance Sheet		
	Gross Amounts of Recognized Liabilities	**Gross Amounts Offset on the Balance Sheet**	**Net Liability Balance**	**Financial Instruments**	**Collateral Pledged**	**Net Amount**
Repurchase agreements / reverse repurchase agreements	$ 50,000	$ (50,000)	$ —	$ —	$ —	$ —
Derivatives	26,433	—	26,433	(973)	(16,126)	9,334
Total	$ 76,433	$ (50,000)	$ 26,433	$ (973)	$ (16,126)	$ 9,334
Weighted average interest rate of repurchase agreements	2.45%					

At September 30, 2019, United recognized the right to reclaim cash collateral of $16.3 million. At September 30, 2019 there was no cash collateral held for derivatives. At December 31, 2018, United recognized the right to reclaim cash collateral of $16.1 million and the obligation to return cash collateral of $8.03 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. Derivatives include customer derivatives, which as discussed further in Note 9, are cross-collateralized with the collateral used to support the credit risk for the underlying lending relationship. Such collateral is not included in the tables above.

The following table presents additional detail regarding repurchase agreements accounted for as secured borrowings and the securities underlying these agreements as of December 31, 2018 *(in thousands)*.

	Remaining Contractual Maturity of the Agreements				
	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					$ —

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 debt 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 September 30, 2019				
State and political subdivisions	$ 61,251	$ 3,308	$ —	$ 64,559
Residential mortgage-backed securities	163,603	2,532	597	165,538
Commercial mortgage-backed securities	18,174	331	56	18,449
Total	$ 243,028	$ 6,171	$ 653	$ 248,546
As of December 31, 2018				
State and political subdivisions	$ 68,551	$ 952	$ 2,191	$ 67,312
Residential mortgage-backed securities	176,488	652	5,094	172,046
Commercial mortgage-backed securities	29,368	173	96	29,445
Total	$ 274,407	$ 1,777	$ 7,381	$ 268,803

The cost basis, unrealized gains and losses, and fair value of debt 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 September 30, 2019				
U.S. Treasuries	$ 152,759	$ 1,873	$ —	$ 154,632
U.S. Government agencies	2,972	203	—	3,175
State and political subdivisions	215,159	12,166	—	227,325
Residential mortgage-backed securities	1,236,101	22,154	1,622	1,256,633
Commercial mortgage-backed securities	318,815	3,783	133	322,465
Corporate bonds	200,246	1,291	342	201,195
Asset-backed securities	106,729	762	870	106,621
Total	$ 2,232,781	$ 42,232	$ 2,967	$ 2,272,046
As of December 31, 2018				
U.S. Treasuries	$ 150,712	$ 767	$ 2,172	$ 149,307
U.S. Government agencies	25,493	335	275	25,553
State and political subdivisions	234,750	907	1,716	233,941
Residential mortgage-backed securities	1,464,380	3,428	21,898	1,445,910
Commercial mortgage-backed securities	399,663	187	7,933	391,917
Corporate bonds	200,582	502	1,921	199,163
Asset-backed securities	184,683	328	2,335	182,676
Total	$ 2,660,263	$ 6,454	$ 38,250	$ 2,628,467

Securities with a carrying value of $724 million and $925 million were pledged to secure public deposits, derivatives and other secured borrowings at September 30, 2019 and December 31, 2018, respectively.

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of September 30, 2019						
Residential mortgage-backed securities	$ 2,597	$ 12	$ 55,776	$ 585	$ 58,373	$ 597
Commercial mortgage-backed securities	—	—	1,900	56	1,900	56
Total unrealized loss position	$ 2,597	$ 12	$ 57,676	$ 641	$ 60,273	$ 653
As of December 31, 2018						
State and political subdivisions	$ 7,062	$ 46	$ 34,146	$ 2,145	$ 41,208	$ 2,191
Residential mortgage-backed securities	6,579	61	136,376	5,033	142,955	5,094
Commercial mortgage-backed securities	—	—	4,290	96	4,290	96
Total unrealized loss position	$ 13,641	$ 107	$ 174,812	$ 7,274	$ 188,453	$ 7,381

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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of September 30, 2019						
Residential mortgage-backed securities	$ 72,466	$ 603	$ 111,223	$ 1,019	$ 183,689	$ 1,622
Commercial mortgage-backed securities	—	—	37,111	133	37,111	133
Corporate bonds	19,820	114	15,772	228	35,592	342
Asset-backed securities	64,608	867	1,233	3	65,841	870
Total unrealized loss position	$ 156,894	$ 1,584	$ 165,339	$ 1,383	$ 322,233	$ 2,967
As of December 31, 2018						
U.S. Treasuries	$ —	$ —	$ 120,391	$ 2,172	$ 120,391	$ 2,172
U.S. Government agencies	—	—	21,519	275	21,519	275
State and political subdivisions	15,160	28	133,500	1,688	148,660	1,716
Residential mortgage-backed securities	234,583	808	775,360	21,090	1,009,943	21,898
Commercial mortgage-backed securities	4,552	594	355,292	7,339	359,844	7,933
Corporate bonds	—	—	117,296	1,921	117,296	1,921
Asset-backed securities	74,492	1,879	31,968	456	106,460	2,335
Total unrealized loss position	$ 328,787	$ 3,309	$ 1,555,326	$ 34,941	$ 1,884,113	$ 38,250

At September 30, 2019, there were 49 debt securities available-for-sale and 29 debt securities held-to-maturity 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 September 30, 2019 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 nine months ended September 30, 2019 or 2018.

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 nine months ended September 30, 2019 and 2018 *(in thousands)*.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Proceeds from sales	$ —	$ 16,383	$ 225,883	$ 156,679
Gross gains on sales	$ —	$ 176	$ 1,776	$ 825
Gross losses on sales	—	(174)	(1,894)	(2,127)
Net gains (losses) on sales of securities	$ —	$ 2	$ (118)	$ (1,302)
Income tax expense (benefit) attributable to sales	$ —	$ 5	$ (30)	$ (312)

The amortized cost and fair value of debt securities available-for-sale and held-to-maturity at September 30, 2019, 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**
U.S. Treasuries:				
Within 1 year	$ 29,786	$ 29,887	$ —	$ —
1 to 5 years	122,973	124,745	—	—
	152,759	154,632	—	—
U.S. Government agencies:				
1 to 5 years	406	406	—	—
More than 10 years	2,566	2,769	—	—
	2,972	3,175	—	—
State and political subdivisions:				
Within 1 year	935	943	1,350	1,376
1 to 5 years	54,107	55,437	10,764	11,322
5 to 10 years	16,339	17,222	7,202	8,047
More than 10 years	143,778	153,723	41,935	43,814
	215,159	227,325	61,251	64,559
Corporate bonds:				
Within 1 year	120,046	120,176	—	—
1 to 5 years	77,700	78,475	—	—
5 to 10 years	1,500	1,546	—	—
More than 10 years	1,000	998	—	—
	200,246	201,195	—	—
Asset-backed securities:				
1 to 5 years	1,754	1,746	—	—
More than 10 years	104,975	104,875	—	—
	106,729	106,621	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	150,767	151,006	1,350	1,376
1 to 5 years	256,940	260,809	10,764	11,322
5 to 10 years	17,839	18,768	7,202	8,047
More than 10 years	252,319	262,365	41,935	43,814
Residential mortgage-backed securities	1,236,101	1,256,633	163,603	165,538
Commercial mortgage-backed securities	318,815	322,465	18,174	18,449
	$ 2,232,781	$ 2,272,046	$ 243,028	$ 248,546

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

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)*.

	September 30, 2019	December 31, 2018
Owner occupied commercial real estate	$ 1,692,010	$ 1,647,904
Income producing commercial real estate	1,933,868	1,812,420
Commercial & industrial	1,271,243	1,278,347
Commercial construction	1,000,801	796,158
Equipment financing	729,506	564,614
Total commercial	6,627,428	6,099,443
Residential mortgage	1,120,828	1,049,232
Home equity lines of credit	668,987	694,010
Residential construction	229,352	211,011
Consumer direct	125,517	122,013
Indirect auto	131,154	207,692
Total loans	8,903,266	8,383,401
Less allowance for loan losses	(62,514)	(61,203)
Loans, net	$ 8,840,752	$ 8,322,198

At September 30, 2019 and December 31, 2018, loans totaling $4.15 billion and $3.98 billion, respectively, were pledged as collateral to secure Federal Home Loan Bank advances, securitized notes payable and other contingent funding sources.

At September 30, 2019, the carrying value and outstanding balance of purchased credit impaired ("PCI") loans accounted for under ASC 310-30 were $69.7 million and $97.1 million, respectively. At December 31, 2018, the carrying value and outstanding balance of PCI loans were $74.4 million and $109 million, respectively. The following table presents changes in the balance of the accretable yield for PCI loans for the periods indicated *(in thousands)*:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance at beginning of period	$ 26,308	$ 23,406	$ 26,868	$ 17,686
Additions due to acquisitions	—	—	1,300	1,977
Accretion	(4,950)	(3,773)	(14,037)	(9,284)
Reclassification from nonaccretable difference	1,159	3,018	5,627	10,136
Changes in expected cash flows that do not affect nonaccretable difference	329	2,027	3,088	4,163
Balance at end of period	$ 22,846	$ 24,678	$ 22,846	$ 24,678

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 September 30, 2019 and December 31, 2018, the remaining accretable net fair value discount on loans acquired through a business combination and not accounted for under ASC 310-30 was $5.69 million and $4.31 million, respectively, which included a net premium on acquired equipment financing loans. In addition, indirect auto loans purchased at a premium outside of a business combination had a remaining premium of $1.91 million and $3.72 million, respectively, as of September 30, 2019 and December 31, 2018.

At September 30, 2019 and December 31, 2018, equipment financing assets included leases of $39.5 million and $30.4 million, respectively. The components of the net investment in leases, which included both sales-type and direct financing, are presented below *(in thousands)*.

	September 30, 2019	December 31, 2018
Minimum future lease payments receivable	$ 42,176	$ 31,915
Estimated residual value of leased equipment	3,749	3,593
Initial direct costs	936	827
Security deposits	(1,091)	(1,189)
Purchase accounting premium	379	806
Unearned income	(6,630)	(5,568)
Net investment in leases	$ 39,519	$ 30,384

Minimum future lease payments expected to be received from equipment financing lease contracts as of September 30, 2019 are as follows *(in thousands)*:

Year	
Remainder of 2019	$ 4,048
2020	14,455
2021	10,740
2022	7,131
2023	4,226
Thereafter	1,576
Total	$ 42,176

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 September 30,	2019					2018				
	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$ 11,545	$ —	$ 39	$ (165)	$ 11,419	$ 12,909	$ —	$ 251	$ (706)	$ 12,454
Income producing commercial real estate	11,020	(472)	41	473	11,062	10,862	(375)	375	220	11,082
Commercial & industrial	5,308	(898)	207	773	5,390	4,205	(660)	242	568	4,355
Commercial construction	10,318	—	247	(158)	10,407	10,123	(24)	66	(293)	9,872
Equipment financing	6,935	(1,376)	202	1,485	7,246	3,561	(700)	218	1,141	4,220
Residential mortgage	8,290	(264)	106	82	8,214	9,845	(235)	66	70	9,746
Home equity lines of credit	4,794	(287)	204	(28)	4,683	4,943	(426)	147	174	4,838
Residential construction	2,365	(13)	18	181	2,551	2,590	(32)	195	(382)	2,371
Consumer direct	855	(645)	226	441	877	765	(643)	244	474	840
Indirect auto	774	(125)	67	(51)	665	1,268	(228)	53	69	1,162
Total allowance for loan losses	62,204	(4,080)	1,357	3,033	62,514	61,071	(3,323)	1,857	1,335	60,940
Allowance for unfunded commitments	3,391	—	—	67	3,458	2,895	—	—	465	3,360
Total allowance for credit losses	$ 65,595	$ (4,080)	$ 1,357	$ 3,100	$ 65,972	$ 63,966	$ (3,323)	$ 1,857	$ 1,800	$ 64,300

Nine Months Ended September 30,	2019					2018				
	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$ 12,207	$ (5)	$ 166	$ (949)	$ 11,419	$ 14,776	$ (67)	$ 939	$ (3,194)	$ 12,454
Income producing commercial real estate	11,073	(977)	127	839	11,062	9,381	(2,685)	842	3,544	11,082
Commercial & industrial	4,802	(3,833)	645	3,776	5,390	3,971	(1,277)	848	813	4,355
Commercial construction	10,337	(70)	804	(664)	10,407	10,523	(440)	322	(533)	9,872
Equipment financing	5,452	(3,810)	466	5,138	7,246	—	(862)	386	4,696	4,220
Residential mortgage	8,295	(433)	388	(36)	8,214	10,097	(417)	290	(224)	9,746
Home equity lines of credit	4,752	(653)	466	118	4,683	5,177	(761)	372	50	4,838
Residential construction	2,433	(263)	91	290	2,551	2,729	(40)	326	(644)	2,371
Consumer direct	853	(1,721)	672	1,073	877	710	(1,846)	599	1,377	840
Indirect auto	999	(502)	151	17	665	1,550	(1,043)	188	467	1,162
Total allowance for loan losses	61,203	(12,267)	3,976	9,602	62,514	58,914	(9,438)	5,112	6,352	60,940
Allowance for unfunded commitments	3,410	—	—	48	3,458	2,312	—	—	1,048	3,360
Total allowance for credit losses	$ 64,613	$ (12,267)	$ 3,976	$ 9,650	$ 65,972	$ 61,226	$ (9,438)	$ 5,112	$ 7,400	$ 64,300

The following tables represent 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

	September 30, 2019				December 31, 2018			
	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	$ 859	$ 10,446	$ 114	$ 11,419	$ 862	$ 11,328	$ 17	$ 12,207
Income producing commercial real estate	261	10,737	64	11,062	402	10,671	—	11,073
Commercial & industrial	33	5,305	52	5,390	32	4,761	9	4,802
Commercial construction	49	10,248	110	10,407	71	9,974	292	10,337
Equipment financing	—	7,149	97	7,246	—	5,045	407	5,452
Residential mortgage	808	7,392	14	8,214	861	7,410	24	8,295
Home equity lines of credit	16	4,648	19	4,683	1	4,740	11	4,752
Residential construction	51	2,472	28	2,551	51	2,382	—	2,433
Consumer direct	5	872	—	877	6	847	—	853
Indirect auto	41	624	—	665	26	973	—	999
Total allowance for loan losses	2,123	59,893	498	62,514	2,312	58,131	760	61,203
Allowance for unfunded commitments	—	3,458	—	3,458	—	3,410	—	3,410
Total allowance for credit losses	$ 2,123	$ 63,351	$ 498	$ 65,972	$ 2,312	$ 61,541	$ 760	$ 64,613

Loans Outstanding

	September 30, 2019				December 31, 2018			
	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	$ 18,562	$ 1,663,913	$ 9,535	$ 1,692,010	$ 17,602	$ 1,620,450	$ 9,852	$ 1,647,904
Income producing commercial real estate	10,748	1,886,317	36,803	1,933,868	16,584	1,757,525	38,311	1,812,420
Commercial & industrial	2,068	1,268,815	360	1,271,243	1,621	1,276,318	408	1,278,347
Commercial construction	3,287	990,513	7,001	1,000,801	2,491	787,760	5,907	796,158
Equipment financing	111	724,664	4,731	729,506	—	556,672	7,942	564,614
Residential mortgage	16,672	1,095,179	8,977	1,120,828	14,220	1,025,862	9,150	1,049,232
Home equity lines of credit	300	667,286	1,401	668,987	276	692,122	1,612	694,010
Residential construction	1,283	227,564	505	229,352	1,207	209,070	734	211,011
Consumer direct	198	124,939	380	125,517	211	121,269	533	122,013
Indirect auto	1,043	130,111	—	131,154	1,237	206,455	—	207,692
Total loans	$ 54,272	$ 8,779,301	$ 69,693	$ 8,903,266	$ 55,449	$ 8,253,503	$ 74,449	$ 8,383,401

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. On a quarterly basis, management individually evaluates certain impaired loans, including all non-PCI nonaccrual relationships with a balance of $500,000 or greater and all troubled debt restructurings ("TDRs") for impairment. Impairment for collateral dependent loans within this population is measured based on the fair value of the collateral. If impairment is identified, the loan is generally charged down to the fair value of the underlying collateral, less selling costs. Impairment for non-collateral dependent TDRs within this population is measured based on discounted cash flows or the loan's observable market price. Impairment identified using these methods would result in the establishment of a specific reserve.

