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, 2020

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
Depositary shares, each representing 1/1000th interest in a share of Series I Non-Cumulative Preferred Stock	UCBIO	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 ☒

There were 86,620,219 shares of the registrant's common stock, par value $1 per share, outstanding as of October 31, 2020.

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PART I - Financial Information

PART II - Other Information

Cautionary Note Regarding 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. Statements regarding the potential effects of the COVID-19 pandemic on our business, operations, financial performance and prospects are forward-looking statements. Also, any statement that does not describe historical or current facts is a forward-looking statement. These statements 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 similar expressions. 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, including United Community Bank (the "Bank"). The Holding Company and the Bank are collectively referred to in this report as "United"

Because forward-looking statements relate to the future, they are subject to known and unknown risks, uncertainties, assumptions, and changes in circumstances, many of which are beyond our control, and that are difficult to predict as to timing, extent, likelihood and degree of occurrence, and that could cause actual results to differ materially from the results implied or anticipated by the statements. Except as required by law, we expressly disclaim any obligations to publicly update any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements, in addition to those described in detail under Part II, Item 1A of this Report - "Risk Factors" - include, but are not limited to the following:

- negative economic and political conditions that adversely affect the general economy, housing prices, the real estate market, the job market, consumer confidence, the financial condition of our borrowers and consumer spending habits, which may affect, among other things, the levels of non-performing assets, charge-offs and provision expense;
- changes in loan underwriting, credit review or loss policies associated with economic conditions, examination conclusions or regulatory developments, either as they currently exist or as they may be affected by conditions associated with the COVID-19 pandemic;
- the COVID-19 pandemic and its effects on the economic and business environments in which we operate;
- strategic, market, operational, liquidity and interest rate risks associated with our business;
- continuation of historically low interest rates coupled with other potential fluctuations or unanticipated 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 any unanticipated or greater than anticipated adverse conditions in the national or local economies in which we operate;
- our loan concentration in industries or sectors that may experience unanticipated or greater than anticipated adverse conditions than other industries or sectors in the national or local economies in which we operate;
- the risks of expansion into new geographic or product markets;
- risks with respect to future mergers or acquisitions, including our ability to successfully expand and complete acquisitions and integrate businesses and operations that we acquire;
- our ability to attract and retain key employees;
- competition from financial institutions and other financial service providers, including non-bank 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 our network and online banking portals, and the systems of parties with whom we contract, 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;
- volatility in the allowance for credit losses resulting from the Current Expected Credit Loss ("CECL") methodology, either alone or as that may be affected by conditions arising out of the COVID-19 pandemic;

- adverse results (including judgments, costs, fines, reputational harm, inability to obtain necessary approvals and/or other negative effects) from current or future litigation, regulatory proceedings, examinations, investigations, or similar matters, or developments related thereto;
- any matter that would cause us to conclude that there was impairment of any asset, including intangible assets;
- limitations on our ability to make dividends and other distributions from the Bank to the Holding Company, which could affect Holding Company liquidity, including the ability to pay dividends to shareholders or take other capital actions; and
- other risks and uncertainties disclosed in documents filed or furnished by us with or to the SEC, any of which could cause actual results to differ materially from future results expressed, implied or otherwise anticipated by such forward-looking statements.

We caution readers that the foregoing list of factors is not exclusive, is not necessarily in order of importance and readers should not 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 our 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. We do not intend to and hereby disclaim any obligation to update or revise any forward-looking statement contained in this Form 10-Q, which speaks 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, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 122,048	$ 125,844
Interest-bearing deposits in banks	923,591	389,362
Cash and cash equivalents	1,045,639	515,206
Debt securities available-for-sale	2,690,448	2,274,581
Debt securities held-to-maturity (fair value $413,820 and $287,904, respectively)	398,373	283,533
Loans held for sale at fair value	128,587	58,484
Loans and leases held for investment	11,798,910	8,812,553
Less allowance for credit losses - loans and leases	(134,256)	(62,089)
Loans and leases, net	11,664,654	8,750,464
Premises and equipment, net	211,885	215,976
Bank owned life insurance	201,515	202,664
Accrued interest receivable	48,091	32,660
Net deferred tax asset	39,818	34,059
Derivative financial instruments	103,388	35,007
Goodwill and other intangible assets, net	384,074	342,247
Other assets	236,405	171,135
Total assets	$ 17,152,877	$ 12,916,016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 5,227,170	$ 3,477,979
Interest-bearing deposits	9,376,206	7,419,265
Total deposits	14,603,376	10,897,244
Long-term debt	326,703	212,664
Derivative financial instruments	33,519	15,516
Accrued expenses and other liabilities	222,024	154,900
Total liabilities	15,185,622	11,280,324
Shareholders' equity:		
Preferred stock, $1 par value: 10,000,000 shares authorized; Series I, $25,000 per share liquidation preference; 4,000 and no shares issued and outstanding, respectively	96,422	—
Common stock, $1 par value: 150,000,000 shares authorized; 86,611,114 and 79,013,729 shares issued and outstanding, respectively	86,611	79,014
Common stock issuable: 590,521 and 664,640 shares, respectively	10,632	11,491
Capital surplus	1,637,467	1,496,641
Retained earnings	94,938	40,152
Accumulated other comprehensive income	41,185	8,394
Total shareholders' equity	1,967,255	1,635,692
Total liabilities and shareholders' equity	$ 17,152,877	$ 12,916,016

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, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Interest revenue:				
Loans, including fees	$ 126,936	$ 122,645	$ 352,861	$ 357,575
Investment securities, including tax exempt of $1,895, $1,118, $4,988 and $3,409, respectively	14,558	17,744	47,567	57,638
Deposits in banks and short-term investments	279	226	1,497	1,074
Total interest revenue	141,773	140,615	401,925	416,287
Interest expense:				
Deposits	8,998	17,113	35,344	50,185
Short-term borrowings	2	429	3	838
Federal Home Loan Bank advances	27	521	28	2,695
Long-term debt	4,292	3,214	10,186	9,813
Total interest expense	13,319	21,277	45,561	63,531
Net interest revenue	128,454	119,338	356,364	352,756
Provision for credit losses	21,793	3,100	77,527	9,650
Net interest revenue after provision for credit losses	106,661	116,238	278,837	343,106
Noninterest income:				
Service charges and fees	8,260	9,916	23,893	27,429
Mortgage loan gains and other related fees	25,144	8,658	57,113	17,750
Brokerage and wealth management fees	3,055	1,699	6,019	4,624
Gains from sales of other loans, net	1,175	1,639	3,889	4,412
Securities gains (losses), net	746	—	746	(118)
Other	10,302	7,119	23,074	20,433
Total noninterest income	48,682	29,031	114,734	74,530
Total revenue	155,343	145,269	393,571	417,636
Noninterest expenses:				
Salaries and employee benefits	59,067	50,501	162,236	146,161
Communications and equipment	6,960	6,223	19,462	18,233
Occupancy	7,050	5,921	18,709	17,424
Advertising and public relations	1,778	1,374	5,312	4,256
Postage, printing and supplies	1,703	1,618	4,986	4,733
Professional fees	5,083	4,715	14,003	11,930
Lending and loan servicing expense	3,043	2,556	8,525	7,509
Outside services - electronic banking	1,888	1,934	5,516	5,101
FDIC assessments and other regulatory charges	1,346	314	4,388	3,571
Amortization of intangibles	1,099	1,210	3,126	3,845
Merger-related and other charges	3,361	2,541	4,566	6,981
Other	3,603	4,017	10,670	11,077
Total noninterest expenses	95,981	82,924	261,499	240,821
Net income before income taxes	59,362	62,345	132,072	176,815
Income tax expense	11,755	13,983	27,485	40,106
Net income	$ 47,607	$ 48,362	$ 104,587	$ 136,709
Net income available to common shareholders	$ 45,437	$ 48,011	$ 101,994	$ 135,727
Net income per common share:				
Basic	$ 0.52	$ 0.60	$ 1.25	$ 1.70
Diluted	0.52	0.60	1.25	1.70
Weighted average common shares outstanding:				
Basic	87,129	79,663	81,815	79,714
Diluted	87,205	79,667	81,876	79,718

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
2020						
Net income	$ 59,362	$ (11,755)	$ 47,607	$ 132,072	$ (27,485)	$ 104,587
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized gains on available-for-sale securities	941	(181)	760	43,611	(10,583)	33,028
Reclassification adjustment for gains included in net income	(746)	191	(555)	(746)	191	(555)
Net unrealized gains	195	10	205	42,865	(10,392)	32,473
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	544	(130)	414	723	(173)	550
Derivative instruments designated as cash flow hedges:						
Unrealized holding losses on derivatives arising during the period	(324)	83	(241)	(1,152)	294	(858)
Reclassification of losses on derivative instruments realized in net income	130	(33)	97	197	(50)	147
Net cash flow hedge activity	(194)	50	(144)	(955)	244	(711)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	215	(55)	160	643	(164)	479
Total other comprehensive income	760	(125)	635	43,276	(10,485)	32,791
Comprehensive income	$ 60,122	$ (11,880)	$ 48,242	$ 175,348	$ (37,970)	$ 137,378
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

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)	Preferred Stock	Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total	Preferred Stock	Common Stock	Common Stock Issuable	Capital Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
2020														
Balance at beginning of period	$ 96,660	$ 78,335	$ 10,646	$ 1,480,464	$ 64,990	$ 40,550	$1,771,645	$ —	$ 79,014	$ 11,491	$ 1,496,641	$ 40,152	$ 8,394	$1,635,692
Net income					47,607		47,607					104,587		104,587
Other comprehensive income						635	635						32,791	32,791
Issuance of preferred stock (4,000 shares), net	(238)						(238)	96,422						96,422
Common stock issued to dividend reinvestment plan and employee benefit plans (37,863 and 59,455 shares, respectively)		38		614			652		60		1,018			1,078
Common stock issued for acquisition (8,130,633 shares)		8,131		155,458			163,589		8,131		155,458			163,589
Amortization of restricted stock unit awards				1,683			1,683				5,939			5,939
Vesting of restricted stock unit awards, net of shares surrendered to cover payroll taxes (89,095 and 151,347 shares issued, respectively, and 13,164 and 37,509 shares deferred, respectively)		89	332	(1,064)			(643)		151	1,008	(2,481)			(1,322)
Purchases of common stock (826,482 shares)							—		(827)		(19,955)			(20,782)
Deferred compensation plan, net, including dividend equivalents			113				113			380				380
Common stock issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (18,396 and 82,432 shares, respectively)		18	(459)	312			(129)		82	(2,247)	847			(1,318)
Preferred stock dividends					(1,814)		(1,814)					(1,814)		(1,814)
Common stock dividends ($0.18 and $0.54 per share, respectively)					(15,845)		(15,845)					(44,458)		(44,458)
Adoption of new accounting standard							—					(3,529)		(3,529)
Balance, September 30, 2020	$ 96,422	$ 86,611	$ 10,632	$ 1,637,467	$ 94,938	$ 41,185	$1,967,255	$ 96,422	$ 86,611	$ 10,632	$ 1,637,467	$ 94,938	$ 41,185	$1,967,255
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 unit awards				1,678			1,678				7,680			7,680
Vesting of restricted stock unit awards, 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
Common stock 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

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, 2020	Nine Months Ended September 30, 2019
Operating activities:		
Net income	$ 104,587	$ 136,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	5,332	18,009
Provision for credit losses	77,527	9,650
Stock based compensation	5,939	7,680
Deferred income tax expense	189	12,149
Securities (gains) losses, net	(746)	118
Gains from sales of other loans	(3,889)	(4,783)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(44,570)	(47,543)
Accrued expenses and other liabilities	(20,869)	(188)
Loans held for sale	(69,875)	(35,690)
Net cash provided by operating activities	53,625	96,111
Investing activities:		
Debt securities held-to-maturity:		
Proceeds from maturities and calls	45,171	39,787
Purchases	(105,622)	(8,499)
Debt securities available-for-sale and equity securities:		
Proceeds from sales	40,365	225,883
Proceeds from maturities and calls	604,180	238,514
Purchases	(668,484)	(45,629)
Net increase in loans	(1,523,516)	(296,076)
Proceeds from sales of premises and equipment	641	5,870
Purchases of premises and equipment	(5,991)	(16,532)
Net cash received in (paid for) acquisition	194,606	(19,545)
Proceeds from sale of other real estate	466	2,344
Other investing activities, net	(8,185)	—
Net cash (used in) provided by investing activities	(1,426,369)	126,117
Financing activities:		
Net increase in deposits	1,904,549	10,538
Repayment of long-term debt	—	(27,500)
Proceeds from FHLB advances	5,000	1,625,000
Repayment of FHLB advances	(134,121)	(1,745,000)
Proceeds from issuance of senior debentures, net of issuance costs	98,552	—
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	1,078	2,004
Proceeds from exercise of stock options	—	197
Cash paid for shares withheld to cover payroll taxes upon vesting of restricted stock units	(2,640)	(1,261)
Proceeds from issuance of Series I preferred stock, net of issuance costs	96,422	—
Repurchase of common stock	(20,782)	(13,020)
Cash dividends on common stock	(43,067)	(39,392)
Cash dividends on preferred stock	(1,814)	—
Net cash provided by (used in) financing activities	1,903,177	(188,434)
Net change in cash and cash equivalents, including restricted cash	530,433	33,794
Cash and cash equivalents, including restricted cash, at beginning of period	515,206	327,265
Cash and cash equivalents, including restricted cash, at end of period	$ 1,045,639	$ 361,059
Supplemental disclosures of cash flow information:		
Significant non-cash investing and financing transactions:		
Unsettled government guaranteed loan sales	$ 328	$ 6,850
Transfers of loans to foreclosed properties	586	853
Unsettled securities purchases	30,045	—
Acquisitions:		
Assets acquired	2,174,723	264,937
Liabilities assumed	1,987,026	212,844
Net assets acquired	187,697	52,093
Common stock issued in acquisition	163,589	—

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, including United Community Bank (the "Bank"), (collectively referred to herein as "United") conform to accounting principles generally accepted in the United States ("GAAP") and reporting guidelines of banking regulatory authorities. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. In addition to those items mentioned below, a more detailed description of United's accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 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 2019 10-K. Certain amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

Debt Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are generally amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from available-for-sale to held-to-maturity are included in the balance of accumulated other comprehensive income in the consolidated balance sheets. These unrealized holding gains or losses are amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Allowance for Credit Losses ("ACL") - Held-to-Maturity Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $1.52 million at September 30, 2020 and was excluded from the estimate of credit losses.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: State and political subdivisions, Residential mortgage-backed, agency and Commercial mortgage-backed, agency.

All of the residential and commercial mortgage-backed securities held by United are issued by U.S. government agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and political subdivision securities are highly rated by major rating agencies. As a result, no ACL was recorded on the held-to-maturity portfolio at September 30, 2020.

ACL - Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, United first assesses whether it intends to sell, or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, United evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At September 30, 2020, there was no ACL related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled $8.93 million at September 30, 2020 and was excluded from the estimate of credit losses.

Loans and Leases

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $36.5 million at September 30, 2020 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectable in the normal course of business. A loan may continue to accrue interest after 90 days if it is well collateralized and in the process of collection. Past due status is based on contractual terms of the loan. Loans where United has granted payment deferrals for borrowers experiencing temporary cash flow shortages as a result of the COVID-19 pandemic are not considered past due.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance and future payments are reasonably assured.

Equipment Financing Lease Receivables: Equipment financing lease receivables, which are classified as sales-type or direct financing leases, are recorded as the sum of the future minimum lease payments, initial deferred costs and estimated or contractual residual values less unearned income and security deposits. The determination of residual value is derived from a variety of sources including equipment valuation services, appraisals, and publicly available market data on recent sales transactions on similar equipment. The length of time until contract termination, the cyclical nature of equipment values and the limited marketplace for re-sale of certain leased assets are important variables considered in making this determination. Interest income, which is included in loan interest revenue in the consolidated statements of income, is recognized as earned using the effective interest method. Direct fees and costs associated with the origination of leases are deferred and included as a component of equipment financing receivables. Net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the lease using the effective interest method. These lease agreements may include options to renew and for the lessee to purchase the leased equipment at the end of the lease term. United excludes sales taxes from consideration in these lease contracts.

Purchased Credit Deteriorated ("PCD") Loans: Upon adoption of Accounting Standards Codification ("ASC") Topic 326, Financial Instruments - Credit Losses ("ASC 326"), loans that were designated as purchased credit impaired ("PCI") loans under the previous accounting guidance were classified as PCD loans without reassessment.

In acquisitions, United may acquire loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, United will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial ACL is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial ACL determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and ACL becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the ACL recorded through provision expense.

ACL - Loans

The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the ACL when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

Management determines the ACL balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit behaviors along with model judgments provide the basis for the estimation of expected credit losses. Adjustments to modeled loss estimates may be made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in economic conditions, property values, or other relevant factors.

The ACL is measured on a collective basis when similar risk characteristics exist. United has identified the following portfolio segments and calculates the ACL for each using a discounted cash flow methodology at the loan level, with loss rates, prepayment assumptions and curtailment assumptions driven by each loan's collateral type:

Owner occupied commercial real estate - Loans in this category are susceptible to business failure and general economic conditions.

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

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

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

Equipment financing - Risks associated with equipment financing are similar to those described for commercial and industrial loans, including general economic conditions, as well as appropriate lien priority on equipment, equipment obsolescence and the general mobility of the collateral.

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

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

Residential construction - Residential construction loans are susceptible to the same risks as residential mortgage loans. Changes in market demand for property lead to longer marketing times resulting in higher carrying costs and declining values.

Consumer - Risks common to consumer direct loans include unemployment and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

When the discounted cash flow method is used to determine the ACL, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Determining the Contractual Term: Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by United.

Troubled Debt Restructurings ("TDR"s): A loan for which the terms have been modified resulting in a more than insignificant concession, and for which the borrower is experiencing financial difficulties, is generally considered to be a TDR. The ACL on a TDR is measured using the same method as all other loans held for investment, except that the original interest rate is used to discount the expected cash flows, not the rate specified within the restructuring. As discussed in Note 2, in accordance with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), United implemented loan modification programs in response to the COVID-19 pandemic in order to provide borrowers with flexibility with respect to repayment terms. These loan modifications were not considered TDRs to the extent that the borrower was impacted by the COVID-19 pandemic and was not more than 30 days past due at December 31, 2019, or in certain circumstances, at the time that the COVID-19 loan modification program was implemented, unless the loan was previously classified as a TDR.

ACL - Off-Balance Sheet Credit Exposures

Management estimates expected credit losses on commitments to extend credit over the contractual period during which United is exposed to credit risk on the underlying commitments. The ACL on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The ACL is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to fund.

Note 2 –Accounting Standards Updates and Recently Adopted Standards

Recently Adopted Standards

On January 1, 2020, United adopted ASC 326*,* which replaced the incurred loss impairment framework in prior GAAP ("Incurred Loss") with a current expected credit loss ("CECL") framework. The CECL framework requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an ACL. PCD loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings. Credit losses relating to available-for-sale debt securities will be recorded through an ACL prospectively, with such allowance limited to the amount by which fair value is below amortized cost.

United adopted ASC 326 as of January 1, 2020 using the modified retrospective method for loans, leases and off-balance sheet credit exposures. Adoption of this guidance resulted in an $8.75 million increase in the ACL, comprised of increases in the ACL for loans of $6.88 million and the ACL for unfunded commitments of $1.87 million, with $3.59 million of the increase reclassified from the amortized cost basis of PCD financial assets that were previously classified as PCI. The cumulative effect adjustment to retained earnings was $3.53 million, net of tax. Calculated credit losses on held-to-maturity debt securities were not material and there was no impact to the available-for-sale securities portfolio or other financial instruments. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with Incurred Loss.

