UNITED COMMUNITY BANKS INC
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

OR

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

For the Transition Period from ___________ to ___________

Commission file number 001-35095

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

Georgia	**58-1807304**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

125 Highway 515 East
Blairsville, Georgia 30512
Address of Principal Executive Offices (Zip Code)

(706) 781-2265
(Telephone Number)

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

YES x NO ¨

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

YES x NO ¨

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

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

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

YES ¨ NO x

Common stock, par value $1 per share 70,820,500 shares voting and zero shares non-voting outstanding as of July 31, 2016.

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Part I – Financial Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2016	2015	2016	2015
Interest revenue:				
Loans, including fees	$ 63,472	$ 52,976	$ 127,448	$ 102,640
Investment securities, including tax exempt of $149, $181, $315 and $339	16,833	12,037	32,621	24,095
Deposits in banks and short-term investments	777	795	1,734	1,607
Total interest revenue	81,082	65,808	161,803	128,342
Interest expense:				
Deposits:				
NOW	444	348	929	742
Money market	1,206	806	2,314	1,479
Savings	30	26	59	46
Time	743	895	1,385	2,004
Total deposit interest expense	2,423	2,075	4,687	4,271
Short-term borrowings	93	82	180	180
Federal Home Loan Bank advances	983	454	1,716	846
Long-term debt	2,665	2,206	5,350	4,812
Total interest expense	6,164	4,817	11,933	10,109
Net interest revenue	74,918	60,991	149,870	118,233
(Release of) provision for credit losses	(300)	900	(500)	2,700
Net interest revenue after provision for credit losses	75,218	60,091	150,370	115,533
Fee revenue:				
Service charges and fees	10,515	8,375	20,641	15,990
Mortgage loan and other related fees	4,448	3,707	7,737	6,462
Brokerage fees	1,117	1,232	2,170	2,783
Gains from sales of government guaranteed loans	2,801	1,494	4,038	2,635
Securities gains, net	282	13	661	1,552
Loss from prepayment of debt	-	-	-	(1,038)
Other	4,334	2,445	6,856	4,564
Total fee revenue	23,497	17,266	42,103	32,948
Total revenue	98,715	77,357	192,473	148,481
Operating expenses:				
Salaries and employee benefits	33,572	27,961	66,634	54,407

Communications and equipment	4,393	3,304	8,683	6,575
Occupancy	4,538	3,415	9,261	6,693
Advertising and public relations	1,323	1,127	2,187	1,877
Postage, printing and supplies	1,298	993	2,578	1,931
Professional fees	3,189	2,257	5,889	4,176
FDIC assessments and other regulatory charges	1,517	1,298	3,041	2,507
Amortization of intangibles	987	447	1,997	689
Merger-related and other charges	1,176	3,173	3,829	3,173
Other	6,067	4,445	11,846	9,453
Total operating expenses	58,060	48,420	115,945	91,481
Net income before income taxes	40,655	28,937	76,528	57,000
Income tax expense	15,389	11,124	28,967	21,517
Net income	25,266	17,813	47,561	35,483
Preferred stock dividends and discount accretion	-	17	21	17
Net income available to common shareholders	$ 25,266	$ 17,796	$ 47,540	$ 35,466
Earnings per common share:				
Basic	$ .35	$ .28	$ .66	$ .57
Diluted	.35	.28	.66	.57
Weighted average common shares outstanding:				
Basic	72,202	62,549	72,187	61,730
Diluted	72,207	62,553	72,191	61,734

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Comprehensive Income *(Unaudited)*

(in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
2016	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$40,655	$(15,389)	$25,266	$76,528	$(28,967)	$47,561
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	21,366	(8,105)	13,261	33,063	(12,561)	20,502
Reclassification adjustment for gains included in net income	(282)	106	(176)	(661)	247	(414)
Net unrealized gains	21,084	(7,999)	13,085	32,402	(12,314)	20,088
Amortization of losses included in net income on available-for-sale securities transferred to held-to- maturity	473	(178)	295	938	(359)	579
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	460	(179)	281	960	(374)	586
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	167	(65)	102	334	(130)	204
Total other comprehensive income	22,184	(8,421)	13,763	34,634	(13,177)	21,457
Comprehensive income	$62,839	$(23,810)	$39,029	$111,162	$(42,144)	$69,018
2015						
Net income	$28,937	$(11,124)	$17,813	$57,000	$(21,517)	$35,483
Other comprehensive income:						
Unrealized gains (losses) on available-for-sale securities:						
Unrealized holding gains (losses) arising during the period	(10,875)	4,032	(6,843)	3,114	(1,273)	1,841
Reclassification adjustment for gains included in net income	(13)	5	(8)	(1,552)	603	(949)
Net unrealized gains (losses)	(10,888)	4,037	(6,851)	1,562	(670)	892