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 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, employment rates, debt per capita, home price indices, and trends in real estate value indices.

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 of collateral 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 respective Chief Credit Officer, Senior Risk Officers, Senior Credit Officers, Regional Credit Managers, and Special Asset 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)*.

	September 30, 2019			December 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Owner occupied commercial real estate	$ 9,225	$ 7,107	$ —	$ 8,650	$ 6,546	$ —
Income producing commercial real estate	5,363	5,164	—	9,986	9,881	—
Commercial & industrial	1,297	1,037	—	525	370	—
Commercial construction	1,716	1,607	—	685	507	—
Equipment financing	111	111	—	—	—	—
Total commercial	17,712	15,026	—	19,846	17,304	—
Residential mortgage	7,666	6,808	—	5,787	5,202	—
Home equity lines of credit	275	213	—	330	234	—
Residential construction	790	658	—	554	428	—
Consumer direct	28	28	—	18	17	—
Indirect auto	236	223	—	294	292	—
Total with no related allowance recorded	26,707	22,956	—	26,829	23,477	—
With an allowance recorded:						
Owner occupied commercial real estate	11,509	11,455	859	11,095	11,056	862
Income producing commercial real estate	5,968	5,584	261	6,968	6,703	402
Commercial & industrial	1,200	1,031	33	1,652	1,251	32
Commercial construction	1,826	1,680	49	2,130	1,984	71
Equipment financing	—	—	—	—	—	—
Total commercial	20,503	19,750	1,202	21,845	20,994	1,367
Residential mortgage	9,922	9,864	808	9,169	9,018	861
Home equity lines of credit	89	87	16	45	42	1
Residential construction	637	625	51	791	779	51
Consumer direct	171	170	5	199	194	6
Indirect auto	820	820	41	946	945	26
Total with an allowance recorded	32,142	31,316	2,123	32,995	31,972	2,312
Total	$ 58,849	$ 54,272	$ 2,123	$ 59,824	$ 55,449	$ 2,312

As of September 30, 2019 and December 31, 2018, $2.12 million and $2.31 million, respectively, of specific reserves were allocated to customers whose loan terms have been modified in TDRs. As of September 30, 2019 and December 31, 2018, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

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" in which 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 when 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 and nine months ended September 30, 2019 and 2018 are presented in the following table. In addition, the 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							
			Post-Modification Outstanding Recorded Investment by Type of Modification				TDRs Modified Within the Previous Twelve Months That Have Subsequently Defaulted	
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Rate Reduction	Structure	Other	Total	Number of Contracts	Recorded Investment
Three Months Ended September 30, 2019								
Owner occupied commercial real estate	—	$ —	$ —	$ —	$ —	$ —	—	$ —
Income producing commercial real estate	—	—	—	—	—	—	—	—
Commercial & industrial	—	—	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—	—	—
Equipment financing	2	93	—	93	—	93	—	—
Total commercial	2	93	—	93	—	93	—	—
Residential mortgage	2	609	—	609	—	609	—	—
Home equity lines of credit	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Consumer direct	3	21	—	—	21	21	—	—
Indirect auto	4	101	—	—	101	101	—	—
Total loans	11	$ 824	$ —	$ 702	$ 122	$ 824	—	$ —
Nine Months Ended September 30, 2019								
Owner occupied commercial real estate	2	$ 610	$ —	$ 610	$ —	$ 610	—	$ —
Income producing commercial real estate	1	169	—	169	—	169	—	—
Commercial & industrial	1	7	—	—	7	7	—	—
Commercial construction	—	—	—	—	—	—	—	—
Equipment financing	3	113	—	113	—	113	—	—
Total commercial	7	899	—	892	7	899	—	—
Residential mortgage	11	1,785	—	1,784	—	1,784	1	135
Home equity lines of credit	1	50	—	50	—	50	—	—
Residential construction	1	22	—	—	21	21	1	13
Consumer direct	3	21	—	—	21	21	—	—
Indirect auto	15	271	—	—	262	262	—	—
Total loans	38	$ 3,048	$ —	$ 2,726	$ 311	$ 3,037	2	$ 148
Three Months Ended September 30, 2018								
Owner occupied commercial real estate	—	$ —	$ —	$ —	$ —	$ —	—	$ —
Income producing commercial real estate	1	3,647	—	3,637	—	3,637	—	—
Commercial & industrial	—	—	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—	—	—
Equipment financing	—	—	—	—	—	—	—	—
Total commercial	1	3,647	—	3,637	—	3,637	—	—
Residential mortgage	4	421	—	395	—	395	—	—
Home equity lines of credit	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Consumer direct	—	—	—	—	—	—	—	—
Indirect auto	9	188	—	—	188	188	—	—
Total loans	14	$ 4,256	$ —	$ 4,032	$ 188	$ 4,220	—	$ —
Nine Months Ended September 30, 2018								
Owner occupied commercial real estate	4	$ 1,276	$ —	$ 1,260	$ —	$ 1,260	3	$ 1,869
Income producing commercial real estate	2	3,753	106	3,637	—	3,743	—	—
Commercial & industrial	2	108	—	32	—	32	—	—
Commercial construction	—	—	—	—	—	—	1	3
Equipment financing	—	—	—	—	—	—	—	—
Total commercial	8	5,137	106	4,929	—	5,035	4	1,872
Residential mortgage	8	1,186	—	1,159	—	1,159	1	101
Home equity lines of credit	—	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—	—
Consumer direct	—	—	—	—	—	—	—	—
Indirect auto	26	424	—	—	424	424	—	—
Total loans	42	$ 6,747	$ 106	$ 6,088	$ 424	$ 6,618	5	$ 1,973

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)*.

	2019			2018		
Three Months Ended September 30,	**Average Balance**	**Interest Revenue Recognized During Impairment**	**Cash Basis Interest Revenue Received**	**Average Balance**	**Interest Revenue Recognized During Impairment**	**Cash Basis Interest Revenue Received**
Owner occupied commercial real estate	$ 18,759	$ 288	$ 290	$ 17,857	$ 291	$ 284
Income producing commercial real estate	10,906	144	153	18,623	240	232
Commercial & industrial	2,133	48	54	1,445	18	17
Commercial construction	3,316	38	39	2,869	39	39
Equipment financing	66	3	3	—	—	—
Total commercial	35,180	521	539	40,794	588	572
Residential mortgage	16,669	195	203	14,654	168	162
Home equity lines of credit	301	4	2	275	3	3
Residential construction	1,298	22	25	1,295	23	23
Consumer direct	204	4	4	232	4	4
Indirect auto	1,069	14	14	1,220	16	16
Total	$ 54,721	$ 760	$ 787	$ 58,470	$ 802	$ 780
Nine Months Ended September 30,						
Owner occupied commercial real estate	$ 18,302	$ 846	$ 882	$ 20,623	$ 771	$ 800
Income producing commercial real estate	12,941	523	529	17,155	665	679
Commercial & industrial	1,921	74	89	1,861	83	83
Commercial construction	3,029	113	114	3,456	137	135
Equipment financing	29	3	3	—	—	—
Total commercial	36,222	1,559	1,617	43,095	1,656	1,697
Residential mortgage	16,134	553	561	14,587	474	473
Home equity lines of credit	288	11	7	285	12	11
Residential construction	1,352	70	72	1,467	72	71
Consumer direct	197	11	11	260	14	14
Indirect auto	1,121	42	42	1,274	50	50
Total	$ 55,314	$ 2,246	$ 2,310	$ 60,968	$ 2,278	$ 2,316

Nonaccrual and Past Due 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 generally 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 or pool of loans. No PCI loans were classified as nonaccrual at September 30, 2019 or December 31, 2018 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 $338,000 and $213,000 for the three months ended September 30, 2019 and 2018, respectively, and $965,000 and $812,000 for the nine months ended September 30, 2019 and 2018, respectively.

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

	September 30, 2019	December 31, 2018
Owner occupied commercial real estate	$ 8,430	$ 6,421
Income producing commercial real estate	2,030	1,160
Commercial & industrial	2,625	1,417
Commercial construction	1,894	605
Equipment financing	1,974	2,677
Total commercial	16,953	12,280
Residential mortgage	9,475	8,035
Home equity lines of credit	3,065	2,360
Residential construction	597	288
Consumer direct	147	89
Indirect auto	595	726
Total	$ 30,832	$ 23,778

Excluding PCI loans, substantially all loans more than 90 days past due were on nonaccrual status at September 30, 2019 and December 31, 2018. 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)*.

	Loans Past Due						
As of September 30, 2019	30 - 59 Days	60 - 89 Days	> 90 Days	Total	Loans Not Past Due	PCI Loans	Total
Owner occupied commercial real estate	$ 1,881	$ 978	$ 6,447	$ 9,306	$ 1,673,169	$ 9,535	$ 1,692,010
Income producing commercial real estate	9,422	93	915	10,430	1,886,635	36,803	1,933,868
Commercial & industrial	6,017	663	2,055	8,735	1,262,148	360	1,271,243
Commercial construction	116	11	121	248	993,552	7,001	1,000,801
Equipment financing	1,039	668	1,901	3,608	721,167	4,731	729,506
Total commercial	18,475	2,413	11,439	32,327	6,536,671	58,430	6,627,428
Residential mortgage	4,649	1,921	1,155	7,725	1,104,126	8,977	1,120,828
Home equity lines of credit	2,620	479	897	3,996	663,590	1,401	668,987
Residential construction	314	71	150	535	228,312	505	229,352
Consumer direct	627	74	40	741	124,396	380	125,517
Indirect auto	508	142	520	1,170	129,984	—	131,154
Total loans	$ 27,193	$ 5,100	$ 14,201	$ 46,494	$ 8,787,079	$ 69,693	$ 8,903,266

	Loans Past Due						
As of December 31, 2018	30 - 59 Days	60 - 89 Days	> 90 Days	Total	Loans Not Past Due	PCI Loans	Total
Owner occupied commercial real estate	$ 2,542	$ 2,897	$ 1,011	$ 6,450	$ 1,631,602	$ 9,852	$ 1,647,904
Income producing commercial real estate	1,624	291	301	2,216	1,771,893	38,311	1,812,420
Commercial & industrial	7,189	718	400	8,307	1,269,632	408	1,278,347
Commercial construction	267	—	68	335	789,916	5,907	796,158
Equipment financing	1,351	739	2,658	4,748	551,924	7,942	564,614
Total commercial	12,973	4,645	4,438	22,056	6,014,967	62,420	6,099,443
Residential mortgage	5,461	1,788	1,950	9,199	1,030,883	9,150	1,049,232
Home equity lines of credit	2,112	864	902	3,878	688,520	1,612	694,010
Residential construction	509	63	190	762	209,515	734	211,011
Consumer direct	600	82	21	703	120,777	533	122,013
Indirect auto	750	323	633	1,706	205,986	—	207,692
Total loans	$ 22,405	$ 7,765	$ 8,134	$ 38,304	$ 8,270,648	$ 74,449	$ 8,383,401

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.

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 September 30, 2019					
Owner occupied commercial real estate	$ 1,606,137	$ 32,725	$ 43,613	$ —	$ 1,682,475
Income producing commercial real estate	1,844,176	25,451	27,438	—	1,897,065
Commercial & industrial	1,199,399	32,105	39,379	—	1,270,883
Commercial construction	963,742	22,393	7,665	—	993,800
Equipment financing	722,801	—	1,974	—	724,775
Total commercial	6,336,255	112,674	120,069	—	6,568,998
Residential mortgage	1,099,233	—	12,618	—	1,111,851
Home equity lines of credit	663,087	—	4,499	—	667,586
Residential construction	228,029	—	818	—	228,847
Consumer direct	124,729	—	408	—	125,137
Indirect auto	129,306	—	1,848	—	131,154
Total loans, excluding PCI loans	8,580,639	112,674	140,260	—	8,833,573
Owner occupied commercial real estate	1,905	5,262	2,368	—	9,535
Income producing commercial real estate	26,499	8,204	2,100	—	36,803
Commercial & industrial	86	50	224	—	360
Commercial construction	3,190	581	3,230	—	7,001
Equipment financing	4,715	—	16	—	4,731
Total commercial	36,395	14,097	7,938	—	58,430
Residential mortgage	7,505	—	1,472	—	8,977
Home equity lines of credit	1,361	—	40	—	1,401
Residential construction	467	—	38	—	505
Consumer direct	354	—	26	—	380
Indirect auto	—	—	—	—	—
Total PCI loans	46,082	14,097	9,514	—	69,693
Total loan portfolio	$ 8,626,721	$ 126,771	$ 149,774	$ —	$ 8,903,266
As of December 31, 2018					
Owner occupied commercial real estate	$ 1,585,797	$ 16,651	$ 35,604	$ —	$ 1,638,052
Income producing commercial real estate	1,735,456	20,923	17,730	—	1,774,109
Commercial & industrial	1,247,206	8,430	22,303	—	1,277,939
Commercial construction	777,780	4,533	7,938	—	790,251
Equipment financing	553,995	—	2,677	—	556,672
Total commercial	5,900,234	50,537	86,252	—	6,037,023
Residential mortgage	1,028,660	—	11,422	—	1,040,082
Home equity lines of credit	688,493	—	3,905	—	692,398
Residential construction	209,744	—	533	—	210,277
Consumer direct	121,247	19	214	—	121,480
Indirect auto	205,632	—	2,060	—	207,692
Total loans, excluding PCI loans	8,154,010	50,556	104,386	—	8,308,952
Owner occupied commercial real estate	3,352	2,774	3,726	—	9,852
Income producing commercial real estate	23,430	13,403	1,478	—	38,311
Commercial & industrial	266	48	94	—	408
Commercial construction	3,503	188	2,216	—	5,907
Equipment financing	7,725	—	217	—	7,942
Total commercial	38,276	16,413	7,731	—	62,420
Residential mortgage	6,914	—	2,236	—	9,150
Home equity lines of credit	1,492	—	120	—	1,612
Residential construction	687	—	47	—	734
Consumer direct	493	—	40	—	533
Indirect auto	—	—	—	—	—
Total PCI loans	47,862	16,413	10,174	—	74,449
Total loan portfolio	$ 8,201,872	$ 66,969	$ 114,560	$ —	$ 8,383,401

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	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Affected Line Item in the Statement Where Net Income is Presented
Realized gains (losses) on available-for-sale securities:					
	$ —	$ 2	$ (118)	$ (1,302)	Securities gains (losses), net
	—	(5)	30	312	Income tax (expense) benefit
	$ —	$ (3)	$ (88)	$ (990)	Net of tax
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity:					
	$ (105)	$ (168)	$ (282)	$ (607)	Investment securities interest revenue
	25	40	67	149	Income tax benefit
	$ (80)	$ (128)	$ (215)	$ (458)	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	$ —	$ (105)	$ (102)	$ (395)	Money market deposit interest expense
Amortization of losses on de-designated positions	—	—	(235)	—	Other expense
	—	(105)	(337)	(395)	Total before tax
	—	27	86	103	Income tax benefit
	$ —	$ (78)	$ (251)	$ (292)	Net of tax
Reclassifications related to defined benefit pension plan activity:					
Prior service cost	$ (158)	$ (167)	$ (476)	$ (501)	Salaries and employee benefits expense
Actuarial losses	(16)	(60)	(45)	(180)	Other expense
Termination of defined benefit pension plan	(1,558)	—	(1,558)	—	Merger-related and other charges
	(1,732)	(227)	(2,079)	(681)	Total before tax
	443	57	531	188	Income tax benefit
	$ (1,289)	$ (170)	$ (1,548)	$ (493)	Net of tax
Total reclassifications for the period	$ (1,369)	$ (379)	$ (2,102)	$ (2,233)	Net of tax

Amounts shown above in parentheses reduce earnings.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 48,362	$ 43,682	$ 136,709	$ 120,974
Dividends and undistributed earnings allocated to unvested shares	(351)	(301)	(982)	(850)
Net income available to common shareholders	$ 48,011	$ 43,381	$ 135,727	$ 120,124
Weighted average shares outstanding:				
Basic	79,663	79,806	79,714	79,588
Effect of dilutive securities				
Stock options	1	6	1	8
Restricted stock units	3	6	3	2
Diluted	79,667	79,818	79,718	79,598
Net income per common share:				
Basic	$ 0.60	$ 0.54	$ 1.70	$ 1.51
Diluted	$ 0.60	$ 0.54	$ 1.70	$ 1.51

At September 30, 2019, United excluded 1,000 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of $30.45 from the computation of diluted earnings per share because of their antidilutive effect.