The ACL for the majority of loans and leases was calculated using a discounted cash flow methodology applied at a loan level with a one-year reasonable and supportable forecast period and a two-year straight-line reversion period. In connection with the adoption, management has implemented changes to relevant systems, processes and controls where necessary. Model validation was completed during the fourth quarter of 2019 and implementation of the accounting, reporting and governance processes to comply with the new guidance was completed in the first quarter of 2020. United's CECL allowance will fluctuate over time due to macroeconomic conditions and forecasts as well as the size and composition of the loan portfolios. United has adopted the relief provided by federal banking regulatory agencies for the delay of the adverse capital impact of CECL at adoption and during the subsequent two-year period following adoption. This optional two-year delay is followed by an optional three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. Under the transition provision, the amount of aggregate capital benefit is phased out by 25% each year with the full impact of adoption completely recognized by the beginning of the sixth year.

United adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as PCI. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. As mentioned above, the amortized cost basis of the PCD assets was adjusted to reflect the addition of $3.59 million to the ACL. The remaining noncredit discount (based on the adjusted amortized cost basis) will be accreted into interest income at a rate that approximates the effective interest rate as of January 1, 2020.

With regard to PCD assets, because United elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account, contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans. Similarly, although management did not reassess whether modifications to individual acquired financial assets accounted for in pools were TDRs as of the date of adoption, PCD loans that are restructured and meet the definition of TDR after the adoption of CECL will be reported as such.

United elected not to measure an ACL for accrued interest receivable and instead to reverse interest income on those loans that are 90 days past due, to exclude accrued interest receivable from the amortized cost basis of financial instruments subject to CECL and to separately state the balance of accrued interest receivable on the consolidated balance sheet. In addition, United elected to adjust the discount rate used to calculate credit losses for expected prepayments and will include all changes in discounted cash flows as credit loss. As a practical expedient, United has also elected to use the fair value of collateral when determining the ACL for loans if repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty (collateral-dependent loans).

On March 27, 2020, the CARES Act was signed into law. The CARES Act includes a number of provisions that were applicable to United, including the following:

- *Accounting Relief for TDRs*: The CARES Act provides that modifications under certain forbearance conditions for loans that were not more than 30 days past due at December 31, 2019 will not be considered TDRs for regulatory reporting and GAAP. This exemption period ends on the earlier of December 31, 2020 or the date that is 60 days after the termination date of the national emergency.
- *Optional Delay and Regulatory Relief for CECL Implementation*: The CARES Act stipulates that large SEC filers have the option of delaying the adoption of CECL from January 1, 2020 to the earlier of the end of the COVID-19 emergency period or December 31, 2020. Banks that were required to implement CECL by the end of 2020 were granted the option to defer any impact of CECL on regulatory capital for two years before beginning the original three-year regulatory phase-in period, for a total five-year phase-in period. Although United did not elect to delay the adoption of CECL, the Company elected the five-year phase-in period for regulatory capital purposes, as discussed above.
- *Paycheck Protection Program (“PPP”)*: The CARES Act creates the PPP through the Small Business Administration (“SBA”), which allowed United to lend money to small businesses to maintain employee payrolls and pay other qualified expenses during the crisis with guarantees from the SBA. Under this program, loan amounts may be forgiven if the proceeds are used for payroll and other permitted expenses in accordance with the requirements of the PPP.

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-03, *Codification Improvements to Financial Instruments*. This update clarified certain minor issues within the codification, including, among other things, debt securities disclosure for financial institutions and determination of the contractual term of a net investment in a lease. The standard was effective immediately, and did not have a material impact on the consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides expedients for contracts that are modified because of reference rate reform, including receivables, debt, leases, and certain derivatives. In addition, the update provides a one-time election to sell or transfer debt securities classified as held-to-maturity that reference a rate that is affected by reference rate reform. The update is effective as of March 12, 2020 through December 31, 2022. Adoption of this update did not have a material impact on the consolidated financial statements.

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. United adopted this update as of January 1, 2020, with no material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This update eliminates Step 2 from the goodwill impairment test, which required an entity to calculate the implied fair value of goodwill by valuing a reporting unit’s assets and liabilities using the same process that would be required to value assets and liabilities in a business combination. Instead, the amendments require that an entity perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. United adopted this update as of January 1, 2020, with no material impact on the consolidated financial statements.

Accounting Standards Updates Not Yet Adopted

In October 2020, the FASB issued ASU No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*. This update clarifies that an entity should reevaluate whether a callable debt security meets the criteria to adjust the amortization period of any related premium at each reporting period. Adoption of this update, which is effective for United as of January 1, 2021, is not expected to have a material impact on the consolidated financial statements.

Note 3 – Acquisitions

Acquisition of Three Shores Bancorporation, Inc.

On July 1, 2020, United completed the acquisition of Three Shores Bancorporation, Inc. ("Three Shores"), including its wholly-owned subsidiary, Seaside National Bank & Trust ("Seaside"), headquartered in Orlando, Florida. Seaside operated a 14-branch network located in key Florida metropolitan markets. In connection with the acquisition, United acquired $2.13 billion of assets and assumed $1.99 billion of liabilities. Under the terms of the merger agreement, Three Shores shareholders received $188 million in total consideration, of which $164 million was United common stock and $24.1 million was cash. United issued 8.13 million shares of common stock to Three Shores shareholders in the acquisition. 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 $41.6 million, representing the intangible value of Three Shores' 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 $3.36 million using the sum-of-the-years-digits method over 10 years, which represents the expected useful life of the asset.

United's operating results for the three and nine months ended September 30, 2020 include the operating results of the acquired business for the period subsequent to the acquisition date of July 1, 2020.

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 Three Shores	Fair Value Adjustments [1]	As Recorded by United
Assets			
Cash and cash equivalents	$ 218,714	$ —	$ 218,714
Debt securities	374,237	7,503	381,740
Loans, net	1,463,567	(35,601)	1,427,966
Premises and equipment, net	1,892	(308)	1,584
Accrued interest receivable	8,849	(1,284)	7,565
Derivative assets	12,165	(365)	11,800
Net deferred tax asset	3,837	11,224	15,061
Core deposit intangible	—	3,360	3,360
Other assets	71,984	(6,644)	65,340
Total assets acquired	$ 2,155,245	$ (22,115)	$ 2,133,130
Liabilities			
Deposits	$ 1,796,739	$ 5,955	$ 1,802,694
FHLB advances and long-term debt	136,000	8,121	144,121
Derivative liabilities	12,165	—	12,165
Other liabilities	30,857	(2,811)	28,046
Total liabilities assumed	1,975,761	11,265	1,987,026
Excess of assets acquired over liabilities assumed	$ 179,484		
Aggregate fair value adjustments		$ (33,380)	
Total identifiable net assets			146,104
Consideration transferred			
Cash consideration transferred			24,108
Common stock issued (8,130,633 shares)			163,589
Total fair value of consideration transferred			187,697
Goodwill			$ 41,593

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

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

		July 1, 2020
PCD loans:		
Par value	$	283,137
ACL at acquisition		(11,152)
Non-credit discount		(8,694)
Purchase price	$	263,291
Non-PCD loans:		
Fair value	$	1,164,675
Gross contractual amounts receivable		1,358,793
Estimate of contractual cash flows not expected to be collected		76,503

Pro forma information

The following table discloses the impact of the acquisitions of Three Shores and First Madison Bank & Trust ("FMBT"), which United acquired on May 1, 2019, since the respective acquisition dates through September 30 in the year of acquisition. The table also presents certain pro forma information as if Three Shores and FMBT had been acquired on January 1, 2019 and January 1, 2018, respectively. These results combine the historical results of the acquired entity with United's consolidated statement of income. Adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity; however pro forma financial results presented are not necessarily indicative of what would have occurred had the acquisitions taken place in earlier years.

Merger-related costs from the Three Shores acquisition of $3.36 million and $3.86 million, respectively, have been excluded from the three and nine months ended September 30, 2020 pro forma information presented below and included in the three and nine months ended September 30, 2019 pro forma information presented below. Merger-related costs from the FMBT acquisition of $756,000 and $1.78 million, respectively, have been excluded from the three and nine months ended September 30, 2019 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 (Loss)	Revenue	Net Income (Loss)
2020				
Actual Three Shores results included in statement of income since acquisition date	$ 7,486	$ (129)	$ 7,486	$ (129)
Supplemental consolidated pro forma as if Three Shores had been acquired January 1, 2019	152,257	47,827	418,950	112,103
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 Three Shores had been acquired on January 1, 2019 and FMBT had been acquired January 1, 2018	163,430	53,118	473,556	153,675

Note 4 – 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, 2020				
U.S. Government agencies	$ 10,616	$ 146	$ —	$ 10,762
State and political subdivisions	163,180	6,200	28	169,352
Residential mortgage-backed securities, Agency	125,011	5,149	—	130,160
Commercial mortgage-backed, Agency	99,566	4,104	124	103,546
Total	$ 398,373	$ 15,599	$ 152	$ 413,820
As of December 31, 2019				
State and political subdivisions	$ 45,479	$ 1,574	$ 9	$ 47,044
Residential mortgage-backed securities, Agency	153,967	2,014	694	155,287
Commercial mortgage-backed, Agency	84,087	1,627	141	85,573
Total	$ 283,533	$ 5,215	$ 844	$ 287,904

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, 2020				
U.S. Treasuries	$ 123,534	$ 5,000	$ —	$ 128,534
U.S. Government agencies	51,312	491	58	51,745
State and political subdivisions	239,190	19,999	13	259,176
Residential mortgage-backed securities, Agency	1,038,637	31,772	276	1,070,133
Residential mortgage-backed securities, Non-agency	218,097	11,574	—	229,671
Commercial mortgage-backed, Agency	386,340	8,254	77	394,517
Corporate bonds	97,758	1,537	25	99,270
Asset-backed securities	458,741	509	1,848	457,402
Total	$ 2,613,609	$ 79,136	$ 2,297	$ 2,690,448
As of December 31, 2019				
U.S. Treasuries	$ 152,990	$ 1,628	$ —	$ 154,618
U.S. Government agencies	2,848	188	1	3,035
State and political subdivisions	214,677	11,813	—	226,490
Residential mortgage-backed securities, Agency	1,030,948	12,022	726	1,042,244
Residential mortgage-backed securities, Non-agency	250,550	6,231	—	256,781
Commercial mortgage-backed, Agency	266,770	2,261	128	268,903
Commercial mortgage-backed, Non-agency	15,395	918	263	16,050
Corporate bonds	202,131	1,178	218	203,091
Asset-backed securities	104,298	743	1,672	103,369
Total	$ 2,240,607	$ 36,982	$ 3,008	$ 2,274,581

Securities with a carrying value of $903 million and $918 million were pledged, primarily to secure public deposits, at September 30, 2020 and December 31, 2019, 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, 2020						
State and political subdivisions	$ 4,972	$ 28	$ —	$ —	$ 4,972	$ 28
Residential mortgage-backed securities, Agency	124	—	—	—	124	—
Commercial mortgage-backed, Agency	3,462	124	—	—	3,462	124
Total unrealized loss position	$ 8,558	$ 152	$ —	$ —	$ 8,558	$ 152
As of December 31, 2019						
State and political subdivisions	$ 10,117	$ 9	$ —	$ —	$ 10,117	$ 9
Residential mortgage-backed securities, Agency	16,049	64	48,237	630	64,286	694
Commercial mortgage-backed, Agency	21,841	87	1,685	54	23,526	141
Total unrealized loss position	$ 48,007	$ 160	$ 49,922	$ 684	$ 97,929	$ 844

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, 2020						
U.S. Government agencies	$ 7,442	$ 58	$ —	$ —	$ 7,442	$ 58
State and political subdivisions	6,182	13	—	—	6,182	13
Residential mortgage-backed securities, Agency	111,540	274	749	2	112,289	276
Commercial mortgage-backed, Agency	29,604	77	—	—	29,604	77
Corporate bonds	4,653	25	—	—	4,653	25
Asset-backed securities	110,018	266	58,305	1,582	168,323	1,848
Total unrealized loss position	$ 269,439	$ 713	$ 59,054	$ 1,584	$ 328,493	$ 2,297
As of December 31, 2019						
U.S. Government agencies	$ 404	$ 1	$ —	$ —	$ 404	$ 1
Residential mortgage-backed securities, Agency	228,611	576	18,294	150	246,905	726
Commercial mortgage-backed, Agency	—	—	33,517	128	33,517	128
Commercial mortgage-backed, Non-agency	—	—	4,864	263	4,864	263
Corporate bonds	19,742	216	998	2	20,740	218
Asset-backed securities	32,294	625	38,990	1,047	71,284	1,672
Total unrealized loss position	$ 281,051	$ 1,418	$ 96,663	$ 1,590	$ 377,714	$ 3,008

At September 30, 2020, there were 57 debt securities available-for-sale and four debt securities held-to-maturity that were in an unrealized loss position. United does not intend to sell nor does it believe 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, 2020 were primarily attributable to changes in interest rates.

No impairment charges were recognized during the three and nine months ended September 30, 2019. At adoption of CECL on January 1, 2020 and at September 30, 2020, calculated credit losses on held-to-maturity debt securities were not material due to the high credit quality of the portfolio, which included securities issued or guaranteed by U.S. Government agencies and high credit quality municipal securities. As a result, no ACL was recorded on the held-to-maturity portfolio at September 30, 2020. In addition, at September 30, 2020, there was no ACL related to the available-for-sale portfolio. See Note 1 for additional details on the adoption of CECL as it relates to the securities portfolio.

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, 2020 and 2019 *(in thousands)*.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Proceeds from sales	$ 39,365	$ —	$ 40,365	$ 225,883
Gross gains on sales	$ 746	$ —	$ 746	$ 1,776
Gross losses on sales	—	—	—	(1,894)
Net gains (losses) on sales of securities	$ 746	$ —	$ 746	$ (118)
Income tax expense (benefit) attributable to sales	$ 191	$ —	$ 191	$ (30)

The amortized cost and fair value of debt securities available-for-sale and held-to-maturity at September 30, 2020, by contractual maturity, are presented in the following table *(in thousands)*. Expected maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasuries:				
1 to 5 years	$ 123,534	$ 128,534	$ —	$ —
	123,534	128,534	—	—
U.S. Government agencies:				
1 to 5 years	277	281	—	—
5 to 10 years	26,263	26,561	—	—
More than 10 years	24,772	24,903	10,616	10,762
	51,312	51,745	10,616	10,762
State and political subdivisions:				
Within 1 year	20,029	20,368	200	206
1 to 5 years	39,638	42,296	13,509	14,722
5 to 10 years	51,119	55,609	9,557	10,942
More than 10 years	128,404	140,903	139,914	143,482
	239,190	259,176	163,180	169,352
Corporate bonds:				
Within 1 year	37,498	37,759	—	—
1 to 5 years	36,373	37,316	—	—
5 to 10 years	20,111	20,380	—	—
More than 10 years	3,776	3,815	—	—
	97,758	99,270	—	—
Debt securities not due at a single maturity date:				
Asset-backed securities	458,741	457,402	—	—
Residential mortgage-backed securities	1,256,734	1,299,804	125,011	130,160
Commercial mortgage-backed securities	386,340	394,517	99,566	103,546
Total	$ 2,613,609	$ 2,690,448	$ 398,373	$ 413,820

Note 5 – 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, 2020	December 31, 2019
Owner occupied commercial real estate	$ 2,008,674	$ 1,720,227
Income producing commercial real estate	2,493,625	2,007,950
Commercial & industrial [(1)]	3,104,868	1,220,657
Commercial construction	981,371	976,215
Equipment financing	823,022	744,544
Total commercial	9,411,560	6,669,593
Residential mortgage	1,269,548	1,117,616
Home equity lines of credit	706,877	660,675
Residential construction	263,266	236,437
Consumer	147,659	128,232
Total loans	11,798,910	8,812,553
Less allowance for credit losses - loans	(134,256)	(62,089)
Loans, net	$ 11,664,654	$ 8,750,464

[(1)] Commercial and industrial loans as of September 30, 2020 included $1.32 billion of PPP loans.

At September 30, 2020 and December 31, 2019, loans totaling $4.05 billion and $4.06 billion, respectively, were pledged as collateral to secure contingent funding sources. At December 31, 2019, the carrying value and outstanding balance of PCI loans were $58.6 million and $83.1 million, respectively.

During the third quarter and first nine months of 2020, United sold $13.5 million and $31.5 million, respectively, of United States Small Business Administration / United States Department of Agriculture (“SBA/USDA”) guaranteed loans and $950,000 and $24.9 million, respectively, of equipment financing receivables. During the third quarter and first nine months of 2019, United sold $21.0 million and $55.2 million, respectively, of SBA/USDA guaranteed loans. The gains and losses on these loan sales were included in noninterest income on the consolidated statements of income.

At September 30, 2020 and December 31, 2019, equipment financing assets included leases of $36.6 million and $37.4 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, 2020	December 31, 2019
Minimum future lease payments receivable	$ 38,769	$ 39,709
Estimated residual value of leased equipment	3,361	3,631
Initial direct costs	678	842
Security deposits	(782)	(989)
Purchase accounting premium	149	273
Unearned income	(5,531)	(6,088)
Net investment in leases	$ 36,644	$ 37,378

Minimum future lease payments expected to be received from equipment financing lease contracts as of September 30, 2020 were as follows *(in thousands)*:

Year	
Remainder of 2020	$ 3,986
2021	14,203
2022	10,461
2023	6,495
2024	2,760
Thereafter	864
Total	$ 38,769

The following table presents changes in the balance of the accretable yield for PCI loans for the periods indicated *(in thousands)*:

	September 30, 2019	
	Three Months Ended	Nine Months Ended
Balance at beginning of period	$ 26,308	$ 26,868
Additions due to acquisitions	—	1,300
Accretion	(4,950)	(14,037)
Reclassification from nonaccretable difference	1,159	5,627
Changes in expected cash flows that do not affect nonaccretable difference	329	3,088
Balance at end of period	$ 22,846	$ 22,846

<u>Nonaccrual and Past Due Loans</u>

The following table presents the aging of the amortized cost basis in loans by aging category and accrual status as of September 30, 2020 *(in thousands)*. Short-term deferrals related to the COVID-19 crisis are not reported as past due during the deferral period.