Amortization of losses included in net income on available-for-sale securities transferred to held-to- maturity	289	(105)	184	773	(287)	486
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	455	(177)	278	880	(342)	538
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	-	-	-	(471)	183	(288)
Net cash flow hedge activity	455	(177)	278	409	(159)	250
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	159	(62)	97	318	(124)	194
Total other comprehensive income (loss)	(9,985)	3,693	(6,292)	3,062	(1,240)	1,822
Comprehensive income	$ 18,952	$ (7,431)	$ 11,521	$ 60,062	$ (22,757)	$ 37,305

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Balance Sheet *(Unaudited)*

(in thousands, except share and per share data)	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$107,606	$86,912
Interest-bearing deposits in banks	100,036	153,451
Cash and cash equivalents	207,642	240,363
Securities available for sale	2,335,511	2,291,511
Securities held to maturity (fair value $356,740 and $371,658)	341,951	364,696
Mortgage loans held for sale	30,152	24,231
Loans, net of unearned income	6,286,527	5,995,441
Less allowance for loan losses	(64,253)	(68,448)
Loans, net	6,222,274	5,926,993
Premises and equipment, net	181,349	178,165
Bank owned life insurance	105,784	105,493
Accrued interest receivable	25,879	25,786
Net deferred tax asset	157,689	197,613
Derivative financial instruments	26,880	20,082
Goodwill and other intangible assets	146,124	147,420
Other assets	147,238	94,075
Total assets	$9,928,473	$9,616,428
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$2,386,857	$2,204,755
NOW	1,730,313	1,975,884
Money market	1,641,980	1,599,637
Savings	502,134	471,129
Time	1,183,943	1,282,803
Brokered	412,267	338,985
Total deposits	7,857,494	7,873,193
Repurchase agreements	-	16,640
Federal Home Loan Bank advances	735,125	430,125
Long-term debt	164,066	163,836
Derivative financial instruments	34,930	28,825
Accrued expenses and other liabilities	77,121	85,524
Total liabilities	8,868,736	8,598,143
Shareholders' equity:		
	-	9,992

Preferred stock, $1 par value; 10,000,000 shares authorized;		
Series H; $1,000 stated value; 0 and 9,992 shares issued and outstanding		
Common stock, $1 par value; 150,000,000 shares authorized; 69,863,008 and 66,198,477 shares issued and outstanding	69,863	66,198
Common stock, non-voting, $1 par value; 26,000,000 shares authorized; 1,258,792 and 5,285,516 shares issued and outstanding	1,259	5,286
Common stock issuable; 486,753 and 458,953 shares	6,651	6,779
Capital surplus	1,279,383	1,286,361
Accumulated deficit	(293,424)	(330,879)
Accumulated other comprehensive loss	(3,995)	(25,452)
Total shareholders' equity	1,059,737	1,018,285
Total liabilities and shareholders' equity	$9,928,473	$ 9,616,428

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

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

For the Six Months Ended June 30,

(in thousands, except share and per share data)	Preferred Stock Series H	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	$-	$50,178	$10,081	$5,168	$1,080,508	$(387,568)	$(18,790)	$739,577
Net income						35,483		35,483
Other comprehensive income							1,822	1,822
Common stock issued to dividend reinvestment plan and employee benefit plans (7,661 shares)		8			122			130
Conversion of non-voting common stock to voting (1,795,271 shares)		1,795	(1,795)					-
Common and preferred stock issued for acquisition (2,358,503 common shares and 9,992 preferred shares)	9,992	2,359			41,533			53,884
Amortization of stock option and restricted stock awards					2,178			2,178
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (60,698 shares issued, 59,685 shares deferred)		61		852	(1,294)			(381
Deferred compensation plan, net, including dividend equivalents				190	(1)			189
Shares issued from deferred compensation plan (14,125 shares)		14		(139)	125			-
Common stock dividends ($.10 per share)						(6,192)		(6,192
Tax on restricted stock vesting					559			559
Preferred stock dividends: Series H						(17)		(17
Balance, June 30, 2015	$9,992	$54,415	$8,286	$6,071	$1,123,730	$(358,294)	$(16,968)	$827,232
Balance, December 31, 2015	$9,992	$66,198	$5,286	$6,779	$1,286,361	$(330,879)	$(25,452)	$1,018,285
Net income						47,561		47,561
Other comprehensive income							21,457	21,457
	(9,992)							(9,992