At September 30, 2018, United had potentially dilutive warrants outstanding to purchase 219,909 shares of common stock at $61.40 per share. For the three and nine months ended September 30, 2018, there were also 33,283 and 32,283, respectively, of potentially dilutive shares of common stock issuable upon exercise of stock options that were excluded from the computation of diluted earnings per share because of their antidilutive effect.

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 through a combination of pricing and term structure of deposit product offerings, the amount and duration of its investment securities portfolio and wholesale funding and, to a lesser degree, through the use of derivative financial instruments. From time to time, United enters into derivative financial instruments to manage interest rate risk 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 arrangements on a gross basis.

United clears certain derivatives centrally through the Chicago Mercantile Exchange ("CME"). CME rules legally characterize variation margin payments for centrally cleared derivatives as settlements of the derivatives' exposure rather than as collateral. As a result, the variation margin payment and the related derivative instruments are considered a single unit of account for accounting purposes. Variation margin, as determined by the CME, is settled daily. As a result, derivative contracts that clear through the CME have an estimated fair value of zero. 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 sheets *(in thousands)*:

Derivatives designated as hedging instruments

Interest Rate Products	Balance Sheet Location	September 30, 2019	December 31, 2018
Fair value hedge of brokered CDs	Derivative liabilities	$ 685	$ 1,682
		$ 685	$ 1,682

Derivatives not designated as hedging instruments

Interest Rate Products	Balance Sheet Location	September 30, 2019	December 31, 2018
Customer derivative positions	Derivative assets	$ 37,081	$ 5,216
Dealer offsets to customer derivative positions	Derivative assets	118	7,620
Mortgage banking - loan commitment	Derivative assets	2,732	1,190
Mortgage banking - forward sales commitment	Derivative assets	313	28
Bifurcated embedded derivatives	Derivative assets	3,511	10,651
		$ 43,755	$ 24,705
Customer derivative positions	Derivative liabilities	$ 122	$ 9,661
Dealer offsets to customer derivative positions	Derivative liabilities	9,222	781
Risk participations	Derivative liabilities	14	8
Mortgage banking - forward sales commitment	Derivative liabilities	187	259
Dealer offsets to bifurcated embedded derivatives	Derivative liabilities	6,014	13,339
De-designated hedges	Derivative liabilities	—	703
		$ 15,559	$ 24,751

Customer derivative positions are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap/cap program. In addition, to accommodate customers, United occasionally enters into credit risk participation agreements with counterparty banks to accept a portion of the credit risk related to interest rate swaps. The agreements, which are typically executed in conjunction with a participation in a loan with the same customer, allow customers to execute an interest rate swap with one bank while allowing for the distribution of the credit risk among participating members. Collateral used to support the credit risk for the underlying lending relationship is also available to offset the risk of credit risk participations and customer derivative positions.

United also has three interest rate swap contracts that are not designated as hedging instruments but are economic hedges of market-linked brokered certificates of deposit. The market-linked brokered certificates of deposit contain embedded derivatives that are bifurcated from the host instruments and are marked to market through earnings. The fair value marks on the market linked swaps and the bifurcated embedded derivatives tend to move in opposite directions with changes in 90-day London Interbank Offered Rate ("LIBOR") and therefore provide an economic hedge.

In addition, United originates certain residential mortgage loans with the intention of selling these loans. Between the time United enters into an interest-rate lock commitment to originate a residential mortgage loan that is to be held for sale and the time the loan is funded and eventually sold, United is subject to the risk of variability in market prices. United enters into forward sale agreements to mitigate risk and to protect the expected gain on the eventual loan sale. The commitments to originate residential mortgage loans and forward loan sales commitments are freestanding derivative instruments. United accounts for most newly originated mortgage loans at fair value pursuant to the fair value option, and these loans are not reflected in the table above. Fair value adjustments on these derivative instruments are recorded within mortgage loan and other related fee income in the consolidated statements of income.

Cash Flow Hedges of Interest Rate Risk

At September 30, 2019 and December 31, 2018 United did not have any active cash flow hedges. Changes in balance sheet composition and interest rate risk position made cash flow hedges not currently necessary as protection against rising interest rates. The loss remaining in other comprehensive income from prior hedges that had previously been de-designated was being amortized into earnings over the original term of the swaps as the forecasted transactions that the swaps were originally designated to hedge were still expected to occur. During the second quarter of 2019, United amortized the remaining balance of losses on terminated hedging positions from other comprehensive income, which was the only effect of cash flow hedges on the consolidated statements of income for the nine months ended September 30, 2019 and 2018. See Note 7 for further detail.

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges of brokered deposits involve the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. At September 30, 2019, United had four interest rate swaps with a notional amount of $37.9 million that were designated as fair value hedges of interest rate risk and were pay-variable / receive-fixed swaps hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates. As of September 30, 2019, the hedged brokered time deposits, which were included in brokered deposits on the consolidated balance sheet, had a carrying value of $36.3 million, which included cumulative fair value hedging adjustments of $480,000. At December 31, 2018, United had four interest rate swaps with an aggregate notional amount of $39.0 million that were designated as fair value hedges of interest rate risk and were pay-variable / receive-fixed, hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same income statement line item as the offsetting loss or gain on the related derivatives. United also recognized a net increase in interest expense of $97,000 and $300,000, respectively, for the three and nine months ended September 30, 2019 and a net increase in interest expense of $74,000 and $154,000, respectively, for the three and nine months ended September 30, 2018 related to fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized an increase in interest revenue on securities during the nine months ended September 30, 2018 of $17,000 related to fair value hedges of corporate bonds which were terminated during the first quarter of 2018.

The table below presents the effect of derivatives in fair value hedging relationships on the consolidated statement of income for the periods indicated *(in thousands)*.

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Hedged Item	
		2019	2018	2019	2018
Three Months Ended September 30,					
Fair value hedges of brokered CDs	Interest expense	$ 71	$ (75)	$ (55)	$ (52)
		$ 71	$ (75)	$ (55)	$ (52)
Nine Months Ended September 30,					
Fair value hedges of brokered CDs	Interest expense	$ 671	$ (912)	$ (668)	$ 518
Fair value hedges of corporate bonds	Interest revenue	—	(336)	—	405
		$ 671	$ (1,248)	$ (668)	$ 923

In certain cases, the estate of deceased brokered certificate of deposit holders may put the certificate of deposit back to United at par upon the death of the holder. When these estate puts occur, a gain or loss is recognized for the difference between the fair value and the par amount of the deposits put back. The change in the fair value of brokered time deposits that are being hedged in fair value hedging relationships reported in the table above includes gains and losses from estate puts.

Derivatives Not Designated as Hedging Instruments

The table below presents the gains and losses recognized in income on derivatives not designated as hedging instruments for the periods indicated *(in thousands)*.

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		2019	2018
Three Months Ended September 30,			
Customer derivatives and dealer offsets	Other noninterest income	$ 649	$ 611
Bifurcated embedded derivatives and dealer offsets	Other noninterest income	—	17
De-designated hedges	Other noninterest income	—	(25)
Mortgage banking derivatives	Mortgage loan revenue	(49)	(213)
Risk participations	Other noninterest income	(1)	—
		$ 599	$ 390
Nine Months Ended September 30,			
Customer derivatives and dealer offsets	Other noninterest income	$ 2,376	$ 2,028
Bifurcated embedded derivatives and dealer offsets	Other noninterest income	144	398
Interest rate caps	Other noninterest income	—	276
De-designated hedges	Other noninterest income	(193)	(108)
Mortgage banking derivatives	Mortgage loan revenue	(987)	1,207
Risk participations	Other noninterest income	(5)	12
		$ 1,335	$ 3,813

Credit-Risk-Related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bilateral credit support agreement with each non-customer counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. As of September 30, 2019, collateral totaling $16.3 million was pledged toward derivatives in a liability position.

United's agreements with each of its derivative counterparties provide that if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that provide that if United fails to maintain its status as a well-capitalized institution or is subject to a prompt corrective action directive, the counterparty could terminate the derivative positions and United would be required to settle its obligations under the agreements. Derivatives that are centrally cleared do not have credit-risk-related features that would require additional collateral if United's credit rating were downgraded.

Note 10 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards (also referred to as "nonvested stock" awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan have an exercise price no less than the fair market value of the underlying stock at the date of grant. The general terms of the plan include a vesting period (usually four years, although certain acquisition-related performance grants may have periods of less than four years and up to ten years) with an exercisable period not to exceed ten years. Certain options, restricted stock and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the plan). Through September 30, 2019, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards have been granted under the plan. As of September 30, 2019, 1.31 million additional awards remained available for grant under the plan.

The following table shows stock option activity for the first nine months of 2019.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2018	47,139	$ 27.07		
Exercised	(12,000)	16.44		
Cancelled/forfeited	(2,396)	29.68		
Expired	(30,243)	31.43		
Outstanding at September 30, 2019	2,500	22.81	1.9	$ 16
Exercisable at September 30, 2019	2,500	22.81	1.9	16

The fair value of each option is estimated on the date of grant using the Black-Scholes model. No stock options were granted during the nine months ended September 30, 2019 and 2018.

United recognized $18,000 in compensation expense related to stock options during the nine months ended September 30, 2018, and no compensation expense related to stock options in the same period of 2019. The amount of compensation expense was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period.

The table below presents restricted stock units activity for the first nine months of 2019.

Restricted Stock Unit Awards	Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2018	759,746	$ 27.66		
Granted	301,301	26.55		
Vested	(171,177)	24.42		$ 4,589
Cancelled	(33,754)	25.79		
Outstanding at September 30, 2019	856,116	27.99	3.7	24,271

Historically, compensation expense for restricted stock units has been based on the market value of United's common stock on the date of grant. During the third quarter of 2019, as it had during the third quarter 2018, in addition to the time-based restricted stock unit awards, United's Board of Directors approved performance-based restricted stock units. The performance-based restricted stock awards granted during the third quarter 2019 will vest based on achieving, during the applicable calendar-year performance periods from 2020 through 2023, certain performance and market targets relative to a bank peer group. Achieving target performance on both the performance and market targets for all performance periods will result in the issuance of 47,642 shares, although additional shares may be issued if more stringent performance and market hurdles are met. The per share fair market value of these performance-based restricted stock unit award of $26.32 was estimated using the Monte Carlo Simulation valuation model. United recognizes the impact of forfeitures as they occur. The value of restricted stock unit awards is amortized into expense over the service period. For the nine months ended September 30, 2019 and 2018, expense of $7.40 million and $3.79 million, respectively, was recognized related to restricted stock unit awards granted to United employees. Of the expense related to restricted stock unit awards during the nine months ended September 30, 2019, $1.38 million related to the modification of existing awards resulting from an acceleration of vesting of awards due to retirement and $740,000 related to awards granted in conjunction with an acquisition, both of which were recognized in merger-related and other charges in the consolidated statement of income. The remaining expense of $5.28 million for the nine months ended September 30, 2019 was recognized in salaries and employee benefits expense, as was the entire amount for the nine months ended September 30, 2018. In addition, for the nine months ended September 30, 2019 and 2018, $283,000 and $264,000, respectively, was recognized in other operating expense for restricted stock unit awards granted to members of United's Board of Directors.

A deferred income tax benefit related to stock-based compensation expense of $1.96 million and $1.04 million was included in the determination of income tax expense for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there was $16.5 million of unrecognized expense related to non-vested restricted stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.6 years. As of September 30, 2019, there was no unrecognized expense related to non-vested stock options granted under the plan.

Note 11 – Common Stock

In November of 2018, United's Board of Directors approved an increase and extension of the ongoing common stock repurchase program, authorizing $50 million of repurchases of United's outstanding common stock. The program is scheduled to expire on the earlier of United's repurchase of its common stock having an aggregate purchase price of $50 million or December 31, 2019. Under the program, shares may be repurchased in the open market or in privately negotiated transactions, from time to time, subject to market conditions. During the three and nine months ended September 30, 2019, 195,443 and 500,495 shares, respectively, were repurchased under the program. During the nine months ended September 30, 2018, no shares were repurchased under the program. As of September 30, 2019, United had remaining authorization to repurchase up to $37.0 million of outstanding common stock under the program. In November of 2019, the Board of Directors authorized an updated repurchase program for $50 million of its common shares that may be acquired through December 31, 2020.

Note 12 – Income Taxes

The income tax provision for the three and nine months ended September 30, 2019 was $14.0 million and $40.1 million, respectively, which represented effective tax rates of 22.4% and 22.7%, respectively, for those periods. The income tax provision for the three and nine months ended September 30, 2018 was $13.1 million and $37.4 million, respectively, which represented effective tax rates of 23.1% and 23.6%, respectively, for those periods.

At September 30, 2019 and December 31, 2018, United maintained a valuation allowance on its net deferred tax asset of $3.37 million. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

United is subject to income taxation in the United States and various state jurisdictions. United's federal and state income tax returns are filed on a consolidated basis. Currently, no years for which United filed a federal income tax return are under examination by the IRS, and there are no state tax examinations currently in progress. United is no longer subject to income tax examinations from state and local income tax authorities for years before 2016. Although it is not possible to know the ultimate outcome of future examinations, management believes that the liability recorded for uncertain tax positions is appropriate. At September 30, 2019 and December 31, 2018, unrecognized income tax benefits related to uncertain tax positions totaled $3.26 million.

Note 13 – Assets and Liabilities Measured at Fair Value

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, United uses a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). United has processes in place to review the significant valuation inputs and to reassess how the instruments are classified in the valuation framework.

<u>Fair Value Hierarchy</u>

Level 1 Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that United has the ability to access.

Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances when the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities

Debt securities available-for-sale and equity securities with readily determinable fair values are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds, corporate debt securities and asset-backed securities and are valued based on observable inputs that include: quoted market prices for similar assets, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the securities. Securities classified as Level 3 include those traded in less liquid markets and are valued based on estimates obtained from broker-dealers that are not directly observable.

Deferred Compensation Plan Assets and Liabilities

Included in other assets in the consolidated balance sheet are assets related to employee deferred compensation plans. The assets associated with these plans are invested in mutual funds and classified as Level 1. Deferred compensation liabilities, also classified as Level 1, are carried at the fair value of the obligation to the employee, which mirrors the fair value of the invested assets and is included in other liabilities in the consolidated balance sheet.

Mortgage Loans Held for Sale

United has elected the fair value option for most of its newly originated mortgage loans held for sale in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the value of derivative instruments used to economically hedge them. The fair value of mortgage loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Derivative Financial Instruments

United uses interest rate swaps and interest rate floors to manage its interest rate risk. The valuation of these instruments is typically determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. United also uses best effort and mandatory delivery forward loan sale commitments to hedge risk in its mortgage lending business.

United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although management has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, management had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. Derivatives classified as Level 3 included structured derivatives for which broker quotes, used as a key valuation input, were not observable consistent with a Level 2 disclosure. The fair value of risk participations incorporates Level 3 inputs to evaluate the likelihood of customer default. The fair value of interest rate lock commitments, which is related to mortgage loan commitments, is categorized as Level 3 based on unobservable inputs for commitments that United does not expect to fund.

Servicing Rights for SBA/USDA Loans

United recognizes servicing rights upon the sale of SBA/USDA loans sold with servicing retained. Management has elected to carry this asset at fair value. Given the nature of the asset, the key valuation inputs are unobservable, and management classifies this asset as Level 3.

Residential Mortgage Servicing Rights

United recognizes servicing rights upon the sale of residential mortgage loans sold with servicing retained. Management has elected to carry this asset at fair value. Given the nature of the asset, the key valuation inputs are unobservable, and management classifies this asset as Level 3.

Pension Plan Assets

For information on the fair value of pension plan assets, see Note 17 in the 2018 10-K.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of the dates indicated, aggregated by the level in the fair value hierarchy within which those measurements fall *(in thousands)*.

September 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Debt securities available for sale:				
U.S. Treasuries	$ 154,632	$ —	$ —	$ 154,632
U.S. Government agencies	—	3,175	—	3,175
State and political subdivisions	—	227,325	—	227,325
Residential mortgage-backed securities	—	1,256,633	—	1,256,633
Commercial mortgage-backed securities	—	322,465	—	322,465
Corporate bonds	—	200,197	998	201,195
Asset-backed securities	—	106,621	—	106,621
Equity securities with readily available fair values	1,836	—	—	1,836
Mortgage loans held for sale	—	54,625	—	54,625
Deferred compensation plan assets	7,668	—	—	7,668
Servicing rights for SBA/USDA loans	—	—	7,246	7,246
Residential mortgage servicing rights	—	—	11,089	11,089
Derivative financial instruments	—	37,512	6,243	43,755
Total assets	$ 164,136	$ 2,208,553	$ 25,576	$ 2,398,265
Liabilities:				
Deferred compensation plan liability	$ 7,680	$ —	$ —	$ 7,680
Derivative financial instruments	—	9,531	6,713	16,244
Total liabilities	$ 7,680	$ 9,531	$ 6,713	$ 23,924

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Debt securities available for sale				
U.S. Treasuries	$ 149,307	$ —	$ —	$ 149,307
U.S. Agencies	—	25,553	—	25,553
State and political subdivisions	—	233,941	—	233,941
Residential mortgage-backed securities	—	1,445,910	—	1,445,910
Commercial mortgage-backed securities	—	391,917	—	391,917
Corporate bonds	—	198,168	995	199,163
Asset-backed securities	—	182,676	—	182,676
Equity securities with readily available fair values	1,076	—	—	1,076
Mortgage loans held for sale	—	18,935	—	18,935
Deferred compensation plan assets	6,404	—	—	6,404
Servicing rights for SBA/USDA loans	—	—	7,510	7,510
Residential mortgage servicing rights	—	—	11,877	11,877
Derivative financial instruments	—	12,864	11,841	24,705
Total assets	$ 156,787	$ 2,509,964	$ 32,223	$ 2,698,974
Liabilities:				
Deferred compensation plan liability	$ 6,404	$ —	$ —	$ 6,404
Derivative financial instruments	—	10,701	15,732	26,433
Total liabilities	$ 6,404	$ 10,701	$ 15,732	$ 32,837

The following table shows a reconciliation of the beginning and ending balances for the periods indicated for assets measured at fair value on a recurring basis using significant unobservable inputs that are classified as Level 3 values *(in thousands)*.

	2019					2018				
	Derivative Asset	Derivative Liability	Servicing rights for SBA/USDA loans	Residential mortgage servicing rights	Debt Securities Available-for-Sale	Derivative Asset	Derivative Liability	Servicing rights for SBA/USDA loans	Residential mortgage servicing rights	Debt Securities Available-for-Sale
Three Months Ended September 30,										
Balance at beginning of period	$ 7,744	$ 9,012	$ 7,380	$ 10,679	$ 995	$ 14,510	$ 18,366	$ 7,509	$ 10,801	$ 990
Additions	—	—	486	1,789	—	—	—	745	1,397	—
Sales and settlements	—	—	(286)	(416)	—	—	—	(242)	(146)	—
Other comprehensive income	—	—	—	—	3	—	—	—	—	5
Amounts included in earnings - fair value adjustments	(1,501)	(2,299)	(334)	(963)	—	(94)	379	(514)	(21)	—
Balance at end of period	$ 6,243	$ 6,713	$ 7,246	$ 11,089	$ 998	$ 14,416	$ 18,745	$ 7,498	$ 12,031	$ 995
Nine Months Ended September 30,										
Balance at beginning of period	$ 11,841	$ 15,732	$ 7,510	$ 11,877	$ 995	$ 12,207	$ 16,744	$ 7,740	$ 8,262	$ 900
Business combinations	—	—	—	—	—	—	—	(354)	—	—
Additions	—	—	1,266	3,880	—	—	—	1,837	3,505	—
Sales and settlements	(1,135)	(2,330)	(837)	(719)	—	(1,029)	(1,347)	(649)	(352)	—
Other comprehensive income	—	—	—	—	3	—	—	—	—	95
Amounts included in earnings - fair value adjustments	(4,463)	(6,689)	(693)	(3,949)	—	3,238	3,348	(1,076)	616	—
Balance at end of period	$ 6,243	$ 6,713	$ 7,246	$ 11,089	$ 998	$ 14,416	$ 18,745	$ 7,498	$ 12,031	$ 995

The following table presents quantitative information about Level 3 fair value measurements for fair value on a recurring basis as of the dates indicated *(in thousands)*.

	Fair Value				Weighted Average	
Level 3 Assets and Liabilities	September 30, 2019	December 31, 2018	Valuation Technique	Unobservable Inputs	September 30, 2019	December 31, 2018
Servicing rights for SBA/USDA loans	$ 7,246	$ 7,510	Discounted cash flow	Discount rate	11.8%	14.5%
				Prepayment rate	15.3%	12.1%
Residential mortgage servicing rights	11,089	11,877	Discounted cash flow	Discount rate	10.0%	10.0%
				Prepayment rate	15.8%	10.6%
Corporate bonds	998	995	Indicative bid provided by a broker	Multiple factors, including but not limited to, current operations, financial condition, cash flows, and recently executed financing transactions related to the company	N/A	N/A
Derivative assets - mortgage	2,732	1,190	Internal model	Pull through rate	83.3%	80.7%
Derivative assets - other	3,511	10,651	Dealer priced	Dealer priced	N/A	N/A
Derivative liabilities - risk participations	14	8	Internal model	Probable exposure rate	0.33%	0.44%
				Probability of default rate	1.80%	1.80%
Derivative liabilities - other	6,699	15,724	Dealer priced	Dealer priced	N/A	N/A

Fair Value Option

At September 30, 2019, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of $54.6 million and $53.1 million, respectively. At December 31, 2018, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of $18.9 million and $18.2 million, respectively. Interest income on these loans is calculated based on the note rate of the loan and is recorded in interest revenue. During the three and nine months ended September 30, 2019, changes in fair value of these loans resulted in net losses of $2,000 and net gains of $873,000, respectively. During the three and nine months ended September 30, 2018, changes in fair value of these loans resulted in net losses of $412,000 and $157,000, respectively. Gains and losses resulting from the change in fair value of these loans are recorded in mortgage loan and other related fees. These changes in fair value were mostly offset by hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

United may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of the lower of the amortized cost or fair value accounting or write-downs of individual assets due to impairment. The following table presents the fair value hierarchy and carrying value of all assets that were still held as of September 30, 2019 and December 31, 2018, for which a nonrecurring fair value adjustment was recorded during the year-to-date periods presented *(in thousands)*.

	Level 1	Level 2	Level 3	Total
September 30, 2019				
Loans	$ —	$ —	$ 9,119	$ 9,119
December 31, 2018				
Loans	$ —	$ —	$ 8,631	$ 8,631

Loans that are reported above as being measured at fair value on a nonrecurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows, although only those specific reserves based on the fair value of collateral are considered nonrecurring fair value adjustments. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, United records the impaired loan as nonrecurring Level 3.

Assets and Liabilities Not Measured at Fair Value

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

Cash and cash equivalents and repurchase agreements have short maturities and therefore the carrying value approximates fair value. Due to the short-term settlement of accrued interest receivable and payable, the carrying amount closely approximates fair value.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect the premium or discount on any particular financial instrument that could result from the sale of United's entire holdings. All estimates are inherently subjective in nature. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Off-balance sheet instruments (commitments to extend credit and standby letters of credit) for which draws can be reasonably predicted are generally short-term in maturity and are priced at variable rates. Therefore, the estimated fair value associated with these instruments is immaterial.

The carrying amount and fair values as of the dates indicated for other financial instruments that are not measured at fair value on a recurring basis are as follows *(in thousands)*.

		Fair Value Level			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
September 30, 2019					
Assets:					
Securities held to maturity	$ 243,028	$ —	$ 248,546	$ —	$ 248,546
Loans and leases, net	8,840,752	—	—	8,804,331	8,804,331
Liabilities:					
Deposits	10,756,517	—	10,756,838	—	10,756,838
Federal Home Loan Bank advances	40,000	—	39,998	—	39,998
Long-term debt	240,245	—	—	246,567	246,567
December 31, 2018					
Assets:					
Securities held to maturity	$ 274,407	$ —	$ 268,803	$ —	$ 268,803
Loans and leases, net	8,322,198	—	—	8,277,387	8,277,387
Liabilities:					
Deposits	10,534,513	—	10,528,834	—	10,528,834
Federal Home Loan Bank advances	160,000	—	159,988	—	159,988
Long-term debt	267,189	—	—	278,996	278,996

Note 14 – Commitments and Contingencies

United is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement United has in particular classes of financial instruments. The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written is represented by the contractual amount of these instruments. United uses the same credit policies in making commitments and conditional obligations as it uses for underwriting on-balance sheet instruments. In most cases, collateral or other security is required to support financial instruments with credit risk.

The following table summarizes the contractual amount of off-balance sheet instruments as of the dates indicated *(in thousands)*.

	September 30, 2019	**December 31, 2018**
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 2,138,428	$ 2,129,463
Letters of credit	29,652	25,447

United's wholly-owned bank subsidiary, United Community Bank (the "Bank"), holds minor investments in certain limited partnerships for Community Reinvestment Act purposes. As of September 30, 2019, the Bank had committed to fund an additional $6.87 million related to future capital calls that had not been reflected in the consolidated balance sheet.

United, in the normal course of business, is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. Although it is not possible to predict the outcome of these lawsuits, or the range of any possible loss, management, after consultation with legal counsel, does not anticipate that the ultimate aggregate liability, if any, arising from these lawsuits will have a material adverse effect on United's financial position or results of operations.

Note 15 – Goodwill and Other Intangible Assets

The carrying amount of goodwill and other intangible assets as of the dates indicated is summarized below *(in thousands)*:

	September 30, 2019	December 31, 2018
Core deposit intangible	$ 65,452	$ 62,652
Less: accumulated amortization	(49,537)	(46,141)
Net core deposit intangible	15,915	16,511
Noncompete agreements	3,144	3,144
Less: accumulated amortization	(3,144)	(2,695)
Net noncompete agreements	—	449
Total intangibles subject to amortization, net	15,915	16,960
Goodwill	327,425	307,112
Total goodwill and other intangible assets, net	$ 343,340	$ 324,072

The following is a summary of changes in the carrying amounts of goodwill *(in thousands)*:

	Three Months Ended September 30,			Nine Months Ended September 30,		
2019	**Goodwill**	**Accumulated Impairment Losses**	**Goodwill, net of Accumulated Impairment Losses**	**Goodwill**	**Accumulated Impairment Losses**	**Goodwill, net of Accumulated Impairment Losses**
Balance, beginning of period	$ 633,015	$ (305,590)	$ 327,425	$ 612,702	$ (305,590)	$ 307,112
Acquisition of FMBT	—	—	—	20,313	—	20,313
Balance, end of period	$ 633,015	$ (305,590)	$ 327,425	$ 633,015	$ (305,590)	$ 327,425
2018						
Balance, beginning of period	$ 612,702	$ (305,590)	$ 307,112	$ 526,181	$ (305,590)	$ 220,591
Acquisition of Navitas	—	—	—	87,379	—	87,379
Measurement period adjustments[1]	—	—	—	(858)	—	(858)
Balance, end of period	$ 612,702	$ (305,590)	$ 307,112	$ 612,702	$ (305,590)	$ 307,112

[1] Measurement period adjustments for the nine months ended September 30, 2018, were related to Four Oaks Fincorp, Inc. and HCSB Financial Corporation.

The estimated aggregate amortization expense for future periods for core deposit intangibles is as follows *(in thousands)*:

Year	
Remainder of 2019	$ 1,093
2020	3,842
2021	3,019
2022	2,379
2023	1,852
Thereafter	3,730
Total	$ 15,915

Note 16 - Operating Leases

United's leases for which it is the lessee consist of operating leases for land, buildings, and equipment. Payments related to these leases consist primarily of base rent and, in the case of building leases, additional operating costs associated with the leased property such as common area maintenance and utilities. In most cases these operating costs vary over the term of the lease, and therefore are classified as variable lease costs, which are recognized as incurred in the consolidated statement of income. In addition, certain operating leases include costs such as property taxes and insurance, which are recognized as incurred in the consolidated statement of income. Many of United's operating leases contain renewal options, most of which are excluded from the measurement of the right-of-use asset and lease liability as they are not reasonably certain to be exercised. United also subleases and leases certain real estate properties to third parties under operating leases. As of September 30, 2019, United had a right-of-use asset and lease liability of $21.0 million and $23.3 million, respectively, included in other assets and other liabilities, respectively, on the balance sheet.

The table below presents the operating lease income and expense recognized for the periods indicated *(in thousands)*.

	Income Statement Location	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	Occupancy expense	$ 1,272	$ 3,783
Variable lease cost	Occupancy expense	112	336
Short-term lease cost	Occupancy expense	52	92
Total lease cost		$ 1,436	$ 4,211
Sublease income and rental income from owned properties under operating leases	Other noninterest income	$ 261	886

As of September 30, 2019, the weighted average remaining lease term and weighted average discount rate of operating leases was 5.51 years and 2.79%, respectively. Absent a readily determinable interest rate in the lease agreement, the discount rate applied to each individual lease obligation was the Bank's incremental borrowing rate for secured borrowings.