	Accruing					
		Loans Past Due				
	Current Loans	30 - 59 Days	60 - 89 Days	> 90 Days	Nonaccrual Loans	Total Loans
Owner occupied commercial real estate	$ 1,996,903	$ 585	$ 111	$ —	$ 11,075	$ 2,008,674
Income producing commercial real estate	2,479,614	996	785	—	12,230	2,493,625
Commercial & industrial	3,099,387	1,882	65	—	3,534	3,104,868
Commercial construction	979,169	339	—	—	1,863	981,371
Equipment financing	817,583	1,416	886	—	3,137	823,022
Total commercial	9,372,656	5,218	1,847	—	31,839	9,411,560
Residential mortgage	1,252,937	2,481	266	—	13,864	1,269,548
Home equity lines of credit	702,457	1,532	246	—	2,642	706,877
Residential construction	262,002	712	73	—	479	263,266
Consumer	147,177	202	20	—	260	147,659
Total loans	$ 11,737,229	$ 10,145	$ 2,452	$ —	$ 49,084	$ 11,798,910

The following table presents the aging of recorded investment in loans, including accruing and nonaccrual loans, as of December 31, 2019 *(in thousands).*

	Loans Past Due - Accruing and Nonaccrual						
	30 - 59 Days	60 - 89 Days	> 90 Days [1]	Total	Current Loans	PCI Loans	Total
Owner occupied commercial real estate	$ 2,913	$ 2,007	$ 6,079	$ 10,999	$ 1,700,682	$ 8,546	$ 1,720,227
Income producing commercial real estate	562	706	401	1,669	1,979,053	27,228	2,007,950
Commercial & industrial	2,140	491	2,119	4,750	1,215,581	326	1,220,657
Commercial construction	1,867	557	96	2,520	966,833	6,862	976,215
Equipment financing	2,065	923	3,045	6,033	734,526	3,985	744,544
Total commercial	9,547	4,684	11,740	25,971	6,596,675	46,947	6,669,593
Residential mortgage	5,655	2,212	2,171	10,038	1,097,999	9,579	1,117,616
Home equity lines of credit	1,697	421	1,385	3,503	655,762	1,410	660,675
Residential construction	325	125	402	852	235,211	374	236,437
Consumer	668	181	27	876	127,020	336	128,232
Total loans	$ 17,892	$ 7,623	$ 15,725	$ 41,240	$ 8,712,667	$ 58,646	$ 8,812,553

[1] Excluding PCI loans, substantially all loans more than 90 days past due were on nonaccrual status at December 31, 2019.

The following table presents nonaccrual loans by loan class for the periods indicated *(in thousands)*.

	CECL			Incurred Loss
	September 30, 2020			December 31, 2019
	Nonaccrual loans with no allowance	Nonaccrual loans with an allowance	Total Nonaccrual Loans	Nonaccrual Loans
Owner occupied commercial real estate	$ 8,335	$ 2,740	$ 11,075	$ 10,544
Income producing commercial real estate	7,181	5,049	12,230	1,996
Commercial & industrial	1,213	2,321	3,534	2,545
Commercial construction	1,428	435	1,863	2,277
Equipment financing	111	3,026	3,137	3,141
Total commercial	18,268	13,571	31,839	20,503
Residential mortgage	1,964	11,900	13,864	10,567
Home equity lines of credit	1,066	1,576	2,642	3,173
Residential construction	181	298	479	939
Consumer	219	41	260	159
Total	$ 21,698	$ 27,386	$ 49,084	$ 35,341

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 $570,000 and $338,000 for the three months ended September 30, 2020 and 2019, respectively, and $1.70 million and $965,000 for the nine months ended September 30, 2020 and 2019, respectively.

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:

Pass. Loans in this category are considered to have a low probability of default and do not meet the criteria of the risk categories below.

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 are on nonaccrual status, become past due 90 days, or are in bankruptcy are classified as “fail” and all other loans are classified as “pass”. For purposes of the table below, loans in these categories that are classified as “fail” are reported as substandard and all other loans are reported as pass.

Based on the most recent analysis performed, the amortized cost of loans by risk category by vintage year as of the date indicated is as follows *(in thousands)*.

	As of September 30, 2020								
	Term Loans by Origination Year							Revolvers converted to term loans	
	2020	2019	2018	2017	2016	Prior	Revolvers		Total
Owner occupied commercial real estate:									
Pass	$ 536,362	$ 407,134	$ 258,280	$ 218,505	$ 213,644	$ 228,141	$ 54,615	$ 11,174	$ 1,927,855
Watch	4,552	4,916	1,019	3,987	11,021	3,719	620	59	29,893
Substandard	5,790	8,091	8,669	13,647	2,652	8,756	2,049	1,272	50,926
Total owner occupied commercial real estate	546,704	420,141	267,968	236,139	227,317	240,616	57,284	12,505	2,008,674
Income producing commercial real estate:									
Pass	630,081	509,098	480,546	280,614	229,065	205,567	32,717	9,243	2,376,931
Watch	22,380	2,986	5,670	1,459	23,550	10,806	—	1,749	68,600
Substandard	8,781	8,117	7,775	5,529	15,232	2,562	—	98	48,094
Total income producing commercial real estate	661,242	520,201	493,991	287,602	267,847	218,935	32,717	11,090	2,493,625
Commercial & industrial									
Pass	1,658,045	342,311	285,481	130,740	103,886	55,855	466,479	5,834	3,048,631
Watch	1,068	1,949	1,183	522	697	31	10,461	100	16,011
Substandard	7,743	3,782	6,155	3,302	1,190	1,442	15,769	843	40,226
Total commercial & industrial	1,666,856	348,042	292,819	134,564	105,773	57,328	492,709	6,777	3,104,868
Commercial construction									
Pass	245,348	236,060	244,892	103,853	73,063	13,586	20,576	7,310	944,688
Watch	1,479	585	13,940	11,789	13	83	—	—	27,889
Substandard	3,428	601	374	346	2,754	272	—	1,019	8,794
Total commercial construction	250,255	237,246	259,206	115,988	75,830	13,941	20,576	8,329	981,371
Equipment financing:									
Pass	311,697	298,146	146,957	48,264	13,336	950	—	—	819,350
Substandard	116	1,168	1,797	413	146	32	—	—	3,672
Total equipment financing	311,813	299,314	148,754	48,677	13,482	982	—	—	823,022
Residential mortgage:									
Pass	325,928	229,881	150,863	140,749	138,321	258,641	19	7,264	1,251,666
Substandard	1,810	1,852	3,383	1,261	772	8,485	—	319	17,882
Total residential mortgage	327,738	231,733	154,246	142,010	139,093	267,126	19	7,583	1,269,548
Home equity lines of credit									
Pass	—	—	—	—	—	—	684,273	18,743	703,016
Substandard	—	—	—	—	—	—	338	3,523	3,861
Total home equity lines of credit	—	—	—	—	—	—	684,611	22,266	706,877
Residential construction									
Pass	157,893	75,907	5,167	5,026	3,851	14,663	—	70	262,577
Substandard	—	85	55	37	141	371	—	—	689
Total residential construction	157,893	75,992	5,222	5,063	3,992	15,034	—	70	263,266
Consumer									
Pass	43,495	31,411	17,547	6,074	4,517	2,193	41,840	68	147,145
Watch	—	—	—	—	—	—	87	—	87
Substandard	2	84	36	110	86	105	—	4	427
Total consumer	43,497	31,495	17,583	6,184	4,603	2,298	41,927	72	147,659
Total loans									
Pass	3,908,849	2,129,948	1,589,733	933,825	779,683	779,596	1,300,519	59,706	11,481,859
Watch	29,479	10,436	21,812	17,757	35,281	14,639	11,168	1,908	142,480
Substandard	27,670	23,780	28,244	24,645	22,973	22,025	18,156	7,078	174,571
Total loans	$ 3,965,998	$ 2,164,164	$ 1,639,789	$ 976,227	$ 837,937	$ 816,260	$ 1,329,843	$ 68,692	$ 11,798,910

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

	As of December 31, 2019				
	Pass	**Watch**	**Substandard**	**Doubtful / Loss**	**Total**
Owner occupied commercial real estate	$ 1,638,398	$ 24,563	$ 48,720	$ —	$ 1,711,681
Income producing commercial real estate	1,914,524	40,676	25,522	—	1,980,722
Commercial & industrial	1,156,366	16,385	47,580	—	1,220,331
Commercial construction	960,251	2,298	6,804	—	969,353
Equipment financing	737,418	—	3,141	—	740,559
Total commercial	6,406,957	83,922	131,767	—	6,622,646
Residential mortgage	1,093,902	—	14,135	—	1,108,037
Home equity lines of credit	654,619	—	4,646	—	659,265
Residential construction	234,791	—	1,272	—	236,063
Consumer	127,507	8	381	—	127,896
Total loans, excluding PCI loans	8,517,776	83,930	152,201	—	8,753,907
Owner occupied commercial real estate	3,238	2,797	2,511	—	8,546
Income producing commercial real estate	19,648	6,305	1,275	—	27,228
Commercial & industrial	104	81	141	—	326
Commercial construction	3,628	590	2,644	—	6,862
Equipment financing	3,952	—	33	—	3,985
Total commercial	30,570	9,773	6,604	—	46,947
Residential mortgage	8,112	—	1,467	—	9,579
Home equity lines of credit	1,350	—	60	—	1,410
Residential construction	348	—	26	—	374
Consumer	303	—	33	—	336
Total PCI loans	40,683	9,773	8,190	—	58,646
Total loan portfolio	$ 8,558,459	$ 93,703	$ 160,391	$ —	$ 8,812,553

Troubled Debt Restructurings and Other Modifications

As of September 30, 2020 and December 31, 2019, United had TDRs totaling $54.5 million and $54.2 million, respectively. United allocated $927,000 and $2.51 million of ACL for TDRs as of September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020, there were commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs totaling $14,000. As of December 31, 2019, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

As of September 30, 2020, United had remaining short-term deferrals related to the COVID-19 crisis of approximately $365 million, which generally represented payment deferrals for up to 90 days. To the extent that these deferrals qualified under either the CARES Act or interagency guidance, they were not considered new TDRs.

Loans modified under the terms of a TDR during the three and nine months ended September 30, 2020 and 2019 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 or otherwise in default of modified terms) during the periods presented and were initially restructured within one year prior to default *(dollars in thousands)*.

	New TDRs						
		Post-Modification Amortized Cost by Type of Modification				TDRs Modified Within the Previous Twelve Months That Have Subsequently Defaulted	
	Number of Contracts	Rate Reduction	Structure	Other	Total	Number of Contracts	Amortized Cost
Three Months Ended September 30, 2020							
Owner occupied commercial real estate	4	$ —	$ 375	$ —	$ 375	—	$ —
Income producing commercial real estate	2	—	—	1,617	1,617	—	—
Commercial & industrial	2	—	193	—	193	—	—
Commercial construction	6	—	577	70	647	—	—
Equipment financing	7	—	247	—	247	9	290
Total commercial	21	—	1,392	1,687	3,079	9	290
Residential mortgage	25	—	3,200	—	3,200	—	—
Home equity lines of credit	4	—	164	—	164	—	—
Residential construction	3	—	123	—	123	—	—
Consumer	3	—	11	—	11	—	—
Total loans	56	$ —	$ 4,890	$ 1,687	$ 6,577	9	$ 290
Nine Months Ended September 30, 2020							
Owner occupied commercial real estate	7	$ —	$ 375	$ 1,536	$ 1,911	—	$ —
Income producing commercial real estate	5	—	67	1,782	1,849	1	5,998
Commercial & industrial	3	—	193	15	208	2	633
Commercial construction	7	—	832	70	902	—	—
Equipment financing	143	—	4,152	—	4,152	15	600
Total commercial	165	—	5,619	3,403	9,022	18	7,231
Residential mortgage	36	—	4,122	—	4,122	—	—
Home equity lines of credit	4	—	164	—	164	—	—
Residential construction	3	—	123	—	123	—	—
Consumer	6	—	11	18	29	1	3
Total loans	214	$ —	$ 10,039	$ 3,421	$ 13,460	19	$ 7,234
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	—	—
Total commercial	2	—	93	—	93	—	—
Residential mortgage	2	—	609	—	609	—	—
Home equity lines of credit	—	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—	—
Consumer direct	3	—	—	21	21	—	—
Indirect auto	4	—	—	101	101	—	—
Total loans	11	$ —	$ 702	$ 122	$ 824	—	$ —
Nine Months Ended September 30, 2019							
Owner occupied commercial real estate	2	$ —	$ 610	$ —	$ 610	—	$ —
Income producing commercial real estate	1	—	169	—	169	—	—
Commercial & industrial	1	—	—	7	7	—	—
Commercial construction	—	—	—	—	—	—	—
Equipment financing	3	—	113	—	113	—	—
Total commercial	7	—	892	7	899	—	—
Residential mortgage	11	—	1,784	—	1,784	1	135
Home equity lines of credit	1	—	50	—	50	—	—
Residential construction	1	—	—	21	21	1	13
Consumer direct	3	—	—	21	21	—	—
Indirect auto	15	—	—	262	262	—	—
Total loans	38	$ —	$ 2,726	$ 311	$ 3,037	2	$ 148

Allowance for Credit Losses

Since the adoption of ASC 326, the ACL for loans represents management's estimate of life of loan credit losses in the portfolio as of the end of the period. The ACL related to unfunded commitments is included in other liabilities in the consolidated balance sheet.

The following table presents the balance and activity in the ACL by portfolio segment for the periods indicated *(in thousands)*.

	Three Months Ended September 30,										
	CECL						Incurred Loss				
	2020						2019				
	Beginning Balance	Initial ACL - PCD loans [1]	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$ 14,592	$ 1,779	$ —	$ 725	$ 2,278	$ 19,374	$ 11,545	$ —	$ 39	$ (165)	$ 11,419
Income producing commercial real estate	21,699	1,208	(3,033)	1,248	13,916	35,038	11,020	(472)	41	473	11,062
Commercial & industrial	8,589	7,680	(303)	408	5,150	21,524	5,308	(898)	207	773	5,390
Commercial construction	14,514	74	(487)	658	92	14,851	10,318	—	247	(158)	10,407
Equipment financing	20,305	—	(2,418)	425	(3,136)	15,176	6,935	(1,376)	202	1,485	7,246
Residential mortgage	12,826	195	(13)	48	4,506	17,562	8,290	(264)	106	82	8,214
Home equity lines of credit	8,687	209	(44)	169	(300)	8,721	4,794	(287)	204	(28)	4,683
Residential construction	1,997	—	(26)	26	(229)	1,768	2,365	(13)	18	181	2,551
Consumer	460	7	(432)	511	(304)	242	855	(645)	226	441	877
Indirect auto	—	—	—	—	—	—	774	(125)	67	(51)	665
Total allowance for loan losses	103,669	11,152	(6,756)	4,218	21,973	134,256	62,204	(4,080)	1,357	3,033	62,514
Allowance for unfunded commitments	12,100	—	—	—	(180)	11,920	3,391	—	—	67	3,458
Total allowance for credit losses	$ 115,769	$ 11,152	$ (6,756)	$ 4,218	$ 21,793	$ 146,176	$ 65,595	$ (4,080)	$ 1,357	$ 3,100	$ 65,972

[1] Represents the initial ACL related to PCD loans acquired in the Three Shores transaction.

	Nine Months Ended September 30,												
	CECL								Incurred Loss				
	2020								2019				
	Dec. 31, 2019 Balance	Adoption of CECL	Jan. 1, 2020 Balance	Initial ACL - PCD loans [1]	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$ 11,404	$ (1,616)	$ 9,788	$ 1,779	$ (6)	$ 2,225	$ 5,588	$ 19,374	$ 12,207	$ (5)	$ 166	$ (949)	$ 11,419
Income producing commercial real estate	12,306	(30)	12,276	1,208	(8,033)	1,430	28,157	35,038	11,073	(977)	127	839	11,062
Commercial & industrial	5,266	4,012	9,278	7,680	(8,118)	1,075	11,609	21,524	4,802	(3,833)	645	3,776	5,390
Commercial construction	9,668	(2,583)	7,085	74	(726)	916	7,502	14,851	10,337	(70)	804	(664)	10,407
Equipment financing	7,384	5,871	13,255	—	(6,366)	1,201	7,086	15,176	5,452	(3,810)	466	5,138	7,246
Residential mortgage	8,081	1,569	9,650	195	(347)	379	7,685	17,562	8,295	(433)	388	(36)	8,214
Home equity lines of credit	4,575	1,919	6,494	209	(162)	468	1,712	8,721	4,752	(653)	466	118	4,683
Residential construction	2,504	(1,771)	733	—	(80)	97	1,018	1,768	2,433	(263)	91	290	2,551
Consumer	901	(491)	410	7	(1,782)	1,028	579	242	853	(1,721)	672	1,073	877
Indirect auto	—	—	—	—	—	—	—	—	999	(502)	151	17	665
Total allowance for credit losses - loans	62,089	6,880	68,969	11,152	(25,620)	8,819	70,936	134,256	61,203	(12,267)	3,976	9,602	62,514
Allowance for unfunded commitments	3,458	1,871	5,329	—	—	—	6,591	11,920	3,410	—	—	48	3,458
Total allowance for credit losses	$ 65,547	$ 8,751	$ 74,298	$ 11,152	$ (25,620)	$ 8,819	$ 77,527	$ 146,176	$ 64,613	$ (12,267)	$ 3,976	$ 9,650	$ 65,972

[1] Represents the initial ACL related to PCD loans acquired in the Three Shores transaction.

As of January 1, 2020 and September 30, 2020, United used a one-year reasonable and supportable forecast period. Expected credit losses were estimated using a regression model based on historical data from peer banks which incorporates a third party vendor's economic forecast to predict the change in credit losses. These results were then combined with a starting value that was based on United's recent default experience. At September 30, 2020, the forecast indicated a challenging economic environment due to high levels of unemployment, but also indicated mild improvement in the short term. The increase in the ACL compared to January 1, 2020 was primarily attributable to the worsening trends in the forecast at September 30, 2020 compared to the beginning of 2020, with the primary economic forecast driver being the change in unemployment claims due to policy decisions made in response to the COVID-19 pandemic. The forecasted economic outlook at September 30, 2020 improved compared to the forecast at June 30, 2020 due to actual economic performance in the interim time period, which contributed to a lower calculated ACL on certain portfolios, most notably equipment financing loans. United adjusted the economic forecast by eliminating the initial spike in unemployment to account for the impact of government stimulus programs, which mitigated some of the negative impact on forecasted losses. In addition, United used a model overlay for the economic forecast for residential mortgage loans and income producing commercial real estate to moderate losses in those portfolios. The overlay at September 30, 2020 was eased compared to the one used at June 30, 2020 which, combined with loan growth, led to a higher calculated ACL on residential mortgage loans and all other commercial loan categories, as well as a higher coverage ratio on many of these portfolios.

For periods beyond the reasonable and supportable forecast period of one year, United reverted to historical credit loss information on a straight line basis over two years. For all collateral types excluding residential mortgage, United reverted to through-the-cycle average default rates using peer data from 2000 to 2017. For loans secured by residential mortgages, the peer data was adjusted for changes in lending practices designed to prevent the magnitude of losses observed during the mortgage crisis.

PPP loans were considered low risk assets due to the related 100% guarantee by the SBA and were therefore excluded from the calculation.

Disaggregation of Incurred Loss Impairment Methodology

The following tables represent the recorded investment in loans by portfolio segment and the balance of the allowance assigned to each segment based on the method of evaluating the loans for impairment as of December 31, 2019 *(in thousands)*.

	Loans Outstanding				Allowance for Credit Losses			
	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	$ 19,233	$ 1,692,448	$ 8,546	$ 1,720,227	$ 816	$ 10,483	$ 105	$ 11,404
Income producing commercial real estate	18,134	1,962,588	27,228	2,007,950	770	11,507	29	12,306
Commercial & industrial	1,449	1,218,882	326	1,220,657	21	5,193	52	5,266
Commercial construction	3,675	965,678	6,862	976,215	55	9,613	—	9,668
Equipment financing	1,027	739,532	3,985	744,544	—	7,240	144	7,384
Residential mortgage	15,991	1,092,046	9,579	1,117,616	782	7,296	3	8,081
Home equity lines of credit	992	658,273	1,410	660,675	16	4,541	18	4,575
Residential construction	1,256	234,807	374	236,437	47	2,456	1	2,504
Consumer	214	127,682	336	128,232	5	885	11	901
Total	$ 61,971	$ 8,691,936	$ 58,646	$ 8,812,553	2,512	59,214	363	62,089
Allowance for unfunded commitments					—	3,458	—	3,458
Total allowance for credit losses					$ 2,512	$ 62,672	$ 363	$ 65,547

The following table presents additional detail on loans individually evaluated for impairment under Incurred Loss by class as of December 31, 2019 *(in thousands)*.