Redemption of Series H preferred stock (9,992 shares)								
Common stock issued to dividend reinvestment plan and to employee benefit plans (10,360 shares)		10			164			174
Conversion of non-voting common stock to voting common stock (4,026,724 shares)		4,027	(4,027)					-
Amortization of stock option and restricted stock awards					1,826			1,826
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (41,909 shares issued, 65,011 shares deferred)		42		941	(1,585)			(602
Purchases of common stock (460,000 shares)		(460)			(7,741)			(8,201
Deferred compensation plan, net, including dividend equivalents				204				204
Shares issued from deferred compensation plan (45,538 shares)		46		(1,273)	1,227			-
Common stock dividends ($.14 per share)						(10,085)		(10,085
Tax on option exercise and restricted stock vesting					(869)			(869
Preferred stock dividends: Series H						(21)		(21
Balance, June 30, 2016	$-	$69,863	$1,259	$6,651	$1,279,383	$(293,424)	$(3,995)	$1,059,737

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Cash Flows *(Unaudited)*

	Six Months Ended June 30,	
(in thousands)	2016	2015
Operating activities:		
Net income	$47,561	$35,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	14,378	10,896
(Release of) provision for credit losses	(500)	2,700
Stock based compensation	1,826	2,178
Deferred income tax expense	29,423	18,519
Securities gains, net	(661)	(1,552)
Gains from sales of government guaranteed loans	(4,038)	(2,635)
Net gains on sale of other assets	(42)	(83)
Net gains and write downs on sales of other real estate owned	(328)	(143)
Loss on prepayment of borrowings	-	1,038
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(54,517)	12
Accrued expenses and other liabilities	3,077	(2,997)
Mortgage loans held for sale	(5,921)	(6,924)
Net cash provided by operating activities	30,258	56,492
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	30,374	35,538
Purchases of securities held to maturity	(1,000)	-
Investment securities available for sale:		
Proceeds from sales of securities available for sale	88,297	136,817
Proceeds from maturities and calls of securities available for sale	199,086	134,521
Purchases of securities available for sale	(308,799)	(312,357)
Net increase in loans	(313,917)	(264,702)
Funds paid to FDIC under loss sharing agreements	-	(1,198)
Proceeds from sales of premises and equipment	987	147
Purchases of premises and equipment	(9,913)	(5,055)
Net cash received for acquisition	-	44,594
Proceeds from sale of other real estate	2,817	1,434
Net cash used in investing activities	(312,068)	(230,261)
Financing activities:		
Net change in deposits	(15,566)	111,681

Net change in short-term borrowings	(16,640)	3,460
Repayments of trust preferred securities	-	(15,998)
Proceeds from FHLB advances	4,720,000	1,060,000
Repayments of FHLB advances	(4,415,000)	(967,070)
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	174	130
Retirement of preferred stock	(9,992)	-
Purchase of common stock	(3,756)	-
Cash dividends on common stock	(10,085)	(6,192)
Cash dividends on preferred stock	(46)	-
Net cash provided by financing activities	249,089	186,011
Net change in cash and cash equivalents	(32,721)	12,242
Cash and cash equivalents at beginning of period	240,363	192,655
Cash and cash equivalents at end of period	$207,642	$204,897
Supplemental disclosures of cash flow information:		
Interest paid	$13,161	$10,993
Income taxes paid	2,637	2,791
Significant non-cash investing and financing transactions:		
Unsettled government guaranteed loan purchases	5,010	-
Unsettled government guaranteed loan sales	22,614	6,013
Unsettled purchases of common stock	4,445	-
Transfers of loans to foreclosed properties	4,312	1,528
Acquisitions:		
Assets acquired	-	474,009
Liabilities assumed	-	409,426
Net assets acquired	-	64,583
Common stock issued in acquisitions	-	43,892
Preferred stock issued in acquisitions	-	9,992

See accompanying notes to consolidated financial statements.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. ("United") and its subsidiaries conform to accounting principles generally accepted in the United States ("GAAP") and reporting guidelines of banking regulatory authorities and regulators. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United's accounting policies is included in its Annual Report on Form 10-K for the year ended December 31, 2015.