As of September 30, 2019, future minimum lease payments under operating leases were as follows *(in thousands)*:

Year	
Remainder of 2019	$ 939
2020	5,394
2021	5,124
2022	4,694
2023	3,992
Thereafter	5,092
Total	25,235
Less discount	(1,963)
Present value of lease liability	$ 23,272

As discussed in Note 2, United adopted Topic 842 using the modified retrospective method with a cumulative effect adjustment to shareholders' equity without restating comparable periods. As a result, disclosures for comparative periods under the predecessor standard, ASC 840, *Leases*, are required in the year of transition. As of December 31, 2018, rent commitments under operating leases were $5.35 million, $5.16 million, $4.91 million, $4.48 million, and $3.91 million, for 2019 through 2023, respectively, and $5.04 million in the aggregate for years thereafter.

Note 17 - Termination of Defined Benefit Plan

During the third quarter of 2019, United materially settled the liabilities of its funded noncontributory defined benefit pension plan ("Funded Plan"). Participants elected to receive either lump sum distributions or annuity contracts purchased from a third party insurance company that provided for the payment of vested benefits. United contributed $4.90 million to the Funded Plan in the third quarter of 2019 to fund its liquidation.

As a result of the pension termination, unrecognized losses of $1.56 million, which previously were recorded in accumulated other comprehensive income (loss) on the consolidated balance sheets, were recognized as expense and an additional pension plan settlement loss of $1.38 million was recorded in the consolidated statements of income. Including both charges, the total Funded Plan settlement loss was $2.94 million, which was included in merger-related and other charges for the three and nine months ended September 30, 2019.

Note 18 - Subsequent Events

On November 7, 2019, United's Board of Directors approved a regular quarterly cash dividend of $0.18 per common share. The dividend is payable January 6, 2020, to shareholders of record on December 16, 2019.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition at September 30, 2019 and December 31, 2018 and our results of operations for the three and nine months ended September 30, 2019 and September 30, 2018. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from our consolidated financial statements and is intended to provide insight into our results of operations and financial condition. The following discussion and analysis should be read along with our consolidated financial statements and related notes included in Part I - Item 1 of this Quarterly Report on Form 10-Q and the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "2018 10-K") and the other reports we have filed with the SEC after we filed the 2018 10-K.

Overview

The Holding Company is a bank holding company incorporated in the state of Georgia in 1987, which began operations in 1988 by acquiring the capital stock of the Bank, a Georgia state-chartered bank that opened in 1950. United offers a wide array of commercial and consumer banking services and investment advisory services through a 147-branch network throughout Georgia, South Carolina, North Carolina and Tennessee.

On May 1, 2019, United completed the acquisition of First Madison Bank and Trust ("FMBT"). FMBT's results are included in United's consolidated results beginning on the acquisition date.

At September 30, 2019, United had total consolidated assets of $12.8 billion, total loans of $8.90 billion, total deposits of $10.8 billion, and shareholders' equity of $1.61 billion. United reported net income of $48.4 million, or $0.60 per diluted share, for the third quarter of 2019, compared to net income of $43.7 million, or $0.54 per diluted share, for the third quarter of 2018. For the nine months ended September 30, 2019, United reported net income of $137 million, or $1.70 per diluted share, compared to $121 million, or $1.51 per diluted share, for the first nine months of 2018.

Net interest revenue increased to $119 million for the third quarter of 2019, compared to $112 million for the third quarter of 2018, due to higher loan volume and a higher net interest margin. The net interest margin increased to 4.12% for the three months ended September 30, 2019 from 3.95% for the same period in 2018 primarily due to loan growth, including the addition of the FMBT loan portfolio, the positive effect of a shift in the composition of United's balance sheet away from securities and into higher yielding loans, and the reduction of borrowed funds since September 30, 2018. These improvements were partially offset by increased interest expense on interest-bearing deposits primarily due to higher interest rates from a year ago, particularly in time deposits. For the nine months ended September 30, 2019, net interest revenue was $353 million and the net interest margin was 4.11% compared to net interest revenue of $324 million and net interest margin of 3.88% for the same period in 2018. These improvements are also attributable to the same factors affecting the third quarter, as well as the inclusion, during the first nine months of 2019, of higher yielding equipment financing loans acquired from NLFC Holdings Corp. and its subsidiaries, collectively known as "Navitas".

The provision for credit losses was $3.10 million for the third quarter of 2019, compared to $1.80 million for the third quarter of 2018. For the nine months ended September 30, 2019, the provision for credit losses was $9.65 million, compared to $7.40 million for the same period in 2018. Net charge-offs for the third quarter of 2019 were $2.72 million compared to $1.47 million for the same period in 2018.

As of September 30, 2019, United's allowance for loan losses was $62.5 million, or 0.70% of loans, compared to $61.2 million, or 0.73% of loans, at December 31, 2018, reflecting stable asset quality. At September 30, 2019 and December 31, 2018, nonperforming assets of $30.9 million and $25.1 million, respectively, were 0.24% and 0.20% of total assets, respectively.

Noninterest income of $29.0 million for the third quarter of 2019 was up $4.85 million, or 20%, from the third quarter of 2018. The increase was primarily attributable to an increase in mortgage origination activity which resulted in a $3.40 million increase in mortgage fees. United closed $330 million in mortgage loans in the third quarter of 2019 compared with $237 million a year ago. Deposit service charges were also up with increases in interchange and overdraft fees. These increases were partially offset by decreases in gains on sales of United's Small Business Administration and United States Department of Agriculture ("SBA/USDA") loans. The decrease results from a change in strategy to hold more of the SBA loan production on balance sheet. For the first nine months of 2019, total noninterest income was up $4.61 million compared to the same period of 2018 mostly due to increases in mortgage loan and related fees, brokerage fees and nominal securities losses in comparison to the $1.30 million of securities losses recorded during the same period of last year.

For the third quarter and first nine months of 2019, noninterest expenses of $82.9 million and $241 million, respectively, increased $5.21 million and $12.8 million, respectively, from the same periods of 2018. The increases were primarily attributable to increases in salaries and employee benefits and communications and equipment costs. Merger-related and other charges also contributed to the increases from the prior periods due to the termination and settlement of the acquired Palmetto Bancshares, Inc. funded noncontributory defined benefit pension plan (the "Funded Plan"), acquisition and systems conversions of FMBT, branch closure costs and executive retirement charges. Increases in salaries and employee benefits were driven by several factors, including the addition of FMBT employees, the inclusion of Navitas employees for the full period in 2019, annual merit-based salary increases awarded during the second quarter of 2019, and investments in new staff for key areas of the bank. The increase in communications and equipment expense was primarily a result of increased software maintenance and the addition of new software contracts. These increases were offset by decreases in FDIC assessments and other regulatory charges including a $1.38 million one-time assessment credit received in the third quarter of 2019, and amortization of intangibles.

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with accounting principles generally accepted in the United States ("GAAP") and conform to general practices within the banking industry. There have been no significant changes to the Critical Accounting Policies as described in United's 2018 10-K.

GAAP Reconciliation and Explanation

This Form 10-Q contains financial information determined by methods other than in accordance with GAAP. Such non-GAAP financial information includes the following measures: "tangible book value per common share," and "average tangible common equity to average assets. In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of United's ongoing business operations. Operating performance measures include "expenses – operating," "net income – operating," "diluted income per common share – operating," "return on common equity – operating," "return on tangible common equity – operating," "return on assets – operating," "dividend payout ratio – operating" and "efficiency ratio – operating." Management has developed internal policies and procedures to accurately capture and account for merger-related and other charges and those charges are reviewed with the audit committee of United's Board of Directors each quarter. Management uses these non-GAAP measures because it believes they may provide useful supplemental information for evaluating United's operations and performance over periods of time, as well as in managing and evaluating United's business and in discussions about United's operations and performance. Management believes these non-GAAP measures may also provide users of United's financial information with a meaningful measure for assessing United's financial results and credit trends, as well as a comparison to financial results for prior periods. These non-GAAP measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable measures as reported in accordance with GAAP are included in Table 1 of Management's Discussion and Analysis.

Results of Operations

United reported net income and diluted earnings per common share of $48.4 million and $0.60, respectively, for the third quarter of 2019. This compared to net income and diluted earnings per common share of $43.7 million and $0.54, respectively, for the same period in 2018. For the nine months ended September 30, 2019, United reported net income and diluted earnings per share of $137 million and $1.70, respectively, compared to net income and diluted earnings per share of $121 million and $1.51, respectively, for the same period in 2018.

United reported net income - operating (non-GAAP) of $50.4 million and $142 million for the third quarter and first nine months of 2019, compared to $44.1 million and $126 million for the same periods in 2018. For the third quarter and first nine months of 2019, net income - operating (non-GAAP) excludes termination of the funded defined benefit pension plan, merger-related, branch closure, and executive retirement charges, which net of tax, totaled $2.01 million and $5.72 million, respectively. For the third quarter and first nine months of 2018, net income - operating (non-GAAP) excludes merger-related and branch closure charges, which net of tax, totaled $451,000 and $5.22 million, respectively.

UNITED COMMUNITY BANKS, INC.
Table 1 - Financial Highlights
Selected Financial Information

(in thousands, except per share data)	2019 Third Quarter	2019 Second Quarter	2018 First Quarter	2018 Fourth Quarter	2018 Third Quarter	Third Quarter 2019 - 2018 Change	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018	YTD 2019 - 2018 Change
INCOME SUMMARY									
Interest revenue	$ 140,615	$ 139,156	$ 136,516	$ 133,854	$ 128,721		$ 416,287	$ 366,226	
Interest expense	21,277	21,372	20,882	18,975	16,611		63,531	42,355	
Net interest revenue	119,338	117,784	115,634	114,879	112,110	6%	352,756	323,871	9%
Provision for credit losses	3,100	3,250	3,300	2,100	1,800	72	9,650	7,400	30
Noninterest income	29,031	24,531	20,968	23,045	24,180	20	74,530	69,916	7
Total revenue	145,269	139,065	133,302	135,824	134,490	8	417,636	386,387	8
Expenses	82,924	81,813	76,084	78,242	77,718	7	240,821	228,043	6
Income before income tax expense	62,345	57,252	57,218	57,582	56,772	10	176,815	158,344	12
Income tax expense	13,983	13,167	12,956	12,445	13,090	7	40,106	37,370	7
Net income	48,362	44,085	44,262	45,137	43,682	11	136,709	120,974	13
Merger-related and other charges	2,605	4,087	739	1,234	592		7,431	6,111	
Income tax benefit of merger-related and other charges	(600)	(940)	(172)	(604)	(141)		(1,712)	(890)	
Net income - operating [1]	**$ 50,367**	**$ 47,232**	**$ 44,829**	**$ 45,767**	**$ 44,133**	14	**$ 142,428**	**$ 126,195**	13
PERFORMANCE MEASURES									
Per common share:									
Diluted net income - GAAP	$ 0.60	$ 0.55	$ 0.55	$ 0.56	$ 0.54	11	$ 1.70	$ 1.51	13
Diluted net income - operating [1]	0.63	0.59	0.56	0.57	0.55	15	1.77	1.57	13
Cash dividends declared	0.17	0.17	0.16	0.16	0.15	13	0.50	0.42	19
Book value	20.16	19.65	18.93	18.24	17.56	15	20.16	17.56	15
Tangible book value [3]	15.90	15.38	14.93	14.24	13.54	17	15.90	13.54	17
Key performance ratios:									
Return on common equity - GAAP [2][4]	12.16%	11.45%	11.85%	12.08%	11.96%		11.83%	11.43%	
Return on common equity - operating [1][2][4]	12.67	12.27	12.00	12.25	12.09		12.32	11.93	
Return on tangible common equity - operating [1][2][3][4]	16.38	15.88	15.46	15.88	15.81		15.92	15.62	
Return on assets - GAAP [4]	1.51	1.40	1.44	1.43	1.41		1.45	1.32	
Return on assets - operating [1][4]	1.58	1.50	1.45	1.45	1.42		1.51	1.38	
Dividend payout ratio - GAAP	28.33	30.91	29.09	28.57	27.78		29.41	27.81	
Dividend payout ratio - operating [1]	26.98	28.81	28.57	28.07	27.27		28.25	26.75	
Net interest margin (fully taxable equivalent) [4]	4.12	4.12	4.10	3.97	3.95		4.11	3.88	
Efficiency ratio - GAAP	55.64	57.28	55.32	56.73	56.82		56.09	57.52	
Efficiency ratio - operating [1]	53.90	54.42	54.78	55.83	56.39		54.36	55.98	
Equity to total assets	12.53	12.25	12.06	11.60	11.30		12.53	11.30	
Tangible common equity to tangible assets [3]	10.16	9.86	9.76	9.29	8.95		10.16	8.95	
ASSET QUALITY									
Nonperforming loans	$ 30,832	$ 26,597	$ 23,624	$ 23,778	$ 22,530	37	$ 30,832	$ 22,530	37
Foreclosed properties	102	75	1,127	1,305	1,336	(92)	102	1,336	(92)
Total nonperforming assets ("NPAs")	30,934	26,672	24,751	25,083	23,866	30	30,934	23,866	30
Allowance for loan losses	62,514	62,204	61,642	61,203	60,940	3	62,514	60,940	3
Net charge-offs	2,723	2,438	3,130	1,787	1,466	86	8,291	4,326	92
Allowance for loan losses to loans	0.70%	0.70%	0.73%	0.73%	0.74%		0.70%	0.74%	
Net charge-offs to average loans [4]	0.12	0.11	0.15	0.09	0.07		0.13	0.07	
NPAs to loans and foreclosed properties	0.35	0.30	0.29	0.30	0.29		0.35	0.29	
NPAs to total assets	0.24	0.21	0.20	0.20	0.19		0.24	0.19	
AVERAGE BALANCES *($ in millions)*									
Loans	$ 8,836	$ 8,670	$ 8,430	$ 8,306	$ 8,200	8	$ 8,647	$ 8,124	6
Investment securities	2,550	2,674	2,883	3,004	2,916	(13)	2,701	2,863	(6)
Earning assets	11,568	11,534	11,498	11,534	11,320	2	11,534	11,197	3
Total assets	12,681	12,608	12,509	12,505	12,302	3	12,600	12,209	3
Deposits	10,531	10,493	10,361	10,306	9,950	6	10,462	9,896	6
Shareholders' equity	1,588	1,531	1,478	1,420	1,394	14	1,533	1,367	12
Common shares - basic (thousands)	79,663	79,673	79,807	79,884	79,806	—	79,714	79,588	—
Common shares - diluted (thousands)	79,667	79,678	79,813	79,890	79,818	—	79,718	79,598	—
AT PERIOD END *($ in millions)*									
Loans	$ 8,903	$ 8,838	$ 8,493	$ 8,383	$ 8,226	8	$ 8,903	$ 8,226	8
Investment securities	2,515	2,620	2,720	2,903	2,873	(12)	2,515	2,873	(12)
Total assets	12,809	12,779	12,506	12,573	12,405	3	12,809	12,405	3
Deposits	10,757	10,591	10,534	10,535	10,229	5	10,757	10,229	5
Shareholders' equity	1,605	1,566	1,508	1,458	1,402	14	1,605	1,402	14
Common shares outstanding (thousands)	78,974	79,075	79,035	79,234	79,202	—	78,974	79,202	—

[1] Excludes merger-related and other charges which includes termination of pension plan in the third quarter of 2019, executive retirement charges in the second quarter of 2019 and amortization of certain executive change of control benefits. [2] Net income divided by average realized common equity, which excludes accumulated other comprehensive income (loss). [3] Excludes effect of acquisition related intangibles and associated amortization. [4] Annualized.