	December 31, 2019		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Owner occupied commercial real estate	$ 9,527	$ 8,118	$ —
Income producing commercial real estate	5,159	4,956	—
Commercial & industrial	1,144	890	—
Commercial construction	2,458	2,140	—
Equipment financing	1,027	1,027	—
Total commercial	19,315	17,131	—
Residential mortgage	7,362	6,436	—
Home equity lines of credit	1,116	861	—
Residential construction	731	626	—
Consumer	66	53	—
Total with no related allowance recorded	28,590	25,107	—
With an allowance recorded:			
Owner occupied commercial real estate	11,136	11,115	816
Income producing commercial real estate	13,591	13,178	770
Commercial & industrial	559	559	21
Commercial construction	1,535	1,535	55
Equipment financing	—	—	—
Total commercial	26,821	26,387	1,662
Residential mortgage	9,624	9,555	782
Home equity lines of credit	146	131	16
Residential construction	643	630	47
Consumer	161	161	5
Total with an allowance recorded	37,395	36,864	2,512
Total	$ 65,985	$ 61,971	$ 2,512

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

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	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	$ 18,302	$ 846	$ 882
Income producing commercial real estate	10,906	144	153	12,941	523	529
Commercial & industrial	2,133	48	54	1,921	74	89
Commercial construction	3,316	38	39	3,029	113	114
Equipment financing	66	3	3	29	3	3
Total commercial	35,180	521	539	36,222	1,559	1,617
Residential mortgage	16,669	195	203	16,134	553	561
Home equity lines of credit	301	4	2	288	11	7
Residential construction	1,298	22	25	1,352	70	72
Consumer	204	4	4	197	11	11
Indirect auto	1,069	14	14	1,121	42	42
Total	$ 54,721	$ 760	$ 787	$ 55,314	$ 2,246	$ 2,310

Note 6 – 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.

United has master netting agreements with the derivatives dealers with which it does business, but has elected to reflect gross assets and liabilities on the consolidated balance sheets.

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)*:

	September 30, 2020		December 31, 2019	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Derivatives designated as hedging instruments:				
Fair value hedge of brokered time deposits	$ —	$ —	$ —	$ 880
Cash flow hedge of subordinated debt	2,735	—	—	—
Total	2,735	—	—	880
Derivatives not designated as hedging instruments:				
Customer derivative positions	87,978	1	27,277	446
Dealer offsets to customer derivative positions	1	30,260	394	6,425
Risk participations	13	15	—	12
Mortgage banking - loan commitment	12,381	—	1,970	—
Mortgage banking - forward sales commitment	280	776	98	86
Bifurcated embedded derivatives	—	1,938	5,268	—
Dealer offsets to bifurcated embedded derivatives	—	529	—	7,667
Total	100,653	33,519	35,007	14,636
Total derivatives	$ 103,388	$ 33,519	$ 35,007	$ 15,516
Total gross derivative instruments	$ 103,388	$ 33,519	$ 35,007	$ 15,516
Less: Amounts subject to master netting agreements	(295)	(295)	(401)	(401)
Less: Cash collateral received/pledged	(2,466)	(31,676)	—	(14,933)
Net amount	$ 100,627	$ 1,548	$ 34,606	$ 182

Hedging Derivatives

Cash Flow Hedges of Interest Rate Risk

United enters into cash flow hedges to mitigate exposure to the variability of future cash flows or other forecasted transactions. During the second quarter of 2020, United entered into three cash flow hedges using interest rate caps and swaps with an aggregate notional amount of $120 million to hedge the variability of cash flows due to changes in interest rates on certain of its variable-rate subordinated debt and trust preferred securities. United considers these derivatives to be highly effective at achieving offsetting changes in cash flows attributable to changes in interest rates. Therefore, changes in the fair value of these derivative instruments are recognized in other comprehensive income. Gains and losses related to changes in fair value are reclassified into earnings in the periods the hedged forecasted transactions occur. Losses representing amortization of the premium recorded on cash flow hedges, which is a component excluded from the assessment of effectiveness, are recognized in earnings on a straight-line basis in the same caption as the hedged item over the term of the hedge. Over the next twelve months United expects to reclassify $581,000 of losses from accumulated other comprehensive income into earnings related to these agreements.

At December 31, 2019, United had no active cash flow hedges. 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 three and nine months ended September 30, 2019. See Note 13 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 derivatives to manage its exposure to changes in fair value on these instruments attributable to 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.

At September 30, 2020 and December 31, 2019, United had two and four, respectively, interest rate swaps with an aggregate notional amount of $20.0 million and $37.9 million, respectively, that were designated as fair value hedges of fixed-rate brokered time deposits. The swaps involved the receipt of fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements.

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 events (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.

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

	Interest expense			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total amounts presented in the consolidated statements of income	$ 13,319	$ 21,277	$ 45,561	$ 63,531
Gains (losses) on fair value hedging relationships:				
Interest rate contracts:				
Amounts related to interest settlements on derivatives	24	(97)	51	(300)
Recognized on derivatives	(114)	71	1,068	671
Recognized on hedged items	(5)	(55)	(996)	(668)
Net income (expense) recognized on fair value hedges	(95)	(81)	123	(297)
Gains (losses) on active cash flow hedging relationships [(1)]:				
Interest rate contracts:				
Realized gains (losses) reclassified from AOCI into net income [(2)]	$ (130)	$ —	$ (197)	$ —
Net income (expense) recognized on cash flow hedges	$ (130)	$ —	$ (197)	$ —

(1) Excludes amortization of losses related to de-designated cash flow hedges. See Note 13 for further detail.
(2) Includes $119,000 and $211,000 of premium amortization expense excluded from the assessment of hedge effectiveness for the three and nine months ended September 30, 2020, respectively.

The table below presents the carrying amount of hedged fixed-rate brokered time deposits and cumulative fair value hedging adjustments included in the carrying amount of the hedged liability for the periods presented *(in thousands)*.

	September 30, 2020		December 31, 2019	
Balance Sheet Location	Carrying amount of Assets (Liabilities)	Hedge Accounting Basis Adjustment	Carrying amount of Assets (Liabilities)	Hedge Accounting Basis Adjustment
Deposits	$ (20,324)	$ (351)	$ (35,880)	$ 645

Derivatives Not Designated as Hedging Instruments

Customer derivative positions include swaps, caps, and collars between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back program. In addition, United occasionally enters into credit risk participation agreements with counterparty banks to accept or transfer 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.

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 gains and other related fee income in the consolidated statements of income.

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 Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives: Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Customer derivatives, dealer offsets and risk participations	Other noninterest income	$ 2,258	$ 648	$ 4,846	$ 2,371
Bifurcated embedded derivatives and dealer offsets	Other noninterest income	65	—	(158)	144
De-designated hedges	Other noninterest income	—	—	—	(193)
Mortgage banking derivatives	Mortgage loan revenue	(2,554)	(49)	(2,454)	(987)
		$ (231)	$ 599	$ 2,234	$ 1,335

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.

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 derivative 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 7 – Goodwill and Other Intangible Assets

Goodwill represents the premium paid for acquired companies above the net fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. Goodwill is not amortized, but is assessed for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment, referred to as a triggering event. Upon the occurrence of a triggering event, accounting guidance allows for an assessment of qualitative factors to determine whether it is more likely than not, or a greater than 50% likelihood, that the fair value of the entity is less than its carrying amount, including goodwill. When it is more likely than not that impairment has occurred, management is required to perform a quantitative analysis and, if necessary, adjust the carrying amount of goodwill by recording a goodwill impairment loss.

Since the latter part of the first quarter of 2020, as a result of market concerns about the potential impact of COVID-19, United's stock price declined such that it traded below book value for much of the first nine months of 2020. United generally performs its annual goodwill impairment assessment during the fourth quarter of each year, using data as of the end of the third quarter; however, as a result of this triggering event, management has qualitatively assessed and concluded that there was not a greater than 50% likelihood that United's fair value was less than its carrying amount as of September 30, 2020, given the anticipated short duration of the change in macroeconomic conditions and excess of value as of the latest annual assessment performed as of September 30, 2019. Management will continue to monitor and assess the impact of the pandemic on the Company's value as part of the annual goodwill assessment in the fourth quarter.

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

	September 30, 2020	December 31, 2019
Core deposit intangible	$ 36,162	$ 32,802
Less: accumulated amortization	(21,106)	(17,980)
Net core deposit intangible	15,056	14,822
Goodwill	369,018	327,425
Total goodwill and other intangible assets, net	$ 384,074	$ 342,247

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,		
2020	**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	$ 633,015	$ (305,590)	$ 327,425
Acquisition of Three Shores	41,593	—	41,593	41,593	—	41,593
Balance, end of period	$ 674,608	$ (305,590)	$ 369,018	$ 674,608	$ (305,590)	$ 369,018
2019						
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

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

Year	
Remainder of 2020	$ 1,042
2021	3,622
2022	2,915
2023	2,321
2024	1,834
Thereafter	3,322
Total	$ 15,056

Note 8 - Long-term Debt

Long-term debt consisted of the following *(in thousands)*:

	September 30, 2020	December 31, 2019	Issue Date	Stated Maturity Date	Earliest Call Date	Interest Rate
Obligations of the Bank and its Subsidiaries:						
2026 subordinated debentures	$ 15,000	$ —	2016	2026	2021	5.875% through August 2021, 3-month LIBOR plus 4.70% thereafter
	$ 15,000	$ —				
Obligations of the Holding Company:						
2022 senior debentures	$ 50,000	$ 50,000	2015	2022	2020	5.000% through August 13, 2020, 3-month LIBOR plus 3.814% thereafter
2027 senior debentures	35,000	35,000	2015	2027	2025	5.500% through August 13, 2025, 3-month LIBOR plus 3.71% thereafter
2030 senior debentures	100,000	—	2020	2030	2025	5.00% through June 15, 2025, 3-month SOFR plus 4.87% thereafter
Total senior debentures	185,000	85,000				
2028 subordinated debentures	100,000	100,000	2018	2028	2023	4.500% through January 30, 2023, 3-month LIBOR plus 2.12% thereafter
2025 subordinated debentures	11,250	11,250	2015	2025	2020	6.250%
Total subordinated debentures	111,250	111,250				
Southern Bancorp Capital Trust I	4,382	4,382	2004	2034	2009	Prime plus 1.00%
Tidelands Statutory Trust I	8,248	8,248	2006	2036	2011	3-month LIBOR plus 1.38%
Four Oaks Statutory Trust I	12,372	12,372	2006	2036	2011	3-month LIBOR plus 1.35%
Total trust preferred securities	25,002	25,002				
Less discount	(9,549)	(8,588)				
Total long-term debt	$ 326,703	$ 212,664				

Interest is currently paid at least semiannually for all senior and subordinated debentures and trust preferred securities.

__Senior Debentures__

During the second quarter of 2020, United issued the 2030 senior debentures. The 2030 senior debentures are redeemable, in whole or in part, on any interest payment date on or after June 15, 2025 at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest, and will mature on June 15, 2030 if not redeemed prior to that date.

The 2022 senior debentures are redeemable, in whole or in part, on or after August 14, 2020 at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest, and will mature on February 14, 2022 if not redeemed prior to that date.

The 2027 senior debentures are redeemable, in whole or in part, on or after August 14, 2025 at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest, and will mature on February 14, 2027 if not redeemed prior to that date.

__Subordinated Debentures__

The Bank assumed, as part of the Three Shores acquisition, $15.0 million aggregate principal amount of subordinated debentures (the "2026 subordinated debentures"). The 2026 subordinated debentures are redeemable by the issuer, in whole or in part, on or after September 1, 2021 at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued but unpaid interest, and will mature on September 1, 2026.

The 2025 subordinated debentures are due on November 30, 2025, but United may prepay the notes at any time after November 30, 2020, subject to compliance with applicable laws.

The subordinated debentures qualify as Tier 2 regulatory capital.

Trust Preferred Securities

Beginning in the third quarter of 2020, trust preferred securities qualify as Tier 2 capital for United under risk based capital guidelines, subject to certain limitations. Prior to that date, trust preferred securities qualified as Tier 1 capital. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption as provided in the indentures governing such securities.

Note 9 - 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 tax, sales tax, and insurance, which are recognized as incurred in the consolidated statement of income. Many of United's operating leases contain renewal options, which are included in the measurement of the right-of-use asset and lease liability only to the extent they are reasonably certain to be exercised. United also subleases and leases certain real estate properties to third parties under operating leases. The following table presents the balances of United's right-of-use asset and operating lease liability for the periods indicated *(in thousands)*.

	Balance Sheet Location	September 30, 2020	December 31, 2019
Right-of-use asset	Other assets	$ 32,180	$ 19,894
Operating lease liability	Other liabilities	33,968	22,039

During the nine months ended September 30, 2020, United obtained building and office space right-of-use assets resulting in an increase in its operating lease liability of $16.3 million. Leases assumed as part of the Three Shores transaction accounted for $15.1 million of the increase.

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, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating lease cost	Occupancy expense	$ 1,947	$ 1,272	$ 4,500	$ 3,783
Variable lease cost	Occupancy expense	264	112	493	336
Short-term lease cost	Occupancy expense	27	52	80	92
Total lease cost		$ 2,238	$ 1,436	$ 5,073	$ 4,211
Sublease income and rental income from owned properties under operating leases	Other noninterest income	$ 263	$ 261	$ 792	$ 886

As of September 30, 2020, the weighted average remaining lease term and weighted average discount rate of operating leases was 5.78 years and 1.84%, respectively. Absent a readily determinable interest rate in the lease agreement, the discount rate applied to each individual lease obligation was United's incremental borrowing rate for secured borrowings.

As of September 30, 2020, future minimum lease payments under operating leases were as follows *(in thousands)*:

Year		
Remainder of 2020	$	1,365
2021		8,057
2022		7,493
2023		6,793
2024		3,295
Thereafter		8,746
Total		35,749
Less discount		(1,781)
Present value of lease liability	$	33,968

Note 10 – 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.

Fair Value Hierarchy

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 derivatives to manage 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 ("CVAs") as necessary to appropriately reflect 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 and guarantees.

Management has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy. However, the CVAs associated with these derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. Generally, management's assessment of the significance of the CVAs has indicated that they are not a significant input to the overall valuation of the derivatives. In cases where management's assessment indicates that the CVA is a significant input, the related derivative is disclosed as a Level 3 value. During the second quarter of 2020, certain derivative assets were transferred from Level 2 to Level 3 of the fair value hierarchy due to a change in the assessment of significance of the CVA.

Other derivatives classified as Level 3 include structured derivatives for which broker quotes, used as a key valuation input, were not observable. Risk participation agreements are classified as Level 3 instruments due to the incorporation of significant Level 3 inputs used to evaluate the probability of funding and the likelihood of customer default. Interest rate lock commitments, which relate to mortgage loan commitments, are categorized as Level 3 instruments as the fair value of these instruments is based on unobservable inputs for commitments that United does not expect to fund.

Servicing Rights for Residential and SBA/USDA Loans

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

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, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities available-for-sale:				
U.S. Treasuries	$ 128,534	$ —	$ —	$ 128,534
U.S. Government agencies	—	51,745	—	51,745
State and political subdivisions	—	259,176	—	259,176
Residential mortgage-backed securities	—	1,299,804	—	1,299,804
Commercial mortgage-backed securities	—	394,517	—	394,517
Corporate bonds	—	97,520	1,750	99,270
Asset-backed securities	—	457,402	—	457,402
Equity securities with readily available fair values	573	830	—	1,403
Mortgage loans held for sale	—	128,587	—	128,587
Deferred compensation plan assets	9,001	—	—	9,001
Servicing rights for SBA/USDA loans	—	—	6,761	6,761
Residential mortgage servicing rights	—	—	14,367	14,367
Derivative financial instruments	—	90,590	12,798	103,388
Total assets	$ 138,108	$ 2,780,171	$ 35,676	$ 2,953,955
Liabilities:				
Deferred compensation plan liability	$ 9,007	$ —	$ —	$ 9,007
Derivative financial instruments	—	31,037	2,482	33,519
Total liabilities	$ 9,007	$ 31,037	$ 2,482	$ 42,526

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities available-for-sale				
U.S. Treasuries	$ 154,618	$ —	$ —	$ 154,618
U.S. Agencies	—	3,035	—	3,035
State and political subdivisions	—	226,490	—	226,490
Residential mortgage-backed securities	—	1,299,025	—	1,299,025
Commercial mortgage-backed securities	—	284,953	—	284,953
Corporate bonds	—	202,093	998	203,091
Asset-backed securities	—	103,369	—	103,369
Equity securities with readily available fair values	1,973	—	—	1,973
Mortgage loans held for sale	—	58,484	—	58,484
Deferred compensation plan assets	8,133	—	—	8,133
Servicing rights for SBA/USDA loans	—	—	6,794	6,794
Residential mortgage servicing rights	—	—	13,565	13,565
Derivative financial instruments	—	27,769	7,238	35,007
Total assets	$ 164,724	$ 2,205,218	$ 28,595	$ 2,398,537
Liabilities:				
Deferred compensation plan liability	$ 8,132	$ —	$ —	$ 8,132
Derivative financial instruments	—	6,957	8,559	15,516
Total liabilities	$ 8,132	$ 6,957	$ 8,559	$ 23,648

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)*.

	2020					2019				
	Derivative Assets	Derivative Liabilities	Servicing rights for SBA/USDA loans	Residential mortgage servicing rights	Debt Securities Available-for-Sale	Derivative Assets	Derivative Liabilities	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	$ 12,107	$ 2,569	$ 6,034	$ 12,492	$ 1,000	$ 7,744	$ 9,012	$ 7,380	$ 10,679	$ 995
Additions	99	—	296	3,055	750	—	—	486	1,789	—
Sales and settlements	—	—	(100)	(723)	—	—	—	(286)	(416)	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	3
Amounts included in earnings - fair value adjustments	592	(87)	531	(457)	—	(1,501)	(2,299)	(334)	(963)	—
Balance at end of period	$ 12,798	$ 2,482	$ 6,761	$ 14,367	$ 1,750	$ 6,243	$ 6,713	$ 7,246	$ 11,089	$ 998
Nine Months Ended September 30,										
Balance at beginning of period	$ 7,238	$ 8,559	$ 6,794	$ 13,565	$ 998	$ 11,841	$ 15,732	$ 7,510	$ 11,877	$ 995
Additions	106	—	694	8,387	1,750	—	—	1,266	3,880	—
Transfers into Level 3	583	—	—	—	—	—	—	—	—	—
Sales and settlements	—	—	(441)	(1,898)	(1,000)	(1,135)	(2,330)	(837)	(719)	—
Other comprehensive income	—	—	—	—	2	—	—	—	—	3
Amounts included in earnings - fair value adjustments	4,871	(6,077)	(286)	(5,687)	—	(4,463)	(6,689)	(693)	(3,949)	—
Balance at end of period	$ 12,798	$ 2,482	$ 6,761	$ 14,367	$ 1,750	$ 6,243	$ 6,713	$ 7,246	$ 11,089	$ 998

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

			Weighted Average	
Level 3 Assets and Liabilities	Valuation Technique	Unobservable Inputs	September 30, 2020	December 31, 2019
Servicing rights for SBA/USDA loans	Discounted cash flow	Discount rate	7.6 %	12.3 %
		Prepayment rate	18.2 %	16.5 %
Residential mortgage servicing rights	Discounted cash flow	Discount rate	10.0 %	10.0 %
		Prepayment rate	18.7 %	14.1 %
Corporate bonds	Indicative bid provided by a broker	Multiple factors, including but not limited to, current operations, financial condition, cash flows, and similar financing transactions executed in the market	N/A	N/A
Derivative assets - customer derivative positions	Internal model	Probability of default rate	53.7 %	N/A
		Loss given default rate	100 %	N/A
Derivative assets - mortgage	Internal model	Pull through rate	83.2 %	83.6 %
Derivative assets and liabilities - other	Dealer priced	Dealer priced	N/A	N/A
Derivative assets & liabilities - risk participations	Internal model	Probable exposure rate	1.05 %	0.36 %
		Probability of default rate	1.88 %	1.80 %

Fair Value Option

United records mortgage loans held for sale at fair value under the fair value option. Interest income on these loans is calculated based on the note rate of the loan and is recorded in interest revenue. The following tables present the fair value and outstanding principal balance of these loans, as well as the gain or loss recognized resulting from the change in fair value for the periods indicated *(in thousands)*.