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

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

Note 2 –Accounting Standards Updates and Recently Adopted Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability consistent with debt discounts. The standard was effective January 1, 2016 and has been retrospectively reflected in the accompanying consolidated balance sheet, with a corresponding reclassification for December 31, 2015 between other assets for $9.68 million, brokered deposits for $7.90 million and long-term debt for $1.78 million.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. For public entities, this update is effective for fiscal years beginning after December 15, 2018, with modified retrospective application to prior periods presented. Upon adoption, United will gross up its balance sheet by the present value of future minimum lease payments. Such payments amounted to $23.5 million at December 31, 2015.

In March 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. This update clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public entities, this update is effective for fiscal years beginning after December 15, 2016, with application on either a prospective or modified retrospective basis. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments*. This update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under this update is required to assess the embedded call (put) options solely in accordance with a four-step decision sequence as outlined in the guidance. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. For public entities, this update is effective for fiscal years beginning after December 15, 2016, with application on a modified retrospective basis. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. This update eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. For public entities, this update is effective for fiscal years beginning after December 15, 2016, with application a prospective basis. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments require that excess tax benefits and deficiencies be recognized as income tax expense or benefit in the income statement and as an operating activity in the statement of cash flows. In addition, an entity can make a policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The guidance modifies the threshold to qualify for equity classification to permit withholding up to the maximum statutory tax rate and clarifies that cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. For public entities, this update is effective for fiscal years beginning after December 15, 2016. The adoption of this update is not expected to have a material impact on United’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new guidance replaces the incurred loss impairment methodology in current GAAP with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit impaired loans will receive an allowance account at the acquisition date that represents a component of the purchase price allocation. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses, with such allowance limited to the amount by which fair value is below amortized cost. Application of this update will primarily be on a modified retrospective approach, although the guidance for debt securities for which an other-than-temporary impairment has been recognized before the effective date and for loans previously covered by ASC 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality* will be applied on a prospective basis. For public entities, this update is effective for fiscal years beginning after December 15, 2019. United is currently evaluating the impact of this guidance on its consolidated financial statements.

Note 3 – Acquisitions

Acquisition of Palmetto Bancshares, Inc.

On September 1, 2015, United completed the acquisition of Palmetto Bancshares, Inc. (“Palmetto”) and its wholly-owned bank subsidiary The Palmetto Bank. Information related to the fair value of assets and liabilities acquired is included in United’s Annual Report on Form 10-K for the year ended December 31, 2015. During second quarter 2016, within the one year measurement period, United received additional information regarding the acquisition date fair values of premises and equipment and other real estate owned (“OREO”). As a result the provisional values assigned to the acquired premises and equipment and OREO have been adjusted to $17.0 million and $2.63 million, respectively, which represent a decrease of $640,000 and $497,000, respectively, from amounts previously disclosed. The tax effect of these adjustments was reflected as an increase to the deferred tax asset of $437,000, with the net amount of $700,000 reflected as an increase to goodwill.

Acquisition of MoneyTree Corporation

On May 1, 2015, United completed the acquisition of MoneyTree Corporation ("MoneyTree") and its wholly-owned bank subsidiary, First National Bank. Information related to the fair value of assets and liabilities acquired is included in United's Annual Report on Form 10-K for the year ended December 31, 2015. The following table presents the period of acquisition as comparative 2015 information. The table discloses the impact of the merger with MoneyTree from the acquisition date through June 30, 2015 and certain pro forma information as if MoneyTree had been acquired on January 1, 2014. These results combine the historical results of MoneyTree with United's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisition taken place on January 1, 2014.