UNITED COMMUNITY BANKS, INC.
Table 1 (Continued) - Non-GAAP Performance Measures Reconciliation
Selected Financial Information

	2019			2018		For the Nine Months Ended September 30,	
(in thousands, except per share data)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2019	2018
Expense reconciliation							
Expenses (GAAP)	$ 82,924	$ 81,813	$ 76,084	$ 78,242	$ 77,718	$ 240,821	$ 228,043
Merger-related and other charges	(2,605)	(4,087)	(739)	(1,234)	(592)	(7,431)	(6,111)
Expenses - operating	$ 80,319	$ 77,726	$ 75,345	$ 77,008	$ 77,126	$ 233,390	$ 221,932
Net income reconciliation							
Net income (GAAP)	$ 48,362	$ 44,085	$ 44,262	$ 45,137	$ 43,682	$ 136,709	$ 120,974
Merger-related and other charges	2,605	4,087	739	1,234	592	7,431	6,111
Income tax benefit of merger-related and other charges	(600)	(940)	(172)	(604)	(141)	(1,712)	(890)
Net income - operating	$ 50,367	$ 47,232	$ 44,829	$ 45,767	$ 44,133	$ 142,428	$ 126,195
Diluted income per common share reconciliation							
Diluted income per common share (GAAP)	$ 0.60	$ 0.55	$ 0.55	$ 0.56	$ 0.54	$ 1.70	$ 1.51
Merger-related and other charges	0.03	0.04	0.01	0.01	0.01	0.07	0.06
Diluted income per common share - operating	$ 0.63	$ 0.59	$ 0.56	$ 0.57	$ 0.55	$ 1.77	$ 1.57
Book value per common share reconciliation							
Book value per common share (GAAP)	$ 20.16	$ 19.65	$ 18.93	$ 18.24	$ 17.56	$ 20.16	$ 17.56
Effect of goodwill and other intangibles	(4.26)	(4.27)	(4.00)	(4.00)	(4.02)	(4.26)	(4.02)
Tangible book value per common share	$ 15.90	$ 15.38	$ 14.93	$ 14.24	$ 13.54	$ 15.90	$ 13.54
Return on tangible common equity reconciliation							
Return on common equity (GAAP)	12.16%	11.45%	11.85%	12.08%	11.96%	11.83%	11.43%
Merger-related and other charges	0.51	0.82	0.15	0.17	0.13	0.49	0.50
Return on common equity - operating	12.67	12.27	12.00	12.25	12.09	12.32	11.93
Effect of goodwill and other intangibles	3.71	3.61	3.46	3.63	3.72	3.60	3.69
Return on tangible common equity - operating	16.38%	15.88%	15.46%	15.88%	15.81%	15.92%	15.62%
Return on assets reconciliation							
Return on assets (GAAP)	1.51%	1.40%	1.44%	1.43%	1.41%	1.45%	1.32%
Merger-related and other charges	0.07	0.10	0.01	0.02	0.01	0.06	0.06
Return on assets - operating	1.58%	1.50%	1.45%	1.45%	1.42%	1.51%	1.38%
Dividend payout ratio reconciliation							
Dividend payout ratio (GAAP)	28.33%	30.91%	29.09%	28.57%	27.78%	29.41%	27.81%
Merger-related and other charges	(1.35)	(2.10)	(0.52)	(0.50)	(0.51)	(1.16)	(1.06)
Dividend payout ratio - operating	26.98%	28.81%	28.57%	28.07%	27.27%	28.25%	26.75%
Efficiency ratio reconciliation							
Efficiency ratio (GAAP)	55.64%	57.28%	55.32%	56.73%	56.82%	56.09%	57.52%
Merger-related and other charges	(1.74)	(2.86)	(0.54)	(0.90)	(0.43)	(1.73)	(1.54)
Efficiency ratio - operating	53.90%	54.42%	54.78%	55.83%	56.39%	54.36%	55.98%
Tangible common equity to tangible assets reconciliation							
Equity to total assets (GAAP)	12.53%	12.25%	12.06%	11.60%	11.30%	12.53%	11.30%
Effect of goodwill and other intangibles	(2.37)	(2.39)	(2.30)	(2.31)	(2.35)	(2.37)	(2.35)
Tangible common equity to tangible assets	10.16%	9.86%	9.76%	9.29%	8.95%	10.16%	8.95%

Net Interest Revenue

Net interest revenue, which is the difference between the interest earned on assets and the interest paid on deposits and borrowed funds, is the single largest component of total revenue. Management seeks to optimize this revenue while balancing interest rate, credit and liquidity risks.

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

Net interest revenue for the third quarter of 2019 and 2018 was $119 million and $112 million, respectively. As set forth in the following tables, fully taxable equivalent net interest revenue for the third quarter of 2019 was $120 million, representing an increase of $7.39 million, or 7%, from the same period in 2018. The net interest spread and net interest margin for the third quarter of 2019 of 3.72% and 4.12%, respectively, increased eight basis points and 17 basis points, respectively, from the third quarter of 2018. For the first nine months of 2019 and 2018, net interest revenue was $353 million and $324 million, respectively. Fully taxable equivalent net interest revenue for the first nine months of 2019 was $355 million, an increase of $29.5 million, or 9%, from the first nine months of 2018.

The following tables also indicate the relationship between interest revenue and expense and the average amounts of assets and liabilities for the periods indicated. As shown in the tables, both average interest-earning assets and interest-bearing liabilities for the three and nine months ended September 30, 2019 increased compared to the same periods of 2018. The quarterly increase in average interest-earning assets was primarily driven by the increase in average loans of $636 million, or 8%, from the third quarter of 2018, which reflects organic growth and loans obtained through the acquisition of FMBT. The increase in average loans was offset by an intentional decrease in average taxable securities. The nine months ended September 30, 2019, also includes the full nine month effect of equipment financing loans and leases acquired from Navitas. The increase in average assets for the three months ended September 30, 2019 was funded primarily through an increase in average customer deposits since the third quarter of 2018 of $821 million, of which $204 million was noninterest-bearing.

The increase in the net interest margin and net interest spread during three and nine months ended September 30, 2019, was primarily attributable to the increase in yield on average loans, which increased 27 and 46 basis points, respectively, from the corresponding periods in 2018. More recently, the federal funds rate decreased 25 basis points since September 30, 2018, which has begun to affect United's loan yield in the last quarter, however this decrease is moderated by growth in higher yielding loans from the equipment finance business. The increase in the average rate on interest-earning assets more than offset the increase in the average rate paid on interest-bearing liabilities of 24 and 36 basis points from the three and nine months ended September 30, 2018, respectively. The increase in the average rate paid on interest-bearing liabilities is primarily attributable to a higher average rate on interest-bearing deposits, as United increased deposit rates to retain and capture more deposit market share. The increase in noninterest-bearing deposits also contributed to the improvement in the net interest margin for the three and nine months ended September 30, 2019.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis
For the Three Months Ended September 30,

(dollars in thousands, fully taxable equivalent (FTE))	2019 Average Balance	2019 Interest	2019 Average Rate	2018 Average Balance	2018 Interest	2018 Average Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (FTE) (1)(2)	$ 8,835,585	$ 122,526	5.50%	$ 8,199,856	$ 108,197	5.23%
Taxable securities (3)	2,379,927	16,626	2.79	2,763,461	18,847	2.73
Tax-exempt securities (FTE) (1)(3)	170,027	1,502	3.53	152,939	1,417	3.71
Federal funds sold and other interest-earning assets	182,935	616	1.35	203,707	751	1.47
Total interest-earning assets (FTE)	11,568,474	141,270	4.85	11,319,963	129,212	4.53
Noninterest-earning assets:						
Allowance for loan losses	(63,474)			(62,322)		
Cash and due from banks	116,922			123,290		
Premises and equipment	221,930			216,775		
Other assets (3)	836,951			703,915		
Total assets	$ 12,680,803			$ 12,301,621		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW and interest-bearing demand (5)	$ 2,123,910	3,214	0.60	$ 1,963,312	1,985	0.40
Money market(5)	2,277,162	5,126	0.89	2,078,116	3,177	0.61
Savings	695,297	41	0.02	680,640	33	0.02
Time	1,879,801	8,053	1.70	1,545,020	3,351	0.86
Brokered time deposits	102,078	679	2.64	434,182	2,395	2.19
Total interest-bearing deposits	7,078,248	17,113	0.96	6,701,270	10,941	0.65
Federal funds purchased and other borrowings	73,733	429	2.31	50,767	274	2.14
Federal Home Loan Bank advances	88,261	521	2.34	331,413	1,791	2.14
Long-term debt	243,935	3,214	5.23	296,366	3,605	4.83
Total borrowed funds	405,929	4,164	4.07	678,546	5,670	3.32
Total interest-bearing liabilities	7,484,177	21,277	1.13	7,379,816	16,611	0.89
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	3,453,174			3,249,218		
Other liabilities	155,107			278,764		
Total liabilities	11,092,458			10,907,798		
Shareholders' equity	1,588,345			1,393,823		
Total liabilities and shareholders' equity	$ 12,680,803			$ 12,301,621		
Net interest revenue (FTE)		$ 119,993			$ 112,601	
Net interest-rate spread (FTE)			3.72%			3.64%
Net interest margin (FTE) (4)			4.12%			3.95%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 26%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
(2) Included in the average balance of loans outstanding are loans on which the accrual of interest has been discontinued and loans that are held for sale.
(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $35.1 million in 2019 and unrealized losses of $49.9 million in 2018 are included in other assets for purposes of this presentation.
(4) Net interest margin is taxable equivalent net interest revenue divided by average interest-earning assets.
(5) Reflects reclassification of certain sweep deposits from money market to NOW and interest bearing demand during the third quarter of 2019.

Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis
For the Nine Months Ended September 30,

	2019			2018		
(dollars in thousands, fully taxable equivalent (FTE))	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (FTE) [(1)(2)]	$ 8,646,622	$ 357,541	5.53%	$ 8,124,269	$ 307,981	5.07%
Taxable securities [(3)]	2,532,070	54,229	2.86	2,712,900	53,399	2.62
Tax-exempt securities (FTE) [(1)(3)]	168,787	4,579	3.62	150,014	4,106	3.65
Federal funds sold and other interest-earning assets	186,402	1,913	1.37	209,836	2,123	1.35
Total interest-earning assets (FTE)	11,533,881	418,262	4.85	11,197,019	367,609	4.39
Non-interest-earning assets:						
Allowance for loan losses	(62,664)			(61,259)		
Cash and due from banks	121,889			138,809		
Premises and equipment	220,872			217,339		
Other assets [(3)]	785,862			717,555		
Total assets	$ 12,599,840			$ 12,209,463		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW and interest-bearing demand [(5)]	$ 2,199,607	10,283	0.63	$ 2,098,734	4,483	0.29
Money market [(5)]	2,187,822	14,100	0.86	2,113,972	7,853	0.50
Savings	685,167	115	0.02	671,883	117	0.02
Time	1,761,374	20,338	1.54	1,534,823	8,288	0.72
Brokered time deposits	292,835	5,349	2.44	298,653	4,612	2.06
Total interest-bearing deposits	7,126,805	50,185	0.94	6,718,065	25,353	0.50
Federal funds purchased and other borrowings	44,898	838	2.50	58,144	772	1.78
Federal Home Loan Bank advances	142,876	2,695	2.52	392,227	5,551	1.89
Long-term debt	252,686	9,813	5.19	295,966	10,679	4.82
Total borrowed funds	440,460	13,346	4.05	746,337	17,002	3.05
Total interest-bearing liabilities	7,567,265	63,531	1.12	7,464,402	42,355	0.76
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	3,335,450			3,178,387		
Other liabilities	164,350			199,848		
Total liabilities	11,067,065			10,842,637		
Shareholders' equity	1,532,775			1,366,826		
Total liabilities and shareholders' equity	$ 12,599,840			$ 12,209,463		
Net interest revenue (FTE)		$ 354,731			$ 325,254	
Net interest-rate spread (FTE)			3.73%			3.63%
Net interest margin (FTE) [(4)]			4.11%			3.88%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 26%, reflecting the statutory federal income tax rate and the federal tax adjusted state income tax rate.
(2) Included in the average balance of loans outstanding are loans on which the accrual of interest has been discontinued and loans that are held for sale.
(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of $4.94 million in 2019 and unrealized losses of $40.4 million in 2018 are included in other assets for purposes of this presentation.
(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.
(5) Reflects reclassification of certain sweep deposits from money market to NOW and interest bearing demand during the third quarter of 2019.

The following table shows the relative effect on net interest revenue for changes in the average outstanding amounts (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities (rate). Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 4 - Change in Interest Revenue and Expense on a Taxable Equivalent Basis
(in thousands)

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Compared to 2018 Increase (Decrease) Due to Changes in					
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans (FTE)	$ 8,646	$ 5,683	$ 14,329	$ 20,547	$ 29,013	$ 49,560
Taxable securities	(2,670)	449	(2,221)	(3,694)	4,524	830
Tax-exempt securities (FTE)	153	(68)	85	510	(37)	473
Federal funds sold and other interest-earning assets	(73)	(62)	(135)	(240)	30	(210)
Total interest-earning assets (FTE)	6,056	6,002	12,058	17,123	33,530	50,653
Interest-bearing liabilities:						
NOW and interest-bearing demand accounts [1]	174	1,055	1,229	225	5,575	5,800
Money market accounts [1]	329	1,620	1,949	283	5,964	6,247
Savings deposits	1	7	8	2	(4)	(2)
Time deposits	855	3,847	4,702	1,383	10,667	12,050
Brokered deposits	(2,129)	413	(1,716)	(91)	828	737
Total interest-bearing deposits	(770)	6,942	6,172	1,802	23,030	24,832
Federal funds purchased & other borrowings	132	23	155	(202)	268	66
Federal Home Loan Bank advances	(1,422)	152	(1,270)	(4,300)	1,444	(2,856)
Long-term debt	(674)	283	(391)	(1,640)	774	(866)
Total borrowed funds	(1,964)	458	(1,506)	(6,142)	2,486	(3,656)
Total interest-bearing liabilities	(2,734)	7,400	4,666	(4,340)	25,516	21,176
Increase in net interest revenue (FTE)	$ 8,790	$ (1,398)	$ 7,392	$ 21,463	$ 8,014	$ 29,477

[1] Reflects reclassification of certain sweep deposits from money market to NOW and interest bearing demand during the third quarter of 2019.

Provision for Credit Losses

The provision for credit losses is based on management's evaluation of probable incurred losses in the loan portfolio and unfunded loan commitments and corresponding analysis of the allowance for credit losses at quarter-end. The provision for credit losses was $3.10 million and $9.65 million, respectively, for the three and nine months ended September 30, 2019, compared to $1.80 million and $7.40 million, respectively, for the same periods in 2018. For the nine months ended September 30, 2019, net loan charge-offs as an annualized percentage of average outstanding loans were 0.13% compared to 0.07% for the same period in 2018. The amount of provision recorded in each period was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, sufficient to cover incurred losses in the loan portfolio. In accordance with the accounting guidance for business combinations, there was no allowance for loan losses brought forward on loans acquired from FMBT on May 1, 2019. The increase in provision expense for the three and nine months ended September 30, 2019, compared to the same periods of 2018 was primarily a result of loan growth and increased charge-offs. The increase in charge-offs was partly attributable to incorporating equipment financing loans acquired in the Navitas transaction into the loan portfolio for the full first three quarters of 2019. Charge-offs from equipment financing loans totaled $1.38 million and $3.81 million for the three and nine months ended September 30, 2019, which was in line with management's expectations for this now-seasoned product line of higher yielding loans.