	Mortgage Loans Held for Sale	
	September 30, 2020	December 31, 2019
Outstanding principal balance	$ 121,687	$ 56,613
Fair value	128,587	58,484

	Amount of Gain (Loss) Recognized on Mortgage Loans Held for Sale			
Location	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Mortgage loan gains and other related fees	$ 1,758	$ (2)	$ 5,029	$ 873

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, 2020 and December 31, 2019, 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, 2020				
Loans	$ —	$ —	$ 16,350	$ 16,350
December 31, 2019				
Loans	$ —	$ —	$ 20,977	$ 20,977

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 loans that are collateral dependent are generally written down to 80% of appraised value, which considers the estimated costs to sell. Specific reserves that are established based on appraised value of collateral are considered nonrecurring fair value adjustments as well. 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, 2020					
Assets:					
Securities held-to-maturity	$ 398,373	$ —	$ 413,820	$ —	$ 413,820
Loans and leases, net	11,664,654	—	—	11,651,643	11,651,643
Liabilities:					
Deposits	14,603,376	—	14,604,902	—	14,604,902
Long-term debt	326,703	—	—	332,869	332,869
December 31, 2019					
Assets:					
Securities held-to-maturity	$ 283,533	$ —	$ 287,904	$ —	$ 287,904
Loans and leases, net	8,750,464	—	—	8,714,592	8,714,592
Liabilities:					
Deposits	10,897,244	—	10,897,465	—	10,897,465
Long-term debt	212,664	—	—	217,665	217,665

Note 11 – Common and Preferred Stock

In November of 2019, United's Board of Directors authorized an expansion of the existing common stock repurchase plan to authorize the repurchase of its common stock up to $50 million. 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, 2020. Under the program, shares may be repurchased in the open market or in privately negotiated transactions, from time to time, subject to market conditions. No shares were repurchased during the three months ended September 30, 2020. During the three months ended September 30, 2019, 195,443 shares were repurchased under the program. During the nine months ended September 30, 2020 and 2019, 826,482 and 500,495 shares, respectively, were repurchased. As of September 30, 2020, United had remaining authorization to repurchase up to $29.2 million of outstanding common stock under the program.

During 2020, United issued $100 million, or 4,000 shares, of Series I perpetual non-cumulative preferred stock ("Preferred Stock") with a dividend rate of 6.875% per annum for net proceeds of $96.4 million and corresponding depositary shares each representing a 1/1,000th interest in one share of Preferred Stock. If declared, dividends are payable quarterly in arrears. The Preferred Stock has no stated maturity and redemption is solely at the option of United in whole, but not in part, upon the occurrence of a regulatory capital treatment event, as defined. In addition, the Preferred Stock may be redeemed on or after September 15, 2025 at a cash redemption price equal to $25,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends. As of September 30, 2020, the Preferred Stock had a carrying amount of $96.4 million.

Note 12 – Stock-Based Compensation

United has an equity compensation plan that allows for grants of various share-based compensation. 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) with an exercisable period not to exceed ten years. Certain options and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the plan document). As of September 30, 2020, 921,000 additional awards could be granted under the plan.

The following table shows stock option activity for the first nine months of September 30, 2020.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2019	1,500	$ 27.95		
Expired	(1,500)	27.95		
Outstanding at September 30, 2020	—	—	0.00	$ —
Exercisable at September 30, 2020	—	—	0.00	—

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, 2020 and 2019. United recognized no compensation expense related to stock options during the nine months ended September 30, 2020 and 2019.

The table below presents restricted stock unit activity for the first nine months of September 30, 2020.

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, 2019	808,424	$ 27.94		
Granted	426,107	18.99		
Vested	(249,936)	26.50		$ 5,379
Cancelled	(28,691)	26.08		
Outstanding at September 30, 2020	955,904	24.11	3.4	16,183

Compensation expense for restricted stock units and performance stock units without market conditions is based on the market value of United’s common stock on the date of grant. Compensation expense for performance stock units with market conditions is based on the grant date per share fair market value, which was estimated using the Monte Carlo Simulation valuation model. United recognizes the impact of forfeitures as they occur. The value of restricted stock unit and performance stock unit awards is amortized into expense over the service period. For the nine months ended September 30, 2020 and 2019, expense of $5.57 million and $7.40 million, respectively, was recognized related to restricted stock unit and performance 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, 2020. In addition, for the nine months ended September 30, 2020 and 2019, $367,000 and $283,000, 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 $1.52 million and $1.96 million was included in the determination of income tax expense for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, there was $16.1 million of unrecognized expense related to non-vested restricted stock unit and performance stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.7 years. As of September 30, 2020, there was no unrecognized expense related to non-vested stock options granted under the plan.

Note 13 – 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)*. Amounts shown in parentheses reduce earnings.

Details about Accumulated Other Comprehensive Income Components	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Affected Line Item in the Statement Where Net Income is Presented
Realized gains (losses) on available-for-sale securities:					
	$ 746	$ —	$ 746	$ (118)	Securities gains (losses), net
	(191)	—	(191)	30	Income tax (expense) benefit
	$ 555	$ —	$ 555	$ (88)	Net of tax
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity:					
	$ (544)	$ (105)	$ (723)	$ (282)	Investment securities interest revenue
	130	25	173	67	Income tax benefit
	$ (414)	$ (80)	$ (550)	$ (215)	Net of tax
Reclassifications related to derivative financial instruments accounted for as cash flow hedges:					
Interest rate contracts	$ (130)	$ —	$ (197)	$ —	Long-term debt interest expense
Amortization of losses on de-designated positions	—	—	—	(102)	Deposit interest expense
Amortization of losses on de-designated positions	—	—	—	(235)	Other expense
	(130)	—	(197)	(337)	Total before tax
	33	—	50	86	Income tax benefit
	$ (97)	$ —	$ (147)	$ (251)	Net of tax
Reclassifications related to defined benefit pension plan activity:					
Prior service cost	$ (133)	$ (158)	$ (398)	$ (476)	Salaries and employee benefits expense
Actuarial losses	(82)	(16)	(245)	(45)	Other expense
Termination of defined benefit pension plan	—	(1,558)	—	(1,558)	Merger-related and other charges
	(215)	(1,732)	(643)	(2,079)	Total before tax
	55	443	164	531	Income tax benefit
	$ (160)	$ (1,289)	$ (479)	$ (1,548)	Net of tax
Total reclassifications for the period	$ (116)	$ (1,369)	$ (621)	$ (2,102)	Net of tax

Note 14 – 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,	
	2020	2019	2020	2019
Net income	$ 47,607	$ 48,362	$ 104,587	$ 136,709
Dividends on preferred stock	(1,814)	—	(1,814)	—
Dividends and undistributed earnings allocated to unvested shares	(356)	(351)	(779)	(982)
Net income available to common shareholders	$ 45,437	$ 48,011	$ 101,994	$ 135,727
Weighted average shares outstanding:				
Basic	87,129	79,663	81,815	79,714
Effect of dilutive securities				
Stock options	—	1	—	1
Restricted stock units	76	3	61	3
Diluted	87,205	79,667	81,876	79,718
Net income per common share:				
Basic	$ 0.52	$ 0.60	$ 1.25	$ 1.70
Diluted	$ 0.52	$ 0.60	$ 1.25	$ 1.70

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.

Note 15 – Regulatory Matters

As of September 30, 2020, United and the Bank were categorized as well-capitalized under the regulatory framework for prompt corrective action in effect at such time. To be categorized as well-capitalized at September 30, 2020, United and the Bank must have exceeded the well-capitalized guideline ratios in effect at such time, as set forth in the table below, and have met certain other requirements. Management believes that United and the Bank exceeded all well-capitalized requirements at September 30, 2020, and there have been no conditions or events since quarter-end that would change the status of well-capitalized.

Pursuant to the CARES Act, United has adopted relief provided by federal banking regulatory agencies for the delay of the adverse capital impact of CECL at adoption and during the subsequent two-year period after adoption. This optional two-year delay is followed by an optional three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. Under the transition provision, the amount of aggregate capital benefit is phased out by 25% each year with the full impact of adoption completely recognized by the beginning of the sixth year after adoption.

Regulatory capital ratios at September 30, 2020 and December 31, 2019, along with the minimum amounts required for capital adequacy purposes and to be well-capitalized under prompt corrective action provisions in effect at such times are presented below for United and the Bank *(dollars in thousands)*:

			United Community Banks, Inc. (Consolidated)		United Community Bank	
	Minimum [(1)]	Well Capitalized	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Risk-based ratios:						
Common equity tier 1 capital	4.5 %	6.5 %	12.31 %	12.97 %	13.20 %	14.87 %
Tier 1 capital	6.0	8.0	13.12	13.21	13.20	14.87
Total capital	8.0	10.0	15.27	15.01	14.21	15.54
Leverage ratio	4.0	5.0	9.38	10.34	9.42	11.63
Common equity tier 1 capital			$ 1,459,152	$ 1,275,148	$ 1,559,356	$ 1,458,720
Tier 1 capital			1,555,574	1,299,398	1,559,356	1,458,720
Total capital			1,810,503	1,476,302	1,678,689	1,524,267
Risk-weighted assets			11,857,146	9,834,051	11,815,993	9,810,477
Average total assets for the leverage ratio			16,583,232	12,568,563	16,554,227	12,545,254

(1) As of September 30, 2020 and December 31, 2019 the additional capital conservation buffer in effect was 2.50%

Note 16 – 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, 2020	December 31, 2019
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 2,993,692	$ 2,126,275
Letters of credit	32,702	22,533

United holds minor investments in certain limited partnerships for Community Reinvestment Act purposes. As of September 30, 2020, United had committed to fund an additional $9.81 million related to future capital calls that are not 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 17 - Subsequent Events

On November 5, 2020, United's Board of Directors approved a regular quarterly cash dividend of $0.18 per common share and a preferred stock dividend of $429.6875 per preferred share (equivalent to $0.4296875 per depositary share, or 1/1000 interest per share). The common stock dividend is payable January 5, 2021, to shareholders of record on December 15, 2020. The preferred stock dividend is payable December 15, 2020, to shareholders of record on November 30, 2020.

In addition, the Board of Directors authorized an increase in the Company's share repurchase program to $50 million of its outstanding common shares and extended the expiration of the authorization to December 31, 2021.

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, 2020 and December 31, 2019 and our results of operations for the three and nine months ended September 30, 2020 and September 30, 2019. 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. Unless the context otherwise requires, the terms "we," "our," "us" or "United" refer to United Community Banks, Inc. and its direct and indirect subsidiaries, including United Community Bank, which we sometimes refer to as "the Bank," "our bank subsidiary" or "our bank." References to the "Holding Company" refer to United Community Banks, Inc. on an unconsolidated basis. 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, "Cautionary Note Regarding Forward-Looking Statements" and the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 10-K"), as supplemented by those incorporated by reference in Part II, Item 1A of this Quarterly Report on Form 10-Q, and the other reports we have filed with the SEC after we filed the 2019 10-K.

Overview

We offer a wide array of commercial and consumer banking services and investment advisory services through a 163-banking office network throughout Florida, Georgia, South Carolina, North Carolina and Tennessee. We have grown organically as well as through strategic acquisitions. On July 1, 2020, we acquired Three Shores Bancorporation, Inc. ("Three Shores") including its wholly-owned banking subsidiary, Seaside National Bank & Trust ("Seaside"), headquartered in Orlando, Florida. Seaside was a premier commercial lender with a strong wealth management platform and operated a 14-branch network located in key Florida metropolitan markets. We acquired \$2.13 billion of assets and assumed \$1.99 billion of liabilities in the acquisition.

Recent Developments

During the first nine months of 2020, global financial markets experienced significant volatility resulting from the spread of a novel coronavirus known as COVID-19. In March of 2020, the World Health Organization declared COVID-19 a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has materially restricted the level of economic activity in our markets. In response to the pandemic, the governments of the states in which we have branches and of most other states have taken preventative or protective actions, such as imposing restrictions on travel and business operations, advising or requiring individuals to limit or forego time outside of their homes, and ordering temporary closures of businesses that have been deemed to be non-essential. These measures have dramatically increased unemployment in the United States and have negatively impacted many businesses, and thereby threatened the repayment ability of some of our borrowers.

To address the economic impact in the United States, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act includes a number of provisions that affect us, including accounting relief for troubled debt restructurings ("TDRs") and relief for the effect of current expected credit losses accounting standard ("CECL") implementation on regulatory capital. The CARES Act also establishes the Paycheck Protection Program ("PPP") through the Small Business Administration ("SBA"), which allows us to lend money to small businesses to maintain employee payrolls and pay other qualified expenses during the crisis with guarantees from the SBA. Under this program, loan amounts may be forgiven if the proceeds are used for payroll and other permitted expenses in accordance with the requirements of the PPP, and the borrower meets certain other requirements.

The Federal Reserve also took additional steps to bolster the economy by, among other things, reducing the federal funds rate and the discount-window borrowing rate to near zero.

In response to the pandemic, we have implemented protocols and processes to help protect our employees, customers and communities. These measures have included:

- Temporarily operating our branches under a drive-through model with appointment-only lobby service, leveraging our business continuity plans and capabilities that include critical operations teams being divided and dispersed to separate locations and, when possible, having employees work from home;
- Offering assistance to our customers affected by the COVID-19 pandemic, including payment deferrals, waiving certain fees, suspending property foreclosures, and participating in the CARES Act and lending programs for businesses, including the SBA PPP;
- Temporarily suspending common stock repurchases to maximize capital and liquidity resources; and
- Issuing \$100 million of non-cumulative perpetual preferred stock and \$100 million of senior debentures to ensure our capital ratios and liquidity remain strong throughout the rapidly changing economic conditions.

In connection with reviewing our financial condition in light of the pandemic, we evaluated certain assets, including goodwill and other intangibles, for potential impairment. Based upon our most recent review as of September 30, 2020, no impairments have occurred. We have also elected to delay for two years the phase-in of the capital impact from our adoption of CECL, the new accounting standard on credit losses. For more information, see *Capital Resources and Dividends*.

We have implemented various consumer and commercial loan modification programs to provide our borrowers relief from the economic impacts of COVID-19. Based on guidance in the CARES Act, COVID-19 related modifications to loans that were current as of December 31, 2019 are exempt from TDR classification under accounting principles generally accepted in the United States of America ("GAAP"). In addition, the bank regulatory agencies issued interagency guidance stating that COVID-19 related short-term modifications (i.e., payment deferrals of six months or less) granted to loans that were current as of the loan modification program implementation date are not new TDRs. For more information, see *Table 10 - COVID-19 Deferrals*.

Given the unprecedented uncertainty and rapidly evolving economic effects and social impacts of the COVID-19 pandemic, the future direct and indirect impact on our business, results of operations and financial condition are highly uncertain. Should current economic conditions persist or continue to deteriorate, we expect that this macroeconomic environment will have a continued adverse effect on our business and results of operations, which could include, but not be limited to: decreased demand for our products and services, protracted periods of lower interest rates, increased noninterest expenses, operational losses, and increased credit losses due to deterioration in the financial condition of our consumer and commercial borrowers, including declining asset and collateral values, which may continue to increase our provision for credit losses and net charge-offs.

LIBOR and Other Benchmark Rates

As previously disclosed, to facilitate an orderly transition from Interbank Offered Rates ("IBORs") and other benchmark rates to alternative reference rates ("ARRs"), we have established an enterprise-wide program to identify, assess and monitor risks associated with the expected discontinuation or unavailability of benchmarks, including the London InterBank Offered Rate ("LIBOR"). As part of this program, we continue to identify, assess and monitor risks associated with the expected discontinuation or unavailability of LIBOR and other benchmarks, and evaluate and address documentation and contractual mechanics of outstanding IBOR-based products and contracts that mature after 2021 and new and potential future ARR-based products and contracts to achieve operational readiness. This program includes active involvement of senior management and regular reports to the Enterprise Risk Committee. The program is structured to address the industry and regulatory engagement, client and financial contract changes, internal and external communications, technology and operations modifications, introduction of new products, migration of existing clients, and program strategy and governance. As the markets for ARRs continue to grow, we continue to monitor the development and usage of ARRs, including the Secured Overnight Financing Rate ("SOFR"). Additionally, any prolonged economic and market disruptions resulting from COVID-19 may have an adverse impact on the market and industry transition to ARRs, including the readiness of other market participants and third-party vendors, and our engagement with impacted clients and their operational readiness to transition to ARRs. For more information on the expected replacement of LIBOR and other benchmark rates, see *Item 1A. Risk Factors – Market Risks* of the 2019 10-K.

Financial Highlights

At September 30, 2020, we had total consolidated assets of $17.2 billion, total loans of $11.8 billion, total deposits of $14.6 billion, and shareholders' equity of $1.97 billion. We reported net income of $47.6 million, or $0.52 per diluted share, for the third quarter of 2020, compared to net income of $48.4 million, or $0.60 per diluted share, for the third quarter of 2019. For the nine months ended September 30, 2020, we reported net income of $105 million, or $1.25 per diluted share, compared to $137 million, or $1.70 per diluted share, for the first nine months of 2019. The decreases in net income and earnings per share from 2019 reflect the economic impact of the COVID-19 pandemic.

Net interest revenue increased to $128 million for the third quarter of 2020, compared to $119 million for the third quarter of 2019. The net interest margin decreased to 3.27% for the three months ended September 30, 2020 from 4.12% for the same period in 2019. For the nine months ended September 30, 2020, net interest revenue was $356 million and the net interest margin was 3.55% compared to net interest revenue of $353 million and net interest margin of 4.11% for the same period in 2019. The decreases in net interest margin were primarily due to the effect of falling interest rates on our asset sensitive balance sheet, which more than offset the positive impact of continued growth of our loan portfolio and the reduction of borrowed funds since September 30, 2019.

The provision for credit losses was $21.8 million for the third quarter of 2020, compared to $3.10 million for the third quarter of 2019. For the nine months ended September 30, 2020, the provision for credit losses was $77.5 million, compared to $9.65 million for the same period in 2019. The increase in provision expense for the third quarter and first nine months of 2020 reflected higher expected losses resulting primarily from the adoption of CECL and the macroeconomic effects of the COVID-19 pandemic on our CECL calculation, as well as the establishment of the initial allowance for credit losses ("ACL") on non-purchased credit deteriorated loans and unfunded commitments acquired from Three Shores. As a result, as of September 30, 2020, our ACL on loans was $134 million, or 1.14% of loans, compared to $62.1 million, or 0.70% of loans, at December 31, 2019. Net charge-offs for the third quarter of 2020 were $2.54 million compared to $2.72 million for the same period in 2019. At September 30, 2020 and December 31, 2019, nonperforming assets of $50.0 million and $35.8 million, respectively, were 0.29% and 0.28% of total assets, respectively.