The allowance for unfunded commitments represents probable incurred losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded loan commitments was established through the provision for credit losses.

Additional discussion on credit quality and the allowance for loan losses is included in the "Asset Quality and Risk Elements" discussion elsewhere in this document.

Noninterest income

The following table presents the components of noninterest income for the periods indicated.

Table 5 - Noninterest Income
(in thousands)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent	2019	2018	Amount	Percent
Overdraft fees	$ 3,800	$ 3,765	$ 35	1%	$ 10,728	$ 10,897	$ (169)	(2)%
ATM and debit card fees	3,901	3,231	670	21	10,109	9,573	536	6
Other service charges and fees	2,215	2,116	99	5	6,592	6,361	231	4
Service charges and fees	9,916	9,112	804	9	27,429	26,831	598	2
Mortgage loan and related fees	8,658	5,262	3,396	65	17,750	15,928	1,822	11
Brokerage fees	1,699	1,525	174	11	4,624	3,598	1,026	29
Gains on sales of SBA/USDA loans	1,639	2,605	(966)	(37)	4,412	6,784	(2,372)	(35)
Customer derivatives	647	611	36	6	2,370	2,041	329	16
Securities gains (losses), net	—	2	(2)		(118)	(1,302)	1,184	
Other	6,472	5,063	1,409	28	18,063	16,036	2,027	13
Total noninterest income	$ 29,031	$ 24,180	$ 4,851	20	$ 74,530	$ 69,916	$ 4,614	7

Service charges and fees increased $804,000 for the third quarter of 2019 in comparison to the same period of 2018 partly due to the acquisition of FMBT. In addition, United's annual rebate received from its debit card service provider increased compared to 2018, which contributed to the increase in ATM and debit card fees earned in the third quarter and first nine months of 2019.

Mortgage loan and related fees for the third quarter and first nine months of 2019 reflected an increase in fees on mortgage rate locks and mortgage closings compared to the same periods of last year. The increase in fees for the third quarter and nine months ended September 30, 2019, was partially offset by negative fair value adjustments on the mortgage servicing rights asset. The negative fair value adjustments were driven by a decrease in mortgage interest rates. The overall increase in mortgage loan and related fees was primarily attributable to an increased focus on the mortgage division resulting in new investments in mortgage loan offices and staff, as well as reductions in interest rates, which increased the demand for mortgage rate locks and refinances.

Mortgage rate locks during the third quarter of 2019 increased 71% to $508 million in 2019 compared to $298 million in the third quarter of 2018. Mortgage production in the third quarter of 2019 also increased compared to the same period of 2018. United closed 1,265 mortgage loans totaling $330 million in the third quarter of 2019 compared with 1,021 mortgage loans totaling $237 million in the third quarter of 2018. United had $215 million in home purchase mortgage originations in the third quarter of 2019, which accounted for 65% of mortgage production volume, compared to $164 million, or 70% of production volume for the same period a year ago.

Mortgage rate locks during the first nine months of 2019 increased 34% to $1.2 billion in 2019 compared to $904 million for the same period of 2018. During the first nine months of 2019, United closed 3,110 mortgage loans totaling $770 million compared to 2,897 loans totaling $688 million for the same period of last year. United had $540 million in home purchase mortgage originations in the first nine months of 2019, which accounted for 70% of mortgage production volume. During the first nine months of 2019, United had $419 million, in home purchase originations, or 62%, of production volume.

Brokerage fees for the third quarter and first nine months of 2019 increased 11% and 29%, respectively, compared to the same periods of 2018, which was a result of increased recurring revenue, which yielded higher and more consistent brokerage revenue.

United's SBA/USDA lending strategy includes selling a portion of the loan production each quarter. The amount of loans sold depends on several variables including the current lending environment and balance sheet management activities. Beginning in the first quarter of 2019, United made a strategic decision to hold more of its government guaranteed loans in order to benefit from the stable yield on these lower-risk assets. In the third quarter of 2019 and 2018, United sold the guaranteed portion of loans in the amount of $21.0 million and $35.6 million, respectively, which resulted in gains of $1.64 million and $2.61 million, respectively. In the first nine months of 2019 and 2018, United sold the guaranteed portion of loans in the amount of $55.2 million and $86.3 million, respectively, which resulted in gains of $4.41 million and $6.78 million, respectively.

Other noninterest income for the third quarter and first nine months of 2019 increased from the same periods of 2018 primarily due to increases in equipment finance fee revenue, primarily attributable to loan growth, gains on other investments, and positive fair value adjustments on deferred compensation plan assets.

Noninterest Expenses

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

Table 6 - Noninterest Expenses
(in thousands)

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	**2018**	**Amount**	**Percent**	**2019**	**2018**	**Amount**	**Percent**
Salaries and employee benefits	$ 50,501	$ 47,146	$ 3,355	7%	$ 146,161	$ 135,384	$ 10,777	8%
Communications and equipment	6,223	5,590	633	11	18,233	15,071	3,162	21
Occupancy	5,921	5,779	142	2	17,424	16,939	485	3
Advertising and public relations	1,374	1,442	(68)	(5)	4,256	4,341	(85)	(2)
Postage, printing and supplies	1,618	1,574	44	3	4,733	4,896	(163)	(3)
Professional fees	4,715	3,927	788	20	11,930	11,435	495	4
FDIC assessments and other regulatory charges	314	2,228	(1,914)	(86)	3,571	6,677	(3,106)	(47)
Amortization of core deposit intangibles	1,146	1,204	(58)	(5)	3,395	3,764	(369)	(10)
Other	8,507	8,236	271	3	23,687	23,425	262	1
Total excluding merger-related and other charges	80,319	77,126	3,193	4	233,390	221,932	11,458	5
Merger-related and other charges	2,541	115	2,426		6,981	4,449	2,532	
Amortization of noncompete agreements	64	477	(413)		450	1,662	(1,212)	
Total noninterest expenses	$ 82,924	$ 77,718	$ 5,206	7	$ 240,821	$ 228,043	$ 12,778	6

Noninterest expenses for the third quarter and first nine months of 2019 totaled $82.9 million and $241 million, respectively, up 7% and 6%, respectively, from the same periods of 2018. Increases in salaries and employee benefits, professional fees, communications and equipment and merger-related and other charges, partially offset by lower FDIC assessments and other regulatory charges and amortization of noncompete agreements, accounted for much of the change in noninterest expense for the periods presented.

Salaries and employee benefits for the third quarter of 2019 increased 7% from same period of 2018. The increase was primarily attributable to increased brokerage and mortgage commissions resulting from increased production, an increase in bonus expense accrual driven by strong quarterly performance, annual merit-based salary increases awarded during the second quarter of 2019, the addition of FMBT employees, and higher group medical costs. In addition to these factors, increases for the nine months ended September 30, 2019, were driven by additional stock compensation expense from new restricted stock unit awards issued in the third quarter of 2018, investments in additional staff to expand Commercial Banking Solutions and other key areas, the inclusion of Navitas for the entire nine months of 2019 and an increase in the 401(k) matching contribution effective March 1, 2018. Full time equivalent headcount totaled 2,319 at September 30, 2019, up from 2,300 at September 30, 2018.

Communications and equipment expense increased primarily due to additional software maintenance costs and new software contracts. The increase in professional fees for the third quarter of 2019 is largely attributable to increased accounting fees related to CECL and other projects. Additionally, professional fees for the nine months ended September 30, 2019, increased due to recent acquisition activity. FDIC assessments and other regulatory charges for the three and nine months ended September 30, 2019, decreased relative to the same periods in 2018 primarily due to a reduction in United's FDIC assessment rate and the receipt of a $1.38 million assessment credit from the FDIC during the third quarter of 2019.

Merger-related and other charges for the three and nine months ended September 30, 2019 included a $2.94 million charge for the termination and settlement of the Funded Plan, FMBT acquisition related costs, branch closure costs, executive retirement charges, and gains on the sale of surplus properties. Merger-related and other charges for the three and nine months of 2018 consisted primarily of severance, conversion costs, branch closure costs and legal and professional fees.

The reduction of amortization of noncompete agreements was a result of the expiration of certain of these agreements since the third quarter of 2018. At September 30, 2019, all capitalized noncompete agreements have been fully amortized.

Income Taxes

The income tax provision for the three and nine months ended September 30, 2019 was $14.0 million and $40.1 million, respectively, which represents an effective tax rate of 22.4% and 22.7%, respectively. The income tax provision for the three and nine months ended September 30, 2018 was $13.1 million and $37.4 million, which represents an effective tax rate of 23.1% and 23.6%, respectively.

United is subject to income taxation in the United States and various state jurisdictions. United's federal and state income tax returns are filed on a consolidated basis. Currently, no years for which United filed a federal income tax return are under examination by the IRS, and there are no state tax examinations currently in progress.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 16 to the consolidated financial statements filed with United's 2018 10-K.

Balance Sheet Review

Total assets at September 30, 2019 and December 31, 2018 were $12.8 billion and $12.6 billion, respectively. Average total assets for the third quarter and first nine months of 2019 were $12.7 billion and $12.6 billion, respectively, up from $12.3 billion and $12.2 billion for the same periods of 2018.

Total loans increased 6% since December 31, 2018 due to organic growth and loans obtained in the acquisition of FMBT. As of September 30, 2019, approximately 75% of United's loans are secured by real estate. The following table presents a summary of the loan portfolio.

Table 7 - Loans Outstanding
(in thousands)

	September 30, 2019	December 31, 2018
By Loan Type		
Owner occupied commercial real estate	$ 1,692,010	$ 1,647,904
Income producing commercial real estate	1,933,868	1,812,420
Commercial & industrial	1,271,243	1,278,347
Commercial construction	1,000,801	796,158
Equipment financing	729,506	564,614
Total commercial	6,627,428	6,099,443
Residential mortgage	1,120,828	1,049,232
Home equity lines of credit	668,987	694,010
Residential construction	229,352	211,011
Consumer direct	125,517	122,013
Indirect auto	131,154	207,692
Total loans	$ 8,903,266	$ 8,383,401
As a percentage of total loans:		
Owner occupied commercial real estate	19%	20%
Income producing commercial real estate	22	22
Commercial & industrial	14	15
Commercial construction	11	9
Equipment financing	8	7
Total commercial	74	73
Residential mortgage	13	13
Home equity lines of credit	8	8
Residential construction	3	3
Consumer direct	1	1
Indirect auto	1	2
Total	100%	100%

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit risk management function is responsible for monitoring asset quality and Board of Directors-approved portfolio limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all lending units. Additional information on the credit risk management function is included in Item 1 under the heading *Lending Activities* in United's 2018 10-K.

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

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

Table 8 - Performing Classified Loans
(in thousands)

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
By Category					
Owner occupied commercial real estate	$ 37,551	$ 34,650	$ 32,433	$ 32,909	$ 38,601
Income producing commercial real estate	27,508	26,219	19,277	18,048	24,170
Commercial & industrial	36,978	34,015	21,125	20,980	21,509
Commercial construction	9,001	7,751	8,019	9,549	8,012
Equipment financing	16	114	115	217	274
Total commercial	111,054	102,749	80,969	81,703	92,566
Residential mortgage	4,615	4,719	5,600	5,623	13,582
Home equity	1,474	1,504	1,610	1,665	4,818
Residential construction	259	237	249	293	1,397
Consumer direct	287	334	222	165	416
Indirect auto	1,253	1,391	1,555	1,334	1,704
Total	$ 118,942	$ 110,934	$ 90,205	$ 90,783	$ 114,483

Reviews of classified performing and non-performing loans, past due loans and larger credits are conducted on a regular basis and are designed to identify risk migration and potential charges to the allowance for loan losses. These reviews are presented by the responsible lending officers or respective credit officer and specific action plans are discussed along with the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, changes in risk profile, the effect of prevailing economic conditions on the borrower and other factors specific to the borrower and its industry. In addition to the reviews mentioned above, an independent loan review team reviews the portfolio to ensure consistent application of risk rating policies and procedures.

The following table presents a summary of the changes in the allowance for credit losses for the periods indicated.

Table 9 - Allowance for Credit Losses
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Allowance for loan and lease losses at beginning of period	$ 62,204	$ 61,071	$ 61,203	$ 58,914
Charge-offs:				
Owner occupied commercial real estate	—	—	5	67
Income producing commercial real estate	472	375	977	2,685
Commercial & industrial	898	660	3,833	1,277
Commercial construction	—	24	70	440
Equipment financing	1,376	700	3,810	862
Residential mortgage	264	235	433	417
Home equity lines of credit	287	426	653	761
Residential construction	13	32	263	40
Consumer direct	645	643	1,721	1,846
Indirect auto	125	228	502	1,043
Total loans charged-off	4,080	3,323	12,267	9,438
Recoveries:				
Owner occupied commercial real estate	39	251	166	939
Income producing commercial real estate	41	375	127	842
Commercial & industrial	207	242	645	848
Commercial construction	247	66	804	322
Equipment financing	202	218	466	386
Residential mortgage	106	66	388	290
Home equity lines of credit	204	147	466	372
Residential construction	18	195	91	326
Consumer direct	226	244	672	599
Indirect auto	67	53	151	188
Total recoveries	1,357	1,857	3,976	5,112
Net charge-offs	2,723	1,466	8,291	4,326
Provision for loan and lease losses	3,033	1,335	9,602	6,352
Allowance for loan and lease losses at end of period	62,514	60,940	62,514	60,940
Allowance for unfunded commitments at beginning of period	3,391	2,895	3,410	2,312
Provision for losses on unfunded commitments	67	465	48	1,048
Allowance for unfunded commitments at end of period	3,458	3,360	3,458	3,360
Allowance for credit losses	$ 65,972	$ 64,300	$ 65,972	$ 64,300
Total loans and leases:				
At period-end	$ 8,903,266	$ 8,226,466	$ 8,903,266	$ 8,226,466
Average	8,835,585	8,199,856	8,646,622	8,124,269
Allowance for loan and lease losses as a percentage of period-end loans and leases	0.70%	0.74%	0.70%	0.74%
As a percentage of average loans (annualized):				
Net charge-offs	0.12	0.07	0.13	0.07
Provision for loan and lease losses	0.14	0.06	0.15	0.10

The provision for credit losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level appropriate to absorb probable incurred losses in the loan portfolio at the balance sheet date. The amount each quarter is dependent upon many factors, including growth and changes in the composition of the loan portfolio, net charge-offs, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and other macro-economic factors and trends. The evaluation of these factors is performed quarterly by management through an analysis of the appropriateness of the allowance for loan losses. For further discussion regarding our allowance for credit losses, refer to Critical Accounting Estimates included in the 2018 10-K.

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled $66.0 million at September 30, 2019, compared with $64.6 million at December 31, 2018. At September 30, 2019, the allowance for loan losses was $62.5 million, or 0.70% of loans, compared with $61.2 million, or 0.73% of total loans, at December 31, 2018.

Management believes that the allowance for credit losses at September 30, 2019 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the allowance for credit losses in future periods if, in their opinion, the results of their review warrant such adjustments.

Nonperforming Assets

The table below summarizes nonperforming assets ("NPAs").

Table 10 - Nonperforming Assets
(in thousands)

	September 30, 2019	December 31, 2018
Nonaccrual loans	$ 30,832	$ 23,778
Foreclosed properties/other real estate owned ("OREO")	102	1,305
Total nonperforming assets	$ 30,934	$ 25,083
Nonaccrual loans as a percentage of total loans and leases	0.35%	0.28%
Nonperforming assets as a percentage of total loans and OREO	0.35	0.30
Nonperforming assets as a percentage of total assets	0.24	0.20

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. 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 generally applied to reduce the loan's recorded investment.

Purchased credit impaired ("PCI") loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered as performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or future period yield adjustments. 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 September 30, 2019 or December 31, 2018 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. For additional information about and discussion of PCI loans, see Note 6 to our consolidated financial statements included in Part I - Item 1 of this Quarterly Report on Form 10-Q.

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

The following table summarizes nonperforming assets by category as of the dates indicated.

Table 11 - Nonperforming Assets by Category
(in thousands)

	September 30, 2019			December 31, 2018		
	Nonaccrual Loans	**Foreclosed Properties**	**Total NPAs**	**Nonaccrual Loans**	**Foreclosed Properties**	**Total NPAs**
Owner occupied commercial real estate	$ 8,430	$ —	$ 8,430	$ 6,421	$ 170	$ 6,591
Income producing commercial real estate	2,030	26	2,056	1,160	—	1,160
Commercial & industrial	2,625	—	2,625	1,417	—	1,417
Commercial construction	1,894	7	1,901	605	421	1,026
Equipment financing	1,974	—	1,974	2,677	—	2,677
Total commercial	16,953	33	16,986	12,280	591	12,871
Residential mortgage	9,475	46	9,521	8,035	654	8,689
Home equity lines of credit	3,065	—	3,065	2,360	60	2,420
Residential construction	597	23	620	288	—	288
Consumer direct	147	—	147	89	—	89
Indirect auto	595	—	595	726	—	726
Total NPAs	$ 30,832	$ 102	$ 30,934	$ 23,778	$ 1,305	$ 25,083

At September 30, 2019 and December 31, 2018, United had $47.5 million and $52.4 million, respectively, in loans with terms that have been modified in troubled debt restructurings ("TDRs"). Included therein were $7.23 million and $7.09 million, respectively, of TDRs that were classified as nonaccrual and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $40.3 million and $45.3 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At September 30, 2019 and December 31, 2018, there were $54.3 million and $55.4 million, respectively, of loans classified as impaired, including TDRs. Included in impaired loans at September 30, 2019 and December 31, 2018 were $23.0 million and $23.5 million of loans, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The remaining balance of impaired loans at September 30, 2019 and December 31, 2018 of $31.3 million and $32.0 million, respectively, had specific reserves that totaled $2.12 million and $2.31 million, respectively.

The table below summarizes activity in nonaccrual loans for the periods indicated.

Table 12 - Activity in Nonaccrual Loans
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Beginning Balance	$ 26,597	$ 21,817	$ 23,778	$ 23,658
Acquisitions	—	—	—	428
Loans placed on nonaccrual	8,722	5,759	23,797	16,834
Payments received	(2,107)	(3,095)	(8,839)	(11,943)
Loan charge-offs	(2,278)	(1,588)	(7,123)	(4,803)
Foreclosures	(102)	(363)	(781)	(1,644)
Ending Balance	$ 30,832	$ 22,530	$ 30,832	$ 22,530

Investment Securities

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

At September 30, 2019 and December 31, 2018, United had debt securities held-to-maturity with a carrying amount of $243 million and $274 million, respectively, and debt securities available-for-sale totaling $2.27 billion and $2.63 billion, respectively. At September 30, 2019 and December 31, 2018, the securities portfolio represented approximately 20% and 23%, respectively, of total assets. During 2019, management has intentionally reduced securities and wholesale borrowings as part of a balance sheet deleveraging strategy.

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

Management evaluates its securities portfolio each quarter to determine if any security is considered to be other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. Losses on fixed income securities at September 30, 2019 primarily reflect the effect of changes in interest rates. United did not recognize any other than temporary impairment losses on its investment securities during the three and nine months ended September 30, 2019 or 2018.

Goodwill and Other Intangibles

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets.

Core deposit intangibles, representing the value of acquired deposit relationships, and noncompete agreements are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. During the third quarter of 2019, all capitalized noncompete agreements became fully amortized. There were no events or circumstances that led management to believe that any impairment exists in goodwill or other intangible assets.

Deposits

Total deposits as of September 30, 2019 were $10.8 billion, which consisted of noninterest-bearing demand deposits of $3.53 billion and interest-bearing deposits of $7.23 billion. Since December 31, 2018, noninterest-bearing demand deposits increased $318 million, while interest-bearing deposits decreased $95.6 million. The decrease in interest-bearing deposits reflected a reduction in brokered deposits of $462 million pursuant to the balance sheet deleveraging strategy, partially offset by an increase in interest-bearing customer deposits of $366 million. United's high level of service, as evidenced by its strong customer satisfaction scores, has been instrumental in attracting and retaining customer deposit accounts.

Borrowing Activities

The Bank is a shareholder in the Federal Home Loan Bank of Atlanta ("FHLB"). Through this affiliation, FHLB secured advances totaled $40 million and $160 million as of September 30, 2019 and December 31, 2018. United anticipates continued use of this short and long-term source of funds. At September 30, 2019 and December 31, 2018, United also had long-term debt outstanding of $240 million and $267 million, respectively, which includes senior debentures, subordinated debentures, trust preferred securities, and securitized notes payable. Additional information regarding FHLB advances and long-term debt is provided in Notes 12 and 13, respectively, to the consolidated financial statements included in the 2018 10-K.

Contractual Obligations

There have not been any material changes to United's contractual obligations since December 31, 2018.

Off-Balance Sheet Arrangements

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

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

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

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used. United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 20 to the consolidated financial statements included in United's 2018 10-K for additional information on off-balance sheet arrangements.

Interest Rate Sensitivity Management

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

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

One of the tools management uses to estimate and manage the sensitivity of net interest revenue to changes in interest rates is an asset/liability simulation model. Resulting estimates are based upon several assumptions for each scenario, including loan and deposit re-pricing characteristics and the rate of prepayments. ALCO periodically reviews the assumptions for reasonableness based on historical data and future expectations; however, actual net interest revenue may differ from model results. The primary objective of the simulation model is to measure the potential change in net interest revenue over time using multiple interest rate scenarios. The base scenario assumes rates remain flat and is the scenario to which all others are compared to in order to measure the change in net interest revenue. Policy limits are based on immediate rate shock scenarios, as well as gradually rising and falling rate scenarios, which are all compared to the base scenario. Other scenarios analyzed may include delayed rate shocks, yield curve steepening or flattening, or other variations in rate movements. While the primary policy scenarios focus on a 12-month time frame, longer time horizons are also modeled.

United's policy is based on the 12-month impact on net interest revenue of interest rate shocks and ramps that increase from 100 to 400 basis points or decrease 100 to 200 basis points from the base scenario. In the shock scenarios, rates immediately change the full amount at the scenario onset. In the ramp scenarios, rates change by 25 basis points per month. United's policy limits the projected change in net interest revenue over the first 12 months to a 5% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. The following table presents United's interest sensitivity position at the dates indicated. The change in simulation model results from December 31, 2018 to September 30, 2019 was primarily a result of a change in assumptions implemented in the first quarter of 2019, rather than a reflection of a significant change in balance sheet composition.

Table 13 - Interest Sensitivity

	Increase (Decrease) in Net Interest Revenue from Base Scenario at			
	September 30, 2019		December 31, 2018	
Change in Rates	Shock	Ramp	Shock	Ramp
100 basis point increase	2.91%	2.18%	(0.37)%	(0.81)%
100 basis point decrease	(4.36)	(3.45)	(2.89)	(2.17)

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

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

Derivative financial instruments are used to manage interest rate sensitivity. These contracts generally consist of interest rate swaps under which United pays a variable rate (or fixed rate, as the case may be) and receives a fixed rate (or variable rate, as the case may be). In addition, investment securities and wholesale funding strategies are used to manage interest rate risk.

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

From time to time, United will terminate hedging positions when conditions change and the position is no longer necessary to manage overall sensitivity to changes in interest rates. In those situations when the terminated contract was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the contract, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight-line method of amortization. During the second quarter of 2019, United amortized the remaining balance of losses on terminated hedging positions from other comprehensive income.

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

Liquidity Management

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

An important part of the Bank's liquidity resides in the asset portion of the balance sheet, which provides liquidity primarily through loan interest and principal repayments and the maturities and sales of securities, as well as the ability to use these assets as collateral for borrowings on a secured basis.

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

In addition, because the Holding Company is a separate legal entity apart from the Bank, it must provide for its own liquidity. The Holding Company is responsible for the payment of dividends to shareholders, and interest and principal on any outstanding debt or trust preferred securities. The Holding Company currently has internal capital resources to meet these obligations. While the Holding Company has access to the capital markets and maintains a line of credit as a contingent funding source, the ultimate source of its liquidity is subsidiary service fees and dividends from the Bank, which are limited by applicable law and regulations. Holding Company liquidity is managed to a minimum of 15-months of positive cash flow after considering all of its liquidity needs over this period.

At September 30, 2019, United had sufficient qualifying collateral to increase FHLB advances by $1.17 billion and Federal Reserve discount window borrowing capacity of $1.55 billion, as well as unpledged investment securities of $1.79 billion that could be used as collateral for additional borrowings. In addition to these wholesale sources, United has the ability to attract retail deposits by competing more aggressively on pricing.

As disclosed in the consolidated statement of cash flows, net cash provided by operating activities was $96.1 million for the nine months ended September 30, 2019. Net income of $137 million for the nine-month period included non-cash expenses for the following: deferred income tax expense of $12.1 million, depreciation, amortization and accretion of $18.0 million, provision expense of $9.65 million and stock-based compensation expense of $7.68 million. Uses of cash from operating activities included an increase in other assets and accrued interest receivable of $47.2 million and an increase in loans held for sale of $35.7 million. Net cash provided by investing activities of $126 million consisted primarily of $226 million in proceeds from sales and $239 million in proceeds from maturities and calls of debt securities available for sale and equity securities, as well as $39.8 million in proceeds from maturities and calls of debt securities held to maturity. These sources of cash were offset by a $296 million net increase in loans, $45.6 million in purchases of debt securities available for sale and equity securities, net cash paid for acquisitions of $19.5 million, and $16.5 million in purchases of premises and equipment. Net cash used in financing activities of $188 million consisted primarily of a net decrease in FHLB advances of $120 million, cash dividends of $39.4 million and repayments of long-term debt of $27.5 million. In the opinion of management, United's liquidity position at September 30, 2019, was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at September 30, 2019 was $1.61 billion, an increase of $148 million from December 31, 2018 due to year-to-date earnings less dividends declared and an increase in the value of available-for-sale securities, partially offset by $13.0 million in share repurchases. Accumulated other comprehensive income (loss), which includes unrealized gains and losses on securities available-for-sale and unamortized prior service cost and actuarial gains and losses on defined benefit pension plans, is excluded in the calculation of regulatory capital adequacy ratios.

The following table shows capital ratios, as calculated under applicable regulatory guidelines, at September 30, 2019 and December 31, 2018. As of September 30, 2019, capital levels remained characterized as "well-capitalized" under the Basel III Capital Rules in effect at the time.

Table 14 – Capital Ratios
(dollars in thousands)

	Basel III Guidelines		United Community Banks, Inc. (Consolidated)		United Community Bank	
	Minimum [(1)]	Well Capitalized	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Risk-based ratios:						
Common equity tier 1 capital	4.5%	6.5%	12.44%	12.16%	14.15%	12.91%
Tier 1 capital	6.0	8.0	12.68	12.42	14.15	12.91
Total capital	8.0	10.0	14.47	14.29	14.82	13.60
Leverage ratio	4.0	5.0	10.23	9.61	11.41	9.98
Common equity tier 1 capital			$ 1,233,644	$ 1,148,355	$ 1,400,439	$ 1,216,449
Tier 1 capital			1,257,894	1,172,605	1,400,439	1,216,449
Total capital			1,435,479	1,348,843	1,466,411	1,281,062
Risk-weighted assets			9,918,874	9,441,622	9,896,095	9,421,009
Average total assets			12,298,793	12,207,986	12,275,583	12,183,341

(1) As of September 30, 2019 and December 31, 2018 the additional capital conservation buffer in effect was 2.50% and 1.87%, respectively.

United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI." Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2019 and 2018.

Table 15 - Stock Price Information

	2019				2018			
	High	**Low**	**Close**	**Avg Daily Volume**	**High**	**Low**	**Close**	**Avg Daily Volume**
First quarter	$ 29.79	$ 21.19	$ 24.93	507,207	$ 33.60	$ 27.73	$ 31.65	529,613
Second quarter	28.98	24.91	28.56	427,652	34.18	30.52	30.67	402,230
Third quarter	$ 29.28	$ 25.24	$ 28.35	357,739	31.93	27.82	27.89	414,541
Fourth quarter					28.88	20.23	21.46	509,152

Effect of Inflation and Changing Prices

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United's market risk as of September 30, 2019 from that presented in the 2018 10-K. The interest rate sensitivity position at September 30, 2019 is included in Table 13 in Part I - Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

(a) *Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of United's disclosure controls and procedures (as such term is defined in Exchange Act Rule 13a-15(e)) as of September 30, 2019. Based on, that evaluation, United's principal executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) *Changes in Internal Control Over Financial Reporting.* No change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended September 30, 2019 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, United and the Bank are parties to various legal proceedings. Additionally, in the ordinary course of business, United and the Bank are subject to regulatory examinations and investigations. Based on our current knowledge and advice of counsel, in the opinion of management there is no such pending or threatened legal matter which would result in a material adverse effect upon the consolidated financial condition or results of operations of United.

Items 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in United's 2018 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains information regarding purchases of our common stock made during the quarter ended September 30, 2019 by or on behalf of United or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act:

Issuer Purchases of Equity Securities

(Dollars in thousands, except for per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs [1]
July 1, 2019 - July 31, 2019	—	$ —	—	$ 42,160
August 1, 2019 - August 31, 2019	195,443	26.51	195,443	36,980
September 1, 2019 - September 30, 2019	—	—	—	36,980
Total	195,443	$ 26.51	195,443	$ 36,980

[1] In November 2018, United announced that its Board of Directors approved an increase and extension of its ongoing common stock repurchase program, authorizing $50 million of repurchases of United's outstanding common stock. The program is scheduled to expire upon the earlier of United's repurchase of shares of its common stock having an aggregate purchase price of $50 million and December 31, 2019. Under the program, the shares may be repurchased in the open market or in privately negotiated transactions, from time to time, subject to market and other conditions. The approved share repurchase program does not obligate United to repurchase any dollar amount or number of shares, and the program may be extended, modified, suspended, or discontinued at any time. In November of 2019, the Board of Directors authorized an updated repurchase program for $50 million of its common shares that may be acquired through December 31, 2020.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification by H. Lynn Harton, President and Chief Executive Officer of United Community Banks, Inc., pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification by Jefferson L. Harralson, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., pursuant to Exchange Act Rule 13a-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350.
101	Interactive data files for United Community Bank, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL: (i) the Consolidated Balance Sheets (unaudited); (ii) the Consolidated Statements of Income (unaudited); (iii) the Consolidated Statements of Comprehensive Income (unaudited); (iv) the Condensed Consolidated Statements in Shareholders' Equity (unaudited); (v) the Condensed Consolidated Statements of Cash Flows (unaudited); and (vi) the Notes to Condensed Consolidated Financial Statements (unaudited).
104	The cover page from United Community Bank's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (formatted in Inline XBRL and included in Exhibit 101)

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANKS, INC.

/s/ H. Lynn Harton

H. Lynn Harton
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jefferson L. Harralson

Jefferson L. Harralson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Alan H. Kumler

Alan H. Kumler
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

Date: November 7, 2019