Noninterest income of $48.7 million for the third quarter of 2020 was up $19.7 million, or 68%, from the third quarter of 2019. The increase was primarily attributable to an increase in mortgage origination activity that resulted in a $16.5 million increase in mortgage fees. We closed $569 million in mortgage loans in the third quarter of 2020 compared with $330 million a year ago. Continued demand for customer derivative products in the low interest rate environment and the addition of Three Shores' wealth management business also contributed to the increase in noninterest income for the third quarter of 2020. These increases were partially offset by decreases in service charges and fees driven mostly by a reduction in overdraft transaction volume. For the first nine months of 2020, total noninterest income was up $40.2 million compared to the same period of 2019, mostly driven by the same factors affecting the quarter.

For the third quarter and first nine months of 2020, noninterest expenses of $96.0 million and $261 million, respectively, increased $13.1 million and $20.7 million, respectively, from the same periods of 2019. Much of the increase reflects the inclusion of Three Shores' operating expenses. However, we also had increases in mortgage commissions and merit-based salary increases (awarded during the second quarter of 2020), which increased our salaries and employee benefit expense. We also made $1.50 million in charitable contributions to our newly formed United Community Bank Foundation, which elevated our advertising and public relations expense. In addition, FDIC assessments and other regulatory charges for the third quarter and nine months ended September 30, 2019, reflected a one-time $1.38 million credit, decreasing our expense for 2019.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States ("GAAP") and conform to general practices within the banking industry. Except as described below, there have been no significant changes to the Critical Accounting Policies as described in our 2019 10-K.

Allowance for Credit Losses

Since the adoption of CECL on January 1, 2020, the ACL represents management's estimate of credit losses for the remaining estimated life of financial instruments, with particular applicability on our balance sheet to loans and unfunded loan commitments. Estimating the amount of the ACL requires significant judgment and the use of estimates related to historical experience, current conditions, reasonable and supportable forecasts, and the value of collateral on collateral-dependent loans. The loan portfolio also represents the largest asset type on our consolidated balance sheet. Loan losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

There are many factors affecting the ACL; some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and is susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for credit losses could be required that could adversely affect our earnings or financial position in future periods.

Additional information on the loan portfolio and ACL can be found in the sections of Management's Discussion and Analysis titled "Asset Quality and Risk Elements" and "Nonperforming Assets." Note 1 to the consolidated financial statements includes additional information on accounting policies related to the ACL.

Non-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 “tangible common equity to tangible assets.” In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of our 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 our Board of Directors each quarter. Management uses these non-GAAP measures because it believes they provide useful supplemental information for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP measures may also provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as a comparison to financial results for prior periods. Nevertheless, non-GAAP measures have inherent limitations, are not required to be uniformly applied and are not audited. 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. In addition, because non-GAAP measures are not standardized, it may not be possible to compare our non-GAAP measures to 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

We reported net income and diluted earnings per common share of $47.6 million and $0.52, respectively, for the third quarter of 2020. This compared to net income and diluted earnings per common share of $48.4 million and $0.60, respectively, for the same period in 2019. For the nine months ended September 30, 2020, we reported net income and diluted earnings per share of $105 million and $1.25, respectively, compared to net income and diluted earnings per share of $137 million and $1.70, respectively, for the same period in 2019.

We reported net income - operating (non-GAAP) of $50.4 million and $108 million for the third quarter and first nine months of 2020, compared to $50.4 million and $142 million for the same periods in 2019. For the third quarter and first nine months of 2020, net income - operating (non-GAAP) excludes merger-related and other charges, which net of tax, totaled $2.84 million and $3.78 million, respectively. For the third quarter of 2019, net income - operating (non-GAAP) excludes merger-related, pension termination and branch closure charges, which net of tax, totaled $2.01 million. For the first nine months of 2019, net income - operating (non-GAAP) excludes executive retirement charges as well as the items mentioned in the previous sentence, which net of tax, totaled $5.72 million.

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

	2020			2019		Third Quarter 2020 - 2019 Change	For the Nine Months Ended September 30,		YTD 2020 - 2019 Change
(in thousands, except per share data)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter		2020	2019	
INCOME SUMMARY									
Interest revenue	$141,773	$123,605	$136,547	$136,419	$140,615		$ 401,925	$ 416,287	
Interest expense	13,319	14,301	17,941	19,781	21,277		45,561	63,531	
Net interest revenue	128,454	109,304	118,606	116,638	119,338	8 %	356,364	352,756	1 %
Provision for credit losses	21,793	33,543	22,191	3,500	3,100		77,527	9,650	
Noninterest income	48,682	40,238	25,814	30,183	29,031	68	114,734	74,530	54
Total revenue	155,343	115,999	122,229	143,321	145,269	7	393,571	417,636	(6)
Expenses	95,981	83,980	81,538	81,424	82,924	16	261,499	240,821	9
Income before income tax expense	59,362	32,019	40,691	61,897	62,345	(5)	132,072	176,815	(25)
Income tax expense	11,755	6,923	8,807	12,885	13,983	(16)	27,485	40,106	(31)
Net income	47,607	25,096	31,884	49,012	48,362	(2)	104,587	136,709	(23)
Merger-related and other charges	3,361	397	808	(74)	2,605		4,566	7,431	
Income tax benefit of merger-related and other charges	(519)	(87)	(182)	17	(600)		(788)	(1,712)	
Net income - operating [1]	**$ 50,449**	**$ 25,406**	**$ 32,510**	**$ 48,955**	**$ 50,367**	—	**$ 108,365**	**$ 142,428**	(24)
PERFORMANCE MEASURES									
Per common share:									
Diluted net income - GAAP	$ 0.52	$ 0.32	$ 0.40	$ 0.61	$ 0.60	(13)	$ 1.25	$ 1.70	(26)
Diluted net income - operating [1]	0.55	0.32	0.41	0.61	0.63	(13)	1.29	1.77	(27)
Cash dividends declared	0.18	0.18	0.18	0.18	0.17	6	0.54	0.50	8
Book value	21.45	21.22	20.80	20.53	20.16	6	21.45	20.16	6
Tangible book value [3]	17.09	16.95	16.52	16.28	15.90	7	17.09	15.90	7
Key performance ratios:									
Return on common equity - GAAP [2][4]	10.06 %	6.17 %	7.85 %	12.07 %	12.16 %		8.11 %	11.83 %	
Return on common equity - operating [1][2][4]	10.69	6.25	8.01	12.06	12.67		8.40	12.32	
Return on tangible common equity - operating [1][2][3][4]	13.52	8.09	10.57	15.49	16.38		10.76	15.92	
Return on assets - GAAP [4]	1.07	0.71	0.99	1.50	1.51		0.93	1.45	
Return on assets - operating [1][4]	1.14	0.72	1.01	1.50	1.58		0.97	1.51	
Dividend payout ratio - GAAP	34.62	56.25	45.00	29.51	28.33		43.20	29.41	
Dividend payout ratio - operating [1]	32.73	56.25	43.90	29.51	26.98		41.86	28.25	
Net interest margin (fully taxable equivalent) [4]	3.27	3.42	4.07	3.93	4.12		3.55	4.11	
Efficiency ratio - GAAP	54.14	55.86	56.15	54.87	55.64		55.30	56.09	
Efficiency ratio - operating [1]	52.24	55.59	55.59	54.92	53.90		54.34	54.36	
Equity to total assets	11.47	11.81	12.54	12.66	12.53		11.47	12.53	
Tangible common equity to tangible assets [3]	8.89	9.12	10.22	10.32	10.16		8.89	10.16	
ASSET QUALITY									
Nonperforming loans	$ 49,084	$ 48,021	$ 36,208	$ 35,341	$ 30,832	59	$ 49,084	$ 30,832	59
Foreclosed properties	953	477	475	476	102		953	102	
Total nonperforming assets ("NPAs")	50,037	48,498	36,683	35,817	30,934	62	50,037	30,934	62
Allowance for credit losses - loans	134,256	103,669	81,905	62,089	62,514	115	134,256	62,514	115
Net charge-offs	2,538	6,149	8,114	3,925	2,723	(7)	16,801	8,291	103
Allowance for credit losses - loans to loans	1.14 %	1.02 %	0.92 %	0.70 %	0.70 %		1.14 %	0.70 %	
Net charge-offs to average loans [4]	0.09	0.25	0.37	0.18	0.12		0.22	0.13	
NPAs to loans and foreclosed properties	0.42	0.48	0.41	0.41	0.35		0.42	0.35	
NPAs to total assets	0.29	0.32	0.28	0.28	0.24		0.29	0.24	
AVERAGE BALANCES *($ in millions)*									
Loans	$ 11,644	$ 9,773	$ 8,829	$ 8,890	$ 8,836	32	$ 10,088	$ 8,647	17
Investment securities	2,750	2,408	2,520	2,486	2,550	8	2,560	2,701	(5)
Earning assets	15,715	12,958	11,798	11,832	11,568	36	13,498	11,534	17
Total assets	17,013	14,173	12,944	12,946	12,681	34	14,718	12,600	17
Deposits	14,460	12,071	10,915	10,924	10,531	37	12,490	10,462	19
Shareholders’ equity	1,948	1,686	1,653	1,623	1,588	23	1,763	1,533	15
Common shares - basic (thousands)	87,129	78,920	79,340	79,659	79,663	9	81,815	79,714	3
Common shares - diluted (thousands)	87,205	78,924	79,446	79,669	79,667	9	81,876	79,718	3
AT PERIOD END *($ in millions)*									
Loans	$ 11,799	$ 10,133	$ 8,935	$ 8,813	$ 8,903	33	$ 11,799	$ 8,903	33
Investment securities	3,089	2,432	2,540	2,559	2,515	23	3,089	2,515	23
Total assets	17,153	15,005	13,086	12,916	12,809	34	17,153	12,809	34
Deposits	14,603	12,702	11,035	10,897	10,757	36	14,603	10,757	36
Shareholders’ equity	1,967	1,772	1,641	1,636	1,605	23	1,967	1,605	23
Common shares outstanding (thousands)	86,611	78,335	78,284	79,014	78,974	10	86,611	78,974	10

[1] Excludes merger-related and other charges that includes termination of our funded 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

	2020			2019		For the Nine Months Ended September 30,	
(in thousands, except per share data)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2020	2019
Expense reconciliation							
Expenses (GAAP)	$ 95,981	$ 83,980	$ 81,538	$ 81,424	$ 82,924	$ 261,499	$ 240,821
Merger-related and other charges	(3,361)	(397)	(808)	74	(2,605)	(4,566)	(7,431)
Expenses - operating	$ 92,620	$ 83,583	$ 80,730	$ 81,498	$ 80,319	$ 256,933	$ 233,390
Net income reconciliation							
Net income (GAAP)	$ 47,607	$ 25,096	$ 31,884	$ 49,012	$ 48,362	$ 104,587	$ 136,709
Merger-related and other charges	3,361	397	808	(74)	2,605	4,566	7,431
Income tax benefit of merger-related and other charges	(519)	(87)	(182)	17	(600)	(788)	(1,712)
Net income - operating	$ 50,449	$ 25,406	$ 32,510	$ 48,955	$ 50,367	$ 108,365	$ 142,428
Diluted income per common share reconciliation							
Diluted income per common share (GAAP)	$ 0.52	$ 0.32	$ 0.40	$ 0.61	$ 0.60	$ 1.25	$ 1.70
Merger-related and other charges, net of tax	0.03	—	0.01	—	0.03	0.04	0.07
Diluted income per common share - operating	$ 0.55	$ 0.32	$ 0.41	$ 0.61	$ 0.63	$ 1.29	$ 1.77
Book value per common share reconciliation							
Book value per common share (GAAP)	$ 21.45	$ 21.22	$ 20.80	$ 20.53	$ 20.16	$ 21.45	$ 20.16
Effect of goodwill and other intangibles	(4.36)	(4.27)	(4.28)	(4.25)	(4.26)	(4.36)	(4.26)
Tangible book value per common share	$ 17.09	$ 16.95	$ 16.52	$ 16.28	$ 15.90	$ 17.09	$ 15.90
Return on tangible common equity reconciliation							
Return on common equity (GAAP)	10.06 %	6.17 %	7.85 %	12.07 %	12.16 %	8.11 %	11.83 %
Merger-related and other charges, net of tax	0.63	0.08	0.16	(0.01)	0.51	0.29	0.49
Return on common equity - operating	10.69	6.25	8.01	12.06	12.67	8.40	12.32
Effect of goodwill and other intangibles	2.83	1.84	2.56	3.43	3.71	2.36	3.60
Return on tangible common equity - operating	13.52 %	8.09 %	10.57 %	15.49 %	16.38 %	10.76 %	15.92 %
Return on assets reconciliation							
Return on assets (GAAP)	1.07 %	0.71 %	0.99 %	1.50 %	1.51 %	0.93 %	1.45 %
Merger-related and other charges, net of tax	0.07	0.01	0.02	—	0.07	0.04	0.06
Return on assets - operating	1.14 %	0.72 %	1.01 %	1.50 %	1.58 %	0.97 %	1.51 %
Dividend payout ratio reconciliation							
Dividend payout ratio (GAAP)	34.62 %	56.25 %	45.00 %	29.51 %	28.33 %	43.20 %	29.41 %
Merger-related and other charges, net of tax	(1.89)	—	(1.10)	—	(1.35)	(1.34)	(1.16)
Dividend payout ratio - operating	32.73 %	56.25 %	43.90 %	29.51 %	26.98 %	41.86 %	28.25 %
Efficiency ratio reconciliation							
Efficiency ratio (GAAP)	54.14 %	55.86 %	56.15 %	54.87 %	55.64 %	55.30 %	56.09 %
Merger-related and other charges	(1.90)	(0.27)	(0.56)	0.05	(1.74)	(0.96)	(1.73)
Efficiency ratio - operating	52.24 %	55.59 %	55.59 %	54.92 %	53.90 %	54.34 %	54.36 %
Tangible common equity to tangible assets reconciliation							
Equity to total assets (GAAP)	11.47 %	11.81 %	12.54 %	12.66 %	12.53 %	11.47 %	12.53 %
Effect of goodwill and other intangibles	(2.02)	(2.05)	(2.32)	(2.34)	(2.37)	(2.02)	(2.37)
Effect of preferred equity	(0.56)	(0.64)	—	—	—	(0.56)	—
Tangible common equity to tangible assets	8.89 %	9.12 %	10.22 %	10.32 %	10.16 %	8.89 %	10.16 %

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 quarters of 2020 and 2019 was $128 million and $119 million, respectively. As set forth in the following tables, fully taxable equivalent net interest revenue for the third quarter of 2020 was $129 million, representing an increase of $9.37 million, or 8%, from the same period in 2019. The net interest spread and net interest margin for the third quarter of 2020 of 3.06% and 3.27%, respectively, decreased 66 basis points and 85 basis points, respectively, from the third quarter of 2019. For the first nine months of 2020 and 2019, net interest revenue was $356 million and $353 million, respectively. Fully taxable equivalent net interest revenue for the first nine months of 2020 was $359 million, an increase of $4.14 million, or 1%, from the first nine months of 2019.

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 assets and average liabilities for the three and nine months ended September 30, 2020 increased compared to the same periods of 2019. For the third quarter of 2020, the increase in average assets was primarily driven by the increase in average loans of $2.81 billion, or 32%, from the third quarter of 2019, which reflects the PPP loans originated during the second quarter of 2020, the acquisition of Seaside, and organic growth, the combination of which more than offset the impact of the sale of the indirect auto portfolio on December 31, 2019. The increase in average assets for the three months ended September 30, 2020 from the same period of 2019 was funded primarily through an increase in average interest-bearing and noninterest-bearing customer deposits, including deposits received through the acquisition of Seaside.

The decrease in the net interest margin during the three and nine months ended September 30, 2020, was primarily attributable to the impact of falling interest rates on our asset sensitive balance sheet as loan yields fell faster than we could lower deposit rates. In March of 2020, the Federal Reserve's Federal Open Market Committee ("FOMC") lowered interest rates twice for a total reduction of 150 basis points in response to the COVID-19 pandemic, which was the most aggressive action taken by the FOMC since the financial crisis in 2008. This followed three other federal funds rate reductions since second quarter 2019 of 25 basis points each on July 31, September 18 and October 30. Although the earning asset mix generally improved as growth in the loan portfolio exceeded growth in the lower-yielding investment portfolio, lower-yielding PPP loans and cash balances exerted downward pressure on the margin. The negative impact of falling interest rates and the introduction of lower-yielding PPP loans and higher cash balances was partially mitigated by a more favorable funding mix. In the third quarter and first nine months of 2020, noninterest-bearing deposits funded 33% and 32%, respectively, of our interest-earning assets compared with 30% and 29%, respectively, for the same periods of 2019. Since the first quarter of 2019, we have reduced our use of wholesale funding sources, with the majority of our balance sheet funded with customer deposits as of September 30, 2020.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended September 30,

(dollars in thousands, fully taxable equivalent (FTE))	2020 Average Balance	2020 Interest	2020 Average Rate	2019 Average Balance	2019 Interest	2019 Average Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (FTE) [(1)(2)]	$ 11,644,202	$ 126,342	4.32 %	$ 8,835,585	$ 122,526	5.50 %
Taxable securities [(3)]	2,499,649	12,663	2.03	2,379,927	16,626	2.79
Tax-exempt securities (FTE) [(1)(3)]	249,959	2,544	4.07	170,027	1,502	3.53
Federal funds sold and other interest-earning assets	1,321,445	1,132	0.34	182,935	616	1.35
Total interest-earning assets (FTE)	15,715,255	142,681	3.61	11,568,474	141,270	4.85
Noninterest-earning assets:						
Allowance for credit losses	(128,581)			(63,474)		
Cash and due from banks	135,949			116,922		
Premises and equipment	216,326			221,930		
Other assets [(3)]	1,074,529			836,951		
Total assets	$ 17,013,478			$ 12,680,803		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW and interest-bearing demand	$ 2,890,735	1,634	0.22	$ 2,123,910	3,214	0.60
Money market	3,501,781	3,017	0.34	2,277,162	5,126	0.89
Savings	864,849	47	0.02	695,297	41	0.02
Time	1,933,764	4,127	0.85	1,879,801	8,053	1.70
Brokered time deposits	96,198	173	0.72	102,078	679	2.64
Total interest-bearing deposits	9,287,327	8,998	0.39	7,078,248	17,113	0.96
Federal funds purchased and other borrowings	4,405	2	0.18	73,733	429	2.31
Federal Home Loan Bank advances	2,818	27	3.81	88,261	521	2.34
Long-term debt	327,017	4,292	5.22	243,935	3,214	5.23
Total borrowed funds	334,240	4,321	5.14	405,929	4,164	4.07
Total interest-bearing liabilities	9,621,567	13,319	0.55	7,484,177	21,277	1.13
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	5,172,999			3,453,174		
Other liabilities	270,451			155,107		
Total liabilities	15,065,017			11,092,458		
Shareholders' equity	1,948,461			1,588,345		
Total liabilities and shareholders' equity	$ 17,013,478			$ 12,680,803		
Net interest revenue (FTE)		$ 129,362			$ 119,993	
Net interest-rate spread (FTE)			3.06 %			3.72 %
Net interest margin (FTE) [(4)]			3.27 %			4.12 %

(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 $77.0 million in 2020 and unrealized gains of $35.1 million in 2019 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.

Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Nine Months Ended September 30,

	2020			2019		
(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)]	$ 10,087,630	$ 351,536	4.65 %	$ 8,646,622	$ 357,541	5.53 %
Taxable securities [(3)]	2,362,674	42,579	2.40	2,532,070	54,229	2.86
Tax-exempt securities (FTE) [(1)(3)]	197,231	6,699	4.53	168,787	4,579	3.62
Federal funds sold and other interest-earning assets	850,722	3,621	0.57	186,402	1,913	1.37
Total interest-earning assets (FTE)	13,498,257	404,435	4.00	11,533,881	418,262	4.85
Non-interest-earning assets:						
Allowance for loan losses	(96,235)			(62,664)		
Cash and due from banks	134,354			121,889		
Premises and equipment	217,551			220,872		
Other assets [(3)]	964,511			785,862		
Total assets	$ 14,718,438			$ 12,599,840		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW and interest-bearing demand	$ 2,583,911	6,240	0.32	$ 2,199,607	10,283	0.63
Money market	2,797,350	10,969	0.52	2,187,822	14,100	0.86
Savings	788,681	121	0.02	685,167	115	0.02
Time	1,860,597	17,435	1.25	1,761,374	20,338	1.54
Brokered time deposits	102,502	579	0.75	292,835	5,349	2.44
Total interest-bearing deposits	8,133,041	35,344	0.58	7,126,805	50,185	0.94
Federal funds purchased and other borrowings	1,611	3	0.25	44,898	838	2.50
Federal Home Loan Bank advances	1,001	28	3.74	142,876	2,695	2.52
Long-term debt	256,218	10,186	5.31	252,686	9,813	5.19
Total borrowed funds	258,830	10,217	5.27	440,460	13,346	4.05
Total interest-bearing liabilities	8,391,871	45,561	0.73	7,567,265	63,531	1.12
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	4,356,484			3,335,450		
Other liabilities	206,904			164,350		
Total liabilities	12,955,259			11,067,065		
Shareholders' equity	1,763,179			1,532,775		
Total liabilities and shareholders' equity	$ 14,718,438			$ 12,599,840		
Net interest revenue (FTE)		$ 358,874			$ 354,731	
Net interest-rate spread (FTE)			3.27 %			3.73 %
Net interest margin (FTE) [(4)]			3.55 %			4.11 %

(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 $65.5 million in 2020 and unrealized gains of $4.94 million in 2019 are included in other assets for purposes of this presentation.

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

The following table shows the relative effect on net interest revenue 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, 2020			Nine Months Ended September 30, 2020		
	Compared to 2019 Increase (Decrease) Due to Changes in					
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans (FTE)	$ 33,917	$ (30,101)	$ 3,816	$ 54,765	$ (60,770)	$ (6,005)
Taxable securities	801	(4,764)	(3,963)	(3,457)	(8,193)	(11,650)
Tax-exempt securities (FTE)	787	255	1,042	850	1,270	2,120
Federal funds sold and other interest-earning assets	1,281	(765)	516	3,390	(1,682)	1,708
Total interest-earning assets (FTE)	36,786	(35,375)	1,411	55,548	(69,375)	(13,827)
Interest-bearing liabilities:						
NOW and interest-bearing demand accounts	895	(2,475)	(1,580)	1,566	(5,609)	(4,043)
Money market accounts	1,964	(4,073)	(2,109)	3,289	(6,420)	(3,131)
Savings deposits	9	(3)	6	16	(10)	6
Time deposits	225	(4,151)	(3,926)	1,096	(3,999)	(2,903)
Brokered deposits	(37)	(469)	(506)	(2,312)	(2,458)	(4,770)
Total interest-bearing deposits	3,056	(11,171)	(8,115)	3,655	(18,496)	(14,841)
Federal funds purchased & other borrowings	(216)	(211)	(427)	(432)	(403)	(835)
Federal Home Loan Bank advances	(696)	202	(494)	(3,546)	879	(2,667)
Long-term debt	1,090	(12)	1,078	138	235	373
Total borrowed funds	178	(21)	157	(3,840)	711	(3,129)
Total interest-bearing liabilities	3,234	(11,192)	(7,958)	(185)	(17,785)	(17,970)
Increase in net interest revenue (FTE)	$ 33,552	$ (24,183)	$ 9,369	$ 55,733	$ (51,590)	$ 4,143

Provision for Credit Losses

Prior to January 1, 2020, the provision for credit losses was based on the then-applicable incurred loss model and represented an estimate of probable incurred losses in the loan portfolio and unfunded commitments at the end of each reporting period. Since the adoption of CECL on January 1, 2020, the provision for credit losses represents management's estimate of life of loan credit losses in the loan portfolio and unfunded loan commitments. The allowance for unfunded commitments, which is included in other liabilities in the consolidated balance sheets, represents expected losses on unfunded loan commitments that are expected to result in outstanding loan balances. Management's estimate of credit losses under CECL is determined using a complex model that relies on reasonable and supportable forecasts and historical loss information to determine the balance of the ACL and resulting provision for credit losses.

The provision for credit losses was $21.8 million and $77.5 million, respectively, for the three and nine months ended September 30, 2020, compared to $3.10 million and $9.65 million, respectively, for the same periods in 2019. The amount of provision recorded in each period was the amount required such that the total ACL reflected the appropriate balance as determined under the applicable accounting standards in effect at each balance sheet date. The increase in provision expense for the three and nine months ended September 30, 2020 compared to the same periods of 2019 was primarily a result of higher expected credit losses mostly resulting from the adoption of CECL, the initial ACL recorded on Three Shores' non-PCD loans and unfunded commitments of $9.78 million and $913,000, respectively, and the macroeconomic effects of the COVID-19 pandemic on our CECL calculation. Loan growth also contributed to the higher provision for credit losses.

For the nine months ended September 30, 2020, net loan charge-offs as an annualized percentage of average outstanding loans were 0.22% compared to 0.13% for the same period in 2019. The increase in charge-offs during the first nine months of 2020 was mostly attributable to a few large credits that had been deteriorating over the previous several quarters.

Additional discussion on credit quality and the ACL is included in the "Asset Quality and Risk Elements" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q.

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	
	2020	2019	Amount	Percent	2020	2019	Amount	Percent
Overdraft fees	$ 2,484	$ 3,800	$ (1,316)	(35)%	$ 8,000	$ 10,728	$ (2,728)	(25)%
ATM and debit card fees	3,577	3,901	(324)	(8)	9,845	10,109	(264)	(3)
Other service charges and fees	2,199	2,215	(16)	(1)	6,048	6,592	(544)	(8)
Total service charges and fees	8,260	9,916	(1,656)	(17)	23,893	27,429	(3,536)	(13)
Mortgage loan gains and related fees	25,144	8,658	16,486	190	57,113	17,750	39,363	222
Brokerage and wealth management fees	3,055	1,699	1,356	80	6,019	4,624	1,395	30
Gains on sales of other loans	1,175	1,639	(464)	(28)	3,889	4,412	(523)	(12)
Securities gains (losses), net	746	—	746		746	(118)	864	
Other noninterest income:								
Bank owned life insurance ("BOLI")	1,214	962	252	26	4,091	2,792	1,299	47
Customer derivatives	2,258	647	1,611	249	4,846	2,370	2,476	104
Other	6,830	5,510	1,320	24	14,137	15,271	(1,134)	(7)
Total other noninterest income	10,302	7,119	3,183	45	23,074	20,433	2,641	13
Total noninterest income	$ 48,682	$ 29,031	$ 19,651	68	$ 114,734	$ 74,530	$ 40,204	54

During the third quarter and first nine months of 2020, noninterest income increased $19.7 million and $40.2 million, respectively, compared to the same periods of 2019. The increase was primarily due to increases in mortgage loan gains and related fees, brokerage and wealth management fees, and customer derivative income, partially offset by a decrease in service charges and fees and gains on sales of other loans.

Service charges and fees decreased $1.66 million and $3.54 million for the three and nine months ended September 30, 2020, respectively, in comparison to the same periods of 2019, which is mostly attributable to a decrease in overdraft fees. Lower customer transaction volume due to the economic shutdown during the third quarter and first nine months of 2020, combined with government stimulus payments during the second quarter and July of 2020, increased the balances of customer deposit accounts, which in turn reduced the number of overdraft transactions.

Mortgage loan and related fees for the third quarter and first nine months of 2020 reflected an increase in fees on mortgage rate locks and mortgage closings compared to the same periods of last year. The increase was driven by both higher demand due to a historically low interest rate environment and the organic growth of our mortgage business in existing and new markets. The low rate environment was partially attributable to the 150 basis point decrease in the national federal funds rate during the first quarter of 2020 in response to the COVID-19 pandemic. For the first nine months of 2020, the increase in rate locks and closings was partially offset by negative fair value adjustments on the mortgage servicing rights asset due to the decrease in mortgage interest rates that resulted in an acceleration of prepayments.

Mortgage rate locks during the third quarter of 2020 increased 79% to $910 million compared to $508 million in the third quarter of 2019. Mortgage production in the third quarter of 2020 also increased compared to the same period of 2019. We closed 2,102 mortgage loans totaling $569 million in the third quarter of 2020 compared with 1,265 mortgage loans totaling $330 million in the third quarter of 2019. We had $327 million in home purchase mortgage originations in the third quarter of 2020, which accounted for 57% of mortgage production volume, compared to $215 million, or 65% of production volume for the same period a year ago.

Mortgage rate locks during the first nine months of 2020 increased 108% to $2.51 billion compared to $1.21 billion for the same period of 2019. During the first nine months of 2020, we closed 5,667 mortgage loans totaling $1.52 billion compared to 3,110 loans totaling $770 million for the same period of last year. We had $789 million in home purchase mortgage originations in the first nine months of 2020, which accounted for 52% of mortgage production volume. During the first nine months of 2019, we had $540 million in home purchase originations, or 70% of production volume.

As to non-mortgage loan sales, during the third quarter and first nine months of 2020, we realized net gains on the sale of other loans of $1.18 million and $3.89 million, respectively, which included the sale of the guaranteed portion of SBA loans and the sale of certain equipment financing loans. During the third quarter and first nine months of 2020, we sold $950,000 and $24.9 million, respectively, of equipment financing loans, which resulted in gains of $1.28 million for the nine months ended September 30, 2020, which includes nominal losses on third quarter sales. Our 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. During the first quarter of 2020, less-favorable pricing for these loans driven by COVID-19 related market disruption led to our decision to hold more of our production in portfolio, rather than sell to the secondary market until market conditions improved during the second and third quarters of 2020. In the third quarter and first nine months of 2020, we sold the guaranteed portion of SBA loans in the amount of $13.5 million and $31.5 million, respectively, which resulted in gains of $1.18 million and $2.61 million, respectively. In the third quarter and first nine months of 2019, we sold the guaranteed portion of SBA loans in the amount of $21.0 million and $55.2 million, respectively, which resulted in gains of $1.64 million and $4.41 million, respectively.

The increase in brokerage and wealth management fees during the third quarter and first nine months of 2020 from the same periods of 2019 was primarily a result of the addition of the Three Shores wealth management business in the third quarter of 2020.

During the third quarter and first nine months of 2020, we recognized death benefit gains of $274,000 and $1.37 million, respectively, resulting in an increase in BOLI income compared to the same periods of 2019. Income from customer derivatives during the third quarter and first nine months of 2020 increased $1.61 million and $2.48 million, respectively, compared to the same periods of 2019 due to increased demand for fixed rates during the current low rate environment. The increase in customer derivative income for the first nine months of 2020 included the negative impact of an increase to the credit valuation adjustment on customer derivative positions during the second quarter of 2020. Other noninterest income for the third quarter of 2020 included a positive fair value adjustment on the SBA servicing asset. The decrease in other noninterest income for the first nine months of 2020 compared to the same period of 2019 was primarily driven by losses on other investments and reductions in miscellaneous income.

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	
	2020	2019	Amount	Percent	2020	2019	Amount	Percent
Salaries and employee benefits	$ 59,067	$ 50,501	$ 8,566	17 %	$ 162,236	$ 146,161	$ 16,075	11 %
Communications and equipment	6,960	6,223	737	12	19,462	18,233	1,229	7
Occupancy	7,050	5,921	1,129	19	18,709	17,424	1,285	7
Advertising and public relations	1,778	1,374	404	29	5,312	4,256	1,056	25
Postage, printing and supplies	1,703	1,618	85	5	4,986	4,733	253	5
Professional fees	5,083	4,715	368	8	14,003	11,930	2,073	17
Lending and loan servicing expense	3,043	2,556	487	19	8,525	7,509	1,016	14
Outside services - electronic banking	1,888	1,934	(46)	(2)	5,516	5,101	415	8
FDIC assessments and other regulatory charges	1,346	314	1,032	329	4,388	3,571	817	23
Amortization of core deposit intangibles	1,099	1,146	(47)	(4)	3,126	3,395	(269)	(8)
Other	3,603	4,017	(414)	(10)	10,670	11,077	(407)	(4)
Total excluding merger-related and other charges	92,620	80,319	12,301	15	256,933	233,390	23,543	10
Merger-related and other charges	3,361	2,541	820		4,566	6,981	(2,415)	
Amortization of noncompete agreements	—	64	(64)		—	450	(450)	
Total noninterest expenses	$ 95,981	$ 82,924	$ 13,057	16	$ 261,499	$ 240,821	$ 20,678	9

Noninterest expenses for the third quarter and first nine months of 2020 totaled $96.0 million and $261 million, respectively, up 16% and 9%, respectively, from the same periods of 2019. Overall, the increase in noninterest expenses for these periods reflects the inclusion of Three Shores' operating expenses since acquisition on July 1, 2020. Specifically, the addition of Three Shores' employees and locations contributed to much of the increase in salaries and employee benefits and occupancy costs during the third quarter and first nine months of 2020.

Salaries and employee benefits for the third quarter and first nine months of 2020 increased 17% and 11%, respectively, from the same periods of 2019. In addition to the growth in our employee base from the acquisition of Three Shores, the increase was a result of several factors including increased mortgage commissions and incentives resulting from increased production and merit-based salary increases awarded during the second quarter of 2020. These increases in expense were offset by higher deferred loan origination costs related to increases in loan production, including recording PPP loans in the second quarter of 2020. Full time equivalent headcount totaled 2,414 at September 30, 2020, up from 2,319 at September 30, 2019.

Advertising and public relations expense for the three and nine months ended September 30, 2020 increased relative to the same periods of 2019 as a result of contributions to our newly formed private foundation, United Community Bank Foundation. In the third quarter of 2020, we contributed $500,000 to the United Community Bank Foundation, bringing year-to-date total contributions to $1.50 million. The increase in professional fees for the first nine months of 2020 was mostly attributable to increases in legal and consulting fees related to various projects in process. FDIC assessments and other regulatory charges for the third quarter and first nine months of 2020 increased from the same periods of 2019 due to the receipt of a one-time $1.38 million credit during the third quarter of 2019. Lending and loan servicing expense increased mostly due to the increase in mortgage origination volume.

Merger-related and other charges for the third quarter of 2020 consisted primarily of expenses associated with the acquisition of Three Shores including investment banker fees and severance for eliminated positions. The nine months ended September 30, 2020 also included merger-related expenses associated with the acquisition of First Madison Bank & Trust (“FMBT”), severance, and branch closure costs. 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 a pension plan, FMBT merger-related expenses, branch closure costs, executive retirement charges, and gains on the sale of surplus properties.

The reduction of amortization of noncompete agreements was a result of the expiration of certain of these agreements since the third quarter of 2019.

Balance Sheet Review

Total assets at September 30, 2020 and December 31, 2019 were $17.2 billion and $12.9 billion, respectively. The increase in assets was primarily attributable to the acquisition of Three Shores, PPP loan originations and other loan growth during the year, and increased cash balances. Total liabilities at September 30, 2020 and December 31, 2019 were $15.2 billion and $11.3 billion, respectively, primarily due to deposit growth including deposits received through the acquisition of Three Shores. In addition to the inclusion of Three Shores’ deposits as of September 30, 2020, the increase in customer deposits was also directly attributable to the increase in PPP loans, as many of the balances remained deposited in customer accounts through the end of the period. Average total assets for the third quarter of 2020 were $17.0 billion, up from $12.7 billion for the same period of 2019. Average total assets for the first nine months of 2020 were $14.7 billion, up from $12.6 billion for the same period of 2019. Average total liabilities for the third quarter of 2020 were $15.1 billion, up from $11.1 billion for the same period of 2019. Average total liabilities for the first nine months of 2020 were $13.0 billion, up from $11.1 billion for the same period of 2019.

The following table presents a summary of the loan portfolio, of which approximately 65% was secured by real estate at September 30, 2020.

Table 7 - Loans Outstanding
(in thousands)

	September 30, 2020	December 31, 2019
By Loan Type		
Owner occupied commercial real estate	$ 2,008,674	$ 1,720,227
Income producing commercial real estate	2,493,625	2,007,950
Commercial & industrial [(1)]	3,104,868	1,220,657
Commercial construction	981,371	976,215
Equipment financing	823,022	744,544
Total commercial	9,411,560	6,669,593
Residential mortgage	1,269,548	1,117,616
Home equity lines of credit	706,877	660,675
Residential construction	263,266	236,437
Consumer	147,659	128,232
Total loans	$ 11,798,910	$ 8,812,553
As a percentage of total loans:		
Owner occupied commercial real estate	17 %	20 %
Income producing commercial real estate	21	23
Commercial & industrial [(1)]	27	14
Commercial construction	8	11
Equipment financing	7	8
Total commercial	80	76
Residential mortgage	11	13
Home equity lines of credit	6	7
Residential construction	2	3
Consumer	1	1
Total	100 %	100 %

[(1)] Commercial and industrial loans as of September 30, 2020 included $1.32 billion of PPP loans.

Asset Quality and Risk Elements

We manage asset quality and control 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. Our credit administration function is responsible for monitoring asset quality and Board of Directors approved portfolio concentration limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures. Additional information on our credit administration function is included in Part I, Item 1 under the heading *Lending Activities* in our 2019 10-K.

We classify 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 we could sustain some loss if the deficiency is not corrected. Performing substandard loans, which are substandard loans that are still accruing interest, totaled $125 million at both September 30, 2020 and December 31, 2019.

We conduct reviews of classified performing and non-performing loans, TDRs, past due loans and portfolio concentrations on a regular basis to identify risk migration and potential charges to the ACL. These items are discussed in a series of meetings attended by Credit Risk Management leadership and leadership from various lending groups. 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 ACL at September 30, 2020 reflects management's assessment of the life of loan expected credit losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values changes substantially with respect to one or more loan relationships or portfolios. The allocation of the ACL is based on reasonable and supportable forecasts, historical data, subjective judgment and estimates and therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for credit losses in future periods if, in their opinion, the results of their review warrant such additions. See the *Critical Accounting Policies* section for additional information on the allowance for credit losses.

The total ACL, which includes a portion related to unfunded commitments, totaled $146 million at September 30, 2020, compared with $65.5 million at December 31, 2019. At September 30, 2020, the ACL for loans was $134 million, or 1.14% of loans, compared with $62.1 million, or 0.70% of total loans, at December 31, 2019. The adoption of CECL on January 1, 2020 added $6.88 million to the ACL for loans and $1.87 million to the reserve for unfunded commitments resulting in a total ACL of $74.3 million at the time of adoption. The increase since adoption primarily reflects the impact of the COVID-19 pandemic, $11.2 million of allowance established for Seaside PCD loans at acquisition with no impact to earnings, as well as the impact of loan growth during 2020 including the non-PCD loans received through the Seaside acquisition. The impact of loan growth on the ACL was partially mitigated by the fact that PPP loans were considered low risk assets due to the 100% guarantee by the SBA.

The following table presents a summary of the changes in the ACL for the periods indicated.

Table 8 - ACL
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
ACL - loans, beginning of period	$ 103,669	$ 62,204	$ 62,089	$ 61,203
Adoption of CECL	—	—	6,880	—
ACL - loans, adjusted beginning balance	103,669	62,204	68,969	61,203
Impact of merger - ACL - PCD loans	11,152	—	11,152	—
Charge-offs:				
Owner occupied commercial real estate	—	—	6	5
Income producing commercial real estate	3,033	472	8,033	977
Commercial & industrial	303	898	8,118	3,833
Commercial construction	487	—	726	70
Equipment financing	2,418	1,376	6,366	3,810
Residential mortgage	13	264	347	433
Home equity lines of credit	44	287	162	653
Residential construction	26	13	80	263
Consumer direct	432	645	1,782	1,721
Indirect auto	—	125	—	502
Total loans charged-off	6,756	4,080	25,620	12,267
Recoveries:				
Owner occupied commercial real estate	725	39	2,225	166
Income producing commercial real estate	1,248	41	1,430	127
Commercial & industrial	408	207	1,075	645
Commercial construction	658	247	916	804
Equipment financing	425	202	1,201	466
Residential mortgage	48	106	379	388
Home equity lines of credit	169	204	468	466
Residential construction	26	18	97	91
Consumer direct	511	226	1,028	672
Indirect auto	—	67	—	151
Total recoveries	4,218	1,357	8,819	3,976
Net charge-offs	2,538	2,723	16,801	8,291
Provision for credit losses - loans	21,973	3,033	70,936	9,602
ACL - loans, end of period	134,256	62,514	134,256	62,514
ACL - unfunded commitments, beginning of period	12,100	3,391	3,458	3,410
Adoption of CECL	—	—	1,871	—
ACL - unfunded commitments, adjusted beginning balance	12,100	3,391	5,329	3,410
Provision for credit losses - unfunded commitments	(180)	67	6,591	48
ACL - unfunded commitments, end of period	11,920	3,458	11,920	3,458
Total ACL	$ 146,176	$ 65,972	$ 146,176	$ 65,972
Total loans:				
At period-end	$11,798,910	$ 8,903,266	$11,798,910	$ 8,903,266
Average	11,644,202	8,835,585	10,087,630	8,646,622
ACL - loans, as a percentage of period-end loans	1.14 %	0.70 %	1.14 %	0.70 %
As a percentage of average loans (annualized):				
Net charge-offs	0.09	0.12	0.22	0.13
Provision for credit losses - loans	0.75	0.14	0.94	0.15

Nonperforming Assets

Nonperforming assets ("NPAs"), which include nonaccrual loans and foreclosed properties, totaled $50.0 million at September 30, 2020, compared with $35.8 million at December 31, 2019. The increase in NPAs since December 31, 2019 is primarily a result of an increase in nonaccrual loans. Specifically, there were a few large substandard credits that reached nonaccrual status during the second quarter of 2020. In addition, when we adopted CECL on January 1, 2020, we elected to disaggregate the former Purchased Credit Impaired ("PCI") pools and no longer consider the loan pool to be the unit of account. Reporting these contractually delinquent Purchased Credit Deteriorated ("PCD") loans as nonaccrual loans using the same criteria as other loans contributed $2.40 million to the increase in nonaccrual loans since December 31, 2019. The inclusion of Three Shores nonaccrual loans and foreclosed properties in the NPA balances also contributed to the increase from December 31, 2019.

Our policy is to place loans on nonaccrual status when, in the opinion of management, the full principal and interest on a loan is not likely to be collected or when the loan becomes 90 days past due. A loan may continue on accrual after 90 days if it is well collateralized and in the process of collection. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied to reduce the loan's amortized cost. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance and future payments are reasonably assured.

Generally, we do not commit to lend additional funds to customers whose loans are on nonaccrual status, although in certain isolated cases, we execute forbearance agreements whereby we agree to continue to fund construction loans to completion or other lines of credit as long as the borrower meets the conditions of the forbearance agreement. We may also fund other amounts necessary to protect collateral such as amounts to pay past due property taxes and insurance coverage.

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 table below summarizes NPAs.

Table 9 - NPAs
(in thousands)

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Owner occupied commercial real estate	11,075	10,544
Income producing commercial real estate	12,230	1,996
Commercial & industrial	3,534	2,545
Commercial construction	1,863	2,277
Equipment financing	3,137	3,141
Total commercial	31,839	20,503
Residential mortgage	13,864	10,567
Home equity lines of credit	2,642	3,173
Residential construction	479	939
Consumer	260	159
Total nonaccrual loans	49,084	35,341
Foreclosed properties/other real estate owned ("OREO")	953	476
Total NPAs	$ 50,037	$ 35,817
Nonaccrual loans as a percentage of total loans	0.42 %	0.40 %
NPAs as a percentage of total loans and OREO	0.42	0.41
NPAs as a percentage of total assets	0.29	0.28

At September 30, 2020 and December 31, 2019, we had $54.5 million and $54.2 million, respectively, in loans with terms that have been modified in TDRs. Included therein were $17.3 million and $8.25 million, respectively, of TDRs that were classified as nonaccrual and were included in nonperforming loans. The remaining TDRs with an aggregate balance of $37.2 million and $46.0

million, respectively, were performing according to their modified terms and were therefore not considered to be nonperforming assets.

As previously mentioned, the CARES Act granted temporary relief from TDR classification for certain loans restructured as a result of COVID-19. During the first and second quarters of 2020 we granted a significant number of payment deferral requests to our borrowers related to the economic disruption created by COVID-19, most of which were exempt from TDR classification in the short term. In the third quarter, most of the loans with deferral periods had resumed normal payments. The table below presents remaining COVID-19 related short-term deferrals that, to the extent they qualified for exemption, were not considered TDRs as of September 30, 2020.

Table 10 - COVID-19 Deferrals
(in thousands)

	September 30, 2020	
	COVID-19 Deferrals	**Deferrals as a % of loan category**
Owner occupied commercial real estate	$ 42,559	2 %
Income producing commercial real estate	182,438	7
Commercial & industrial	51,429	2
Commercial construction	54,153	6
Equipment financing	19,765	2
Total commercial	350,344	4
Residential mortgage	12,453	1
Home equity lines of credit	1,451	—
Residential construction	239	—
Consumer	310	—
Total COVID-19 deferrals	$ 364,797	3

Investment Securities

The composition of the investment securities portfolio reflects our 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.

At September 30, 2020 and December 31, 2019, we had debt securities held-to-maturity with a carrying amount of $398 million and $284 million, respectively, and debt securities available-for-sale totaling $2.69 billion and $2.27 billion, respectively. The increased balances at September 30, 2020 reflected securities acquired from Three Shores as well as our decision to deploy excess liquidity by purchasing securities. At September 30, 2020 and December 31, 2019, the securities portfolio represented approximately 18% and 20%, respectively, of total assets.

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 and asset-backed securities rely on the underlying pools of 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, we 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.

In accordance with CECL, our held-to-maturity securities portfolio was evaluated to assess whether an ACL was required. We measure expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At adoption on January 1, 2020 and at September 30, 2020, calculated credit losses on held-to-maturity debt securities were not material due to the high credit quality of the portfolio, which included securities issued or guaranteed by U.S. Government agencies and high credit quality municipal securities. As a result, we did not record an ACL for held-to-maturity securities at adoption or at September 30, 2020.

For available-for-sale debt securities in an unrealized loss position, if we intend to sell, or if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, the security's amortized cost basis is written down to fair value through income. Absent an intent or more than likely requirement to sell, we evaluate whether the decline in fair value has resulted from credit losses or other factors. The evaluation considers factors such as the extent to which fair value is less than amortized cost, changes to the security's rating, and adverse conditions specific to the security. If the evaluation indicates a credit loss exists, an ACL may be recorded, with such allowance limited to the amount by which fair value is below amortized cost. Any impairment unrelated to credit factors is recognized in other comprehensive income. At September 30, 2020, there was no ACL related to the available-for-sale portfolio. Losses on fixed income securities at September 30, 2020 primarily reflected the effect of changes in interest rates.

Goodwill and Other Intangibles

Goodwill represents the premium paid for acquired companies above the net fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. At September 30, 2020 and December 31, 2019, the net carrying amount of goodwill was $369 million and $327 million, respectively. Goodwill is not amortized but is assessed for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment, referred to as a triggering event. Upon the occurrence of a triggering event, accounting guidance allows for an assessment of qualitative factors to determine whether it is more likely than not, or a greater than 50% likelihood, that the fair value of the entity is less than its carrying amount, including goodwill. When it is more likely than not that impairment has occurred, management is required to perform a quantitative analysis and, if necessary, adjust the carrying amount of goodwill by recording a goodwill impairment loss.

Since the latter part of the first quarter of 2020, as a result of market concerns about the potential impact of COVID-19, United's stock price declined such that it traded below book value for much of the first nine months of 2020. United generally performs its annual goodwill impairment assessment during the fourth quarter of each year, using data as of the end of the third quarter; however as a result of this triggering event, management has qualitatively assessed and concluded that there was not a greater than 50% likelihood that United's fair value was less than its carrying amount as of September 30, 2020, given the anticipated short duration of the change in macroeconomic conditions and excess of value as of the latest annual assessment performed as of September 30, 2019. Management will continue to monitor and assess the impact of the pandemic on the Company's value as part of the annual goodwill assessment in the fourth quarter.

Core deposit intangibles, representing the value of acquired deposit relationships, are amortizing intangible assets that are required to be tested for impairment only when events or circumstances indicate that impairment may exist. There were no events or circumstances that led us to believe that any impairment existed on core deposit intangible assets.

In connection with the acquisition of Three Shores on July 1, 2020, we recorded goodwill and a core deposit intangible of $41.6 million and $3.36 million, respectively.

Deposits

Customer deposits are the primary source of funds for the continued growth of our earning assets. Our high level of service, as evidenced by our strong customer satisfaction scores, has been instrumental in attracting and retaining customer deposit accounts. In addition to organic growth, at September 30, 2020, the increase in core transaction deposits was also attributable to deposits acquired from Three Shores ($1.80 billion at the July 1, 2020 acquisition date) and PPP-related deposits. The following table sets forth the deposit composition for the periods indicated.

Table 11 - Deposits
(in thousands)

	September 30, 2020	December 31, 2019
Noninterest-bearing demand	$ 5,227,170	$ 3,477,979
NOW and interest-bearing demand	2,989,455	2,461,895
Money market and savings	4,290,940	2,937,095
Time	1,819,586	1,859,574
Total customer deposits	14,327,151	10,736,543
Brokered deposits	276,225	160,701
Total deposits	$ 14,603,376	$ 10,897,244

Borrowing Activities

At September 30, 2020 and December 31, 2019, we had long-term debt outstanding of $327 million and $213 million, respectively, which includes senior debentures, subordinated debentures, and trust preferred securities. During the second quarter of 2020, we issued $100 million of 5% fixed-to-floating rate senior debentures with a maturity date of June 15, 2030. The proceeds generated from the issuance of these debentures will be used for general business purposes. During the third quarter of 2020, we assumed $15.0 million of subordinated debt from Three Shores. See Note 8 to the consolidated financial statements for additional information regarding long-term debt.

Contractual Obligations

There have not been any material changes to our contractual obligations since December 31, 2019.

Off-Balance Sheet Arrangements

We are 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. We use the same credit underwriting procedures for making commitments, letters of credit and financial guarantees, as we use 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. We are not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 21 to the consolidated financial statements included in our 2019 10-K and Note 16 to the consolidated financial statements in this Form 10-Q 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 our 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. We limit our exposure to fluctuations in interest rates through policies established by our 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, 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. Our assumptions include floors such that market rates and discount rates cannot go below zero. 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.

Our 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. Our policy limits the projected change in net interest revenue over the first 12 months to an 8% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. The following table presents our interest sensitivity position at the dates indicated.

Table 12 - Interest Sensitivity

	Increase (Decrease) in Net Interest Revenue from Base Scenario at			
	September 30, 2020		December 31, 2019	
Change in Rates	Shock	Ramp	Shock	Ramp
100 basis point increase	3.39 %	2.43 %	2.91 %	2.22 %
100 basis point decrease	(1.81)	(1.67)	(4.86)	(3.92)

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

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

Derivative financial instruments are used to manage interest rate sensitivity. These contracts generally consist of interest rate swaps under which we pay a variable rate (or fixed rate, as the case may be) and receive 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. We have 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.

Our policy requires all non-customer derivative financial instruments be used only for asset/liability management through the hedging of specific transactions, positions or risks, 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 we 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, our primary goal is to maintain a sufficient level of liquidity in all expected economic environments. To assist in determining the adequacy of our liquidity, we perform a variety of liquidity stress tests. We maintain an unencumbered liquid asset reserve to help ensure our ability to meet our 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 entity and apart from the Bank, it must provide for its own liquidity. The Holding Company is responsible for the payment of dividends declared for its common and preferred shareholders, and interest and principal on any outstanding debt or trust preferred securities. 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 sources of its liquidity are 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, 2020, we had sufficient qualifying collateral to provide borrowing capacity for FHLB advances of $1.39 billion and Federal Reserve discount window borrowing capacity of $1.39 billion, as well as unpledged investment securities of $2.19 billion that could be used as collateral for additional borrowings. In addition to these wholesale sources, we have the ability to attract retail deposits by competing more aggressively on pricing. In the second quarter of 2020, we originated a significant amount of PPP loans, for which funding is available through the Paycheck Protection Program Lending Facility ("PPPLF") announced by the Federal Reserve in April of 2020. As of September 30, 2020 we had outstanding PPP loans of $1.32 billion and no balance outstanding under the PPPLF as we have been able to self-fund the majority of our PPP loans through growth in deposits.

As disclosed in the consolidated statement of cash flows, net cash provided by operating activities was $53.6 million for the nine months ended September 30, 2020. Net income of $105 million for the nine-month period included non-cash expense and income items consisting of the following: provision expense of $77.5 million, stock-based compensation expense of $5.94 million and net depreciation, amortization and accretion expense of $5.33 million. Uses of cash from operating activities included an increase in other assets and accrued interest receivable of $44.6 million, an increase in loans held for sale of $69.9 million, and a decrease in accrued expenses and other liabilities of $20.9 million. Net cash used in investing activities of $1.43 billion included a $1.52 billion net increase in loans, $668 million in purchases of debt securities available-for-sale and equity securities, purchases of debt securities held-to-maturity of $106 million, and $5.99 million in purchases of premises and equipment. These uses of cash were partially offset by $604 million in proceeds from maturities and calls of debt securities available-for-sale and equity securities, $45.2 million in proceeds from maturities and calls of debt securities held-to-maturity and $40.4 million in proceeds from sales of debt securities available-for-sale and equity securities. Net cash provided by financing activities of $1.90 billion consisted primarily of a net increase in deposits of $1.90 billion, net proceeds from the issuance of senior debentures of $98.6 million, and net proceeds from the issuance of preferred stock of $96.4 million. These sources of cash were partially offset by the repayment of FHLB advances, some of which were assumed in the Three Shores transaction, of $134 million, payment of cash dividends on common and preferred stock of $44.9 million, and the repurchases of our common stock of $20.8 million. In the opinion of management, our liquidity position at September 30, 2020, was sufficient to meet our expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at September 30, 2020 was $1.97 billion, an increase of $332 million from December 31, 2019 due primarily to $164 million in common stock issued to Three Shores shareholders as part of the acquisition's purchase price, the second quarter issuance of $100 million in non-cumulative perpetual preferred stock, year-to-date earnings less dividends declared and an increase in the value of available-for-sale securities, partially offset by $20.8 million in share repurchases.

Pursuant to the CARES Act, we have adopted relief provided by federal banking regulatory agencies for the delay of the adverse capital impact of CECL for the two-year period after adoption. This optional two-year delay is followed by an optional three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. Under the transition provision, the amount of aggregate capital benefit is phased out by 25% each year with the full impact of adoption completely recognized by the beginning of the sixth year after adoption.

The following table shows capital ratios, as calculated under applicable regulatory guidelines, at September 30, 2020 and December 31, 2019. As of September 30, 2020, capital levels remained characterized as "well-capitalized" under prompt corrective action provisions in effect at the time. The decrease in ratios as of September 30, 2020 was primarily attributable to the increase in assets due to the acquisition of Three Shores.

Additional information related to capital ratios, as calculated under regulatory guidelines, as of September 30, 2020 and December 31, 2019, is provided in Note 15 to the consolidated financial statements.

Table 13 – Capital Ratios
(dollars in thousands)

				United Community Banks, Inc. (Consolidated)		United Community Bank	
	Minimum	Well Capitalized	Minimum Capital Plus Capital Conservation Buffer	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Risk-based ratios:							
Common equity tier 1 capital	4.5 %	6.5 %	7.0 %	12.31 %	12.97 %	13.20 %	14.87 %
Tier 1 capital	6.0	8.0	8.5	13.12	13.21	13.20	14.87
Total capital	8.0	10.0	10.5	15.27	15.01	14.21	15.54
Leverage ratio	4.0	5.0	N/A	9.38	10.34	9.42	11.63

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 our ability to react to changes in interest rates, and by such reaction, reduce the inflationary effect on performance. We have 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 our market risk as of September 30, 2020 from that presented in our 2019 10-K. Our interest rate sensitivity position at September 30, 2020 is set forth in Table 10 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 and incorporated herein by this reference.

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 our disclosure controls and procedures (as such term is defined in Exchange Act Rule 13a-15(e)) as of September 30, 2020. Based on that evaluation, our 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.

On July 1, 2020, we completed our acquisition of Three Shores Bancorporation, Inc. ("Three Shores") as described in Note 3 to the consolidated financial statements. We are in the process of evaluating the existing controls and procedures of Three Shores and integrating Three Shores into our disclosure controls and procedures and internal control over financial reporting. In accordance with published SEC Staff guidance permitting a company to exclude an acquired business from management's assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, and similarly exclude an acquired business from the quarterly evaluation of disclosure controls and procedures to the extent that they are subsumed by internal control over financial reporting, the scope of management's assessment of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2020 includes all of our consolidated operations except for those disclosure controls and procedures of Three Shores that are subsumed by internal control over financial reporting. The Three Shores acquisition represented approximately 11% of total consolidated assets at September 30, 2020 and approximately 2% of our total consolidated revenue for the nine months ended September 30, 2020.

(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, 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We are currently in the process of assessing and integrating Three Shores' internal control over financial reporting with our existing internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Holding Company and the Bank are parties to various legal proceedings. Additionally, in the ordinary course of business, the Holding Company 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 our consolidated financial condition or results of operations.

Items 1A. Risk Factors

Except as set forth in Part II, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and filed with the SEC on May 7, 2020, which is incorporated herein by this reference, there have been no material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC on February 27, 2020.

Item 6. Exhibits

(d) **Exhibits.** See Exhibit Index below.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 9, 2020 by and between United Community Banks, Inc. and Three Shores Bancorporation, Inc. (incorporated herein by reference to Exhibit 2.1 to United Community Banks, Inc.'s Current Report on Form 8-K dated March 9, 2020 and filed with the SEC on March 10, 2020).
3.1	Restated Articles of Incorporation of United Community Banks, Inc., as amended to date (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2020, filed with the SEC on August 6, 2020).
3.2	Amended and Restated Bylaws of United Community Banks, Inc., as amended (incorporated herein by reference to Exhibit 3.2 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2015, filed with the SEC on May 11, 2015).
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, 2020, 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 Consolidated Statements in Shareholders' Equity (unaudited); (v) the Consolidated Statements of Cash Flows (unaudited); and (vi) the Notes to 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, 2020 (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 6, 2020