Merger-related costs of $3.17 million from the acquisition have been excluded from the 2015 pro forma information presented below. Furthermore, no adjustments have been made to the pro forma information to eliminate MoneyTree's pre-acquisition provision for loan losses or OREO write downs. The actual results and pro forma information were as follows *(in thousands)*:

	Revenue		Net Income	
Actual MoneyTree from May 1, 2015 - June 30, 2015	$	2,284	$	384
2015 supplemental consolidated pro forma from January 1, 2015 - June 30, 2015		153,322		38,294

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

June 30, 2016	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 300,000	$ (300,000)	$ -	$ -	$ -	$ -
Derivatives	26,880	-	26,880	(1,779)	(4,760)	20,341
Total	$ 326,880	$ (300,000)	$ 26,880	$ (1,779)	$ (4,760)	$ 20,341
Weighted average interest rate of reverse repurchase agreements	1.43 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
	$ 300,000	$ (300,000)	$ -	$ -	$ -	$ -

Repurchase agreements / reverse repurchase agreements						
Derivatives	34,930	-	34,930	(1,779)	(33,182)	-
Total	$ 334,930	$ (300,000)	$ 34,930	$ (1,779)	$ (33,182)	$ -
Weighted average interest rate of repurchase agreements	.58 %					

December 31, 2015	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 400,000	$ (400,000)	$ -	$ -	$ -	$ -
Derivatives	20,082	-	20,082	(519)	(3,729)	15,834
Total	$ 420,082	$ (400,000)	$ 20,082	$ (519)	$ (3,729)	$ 15,834
Weighted average interest rate of reverse repurchase agreements	1.34 %					

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	$ 400,000	$ (400,000)	$ -	$ -	$ -	$ -
Derivatives	28,825	-	28,825	(519)	(30,917)	-
Total	$ 428,825	$ (400,000)	$ 28,825	$ (519)	$ (30,917)	$ -
Weighted average interest rate of repurchase agreements	.50 %					

At June 30, 2016, United recognized the right to reclaim cash collateral of $33.5 million and the obligation to return cash collateral of $4.76 million. At December 31, 2015, United recognized the right to reclaim cash collateral of $6.26 million and the obligation to return cash collateral of $3.73 million. The right to reclaim cash collateral and the obligation to return cash collateral were included in the consolidated balance sheet in other assets and other liabilities, respectively.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Remaining Contractual Maturity of the Agreements				
As of June 30, 2016	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
U.S. Treasuries	$ -	$ -	$ 50,000	$ 50,000	$ 100,000
Mortgage-backed securities	-	50,000	50,000	100,000	200,000
Total	$ -	$ 50,000	$ 100,000	$ 150,000	$ 300,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$ 300,000
Amounts related to agreements not included in offsetting disclosure					$ -

	Remaining Contractual Maturity of the Agreements				
As of December 31, 2015	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	Total
U.S. Treasuries	$ -	$ -	$ 100,000	$ -	$ 100,000
U.S. Government agencies	32	-	-	-	32
Mortgage-backed securities	16,608	25,000	175,000	100,000	316,608
Total	$ 16,640	$ 25,000	$ 275,000	$ 100,000	$ 416,640
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					$ 400,000
Amounts related to agreements not included in offsetting disclosure					$ 16,640

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

Note 5 – Securities

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

As of June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 61,547	$ 4,782	$ 1	$ 66,328
Mortgage-backed securities [1]	280,404	10,014	6	290,412
Total	$ 341,951	$ 14,796	$ 7	$ 356,740
As of December 31, 2015				
State and political subdivisions	$ 62,073	$ 3,211	$ -	$ 65,284
Mortgage-backed securities [1]	302,623	5,424	1,673	306,374
Total	$ 364,696	$ 8,635	$ 1,673	$ 371,658

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasuries	$140,537	$ 5,021	$ -	$145,558
U.S. Government agencies	38,659	726	-	39,385
State and political subdivisions	68,962	2,145	-	71,107
Mortgage-backed securities [1]	1,218,928	24,653	1,560	1,242,021
Corporate bonds	307,653	4,631	1,161	311,123
Asset-backed securities	527,852	1,484	4,144	525,192
Other	1,125	-	-	1,125
Total	$2,303,716	$ 38,660	$ 6,865	$2,335,511
As of December 31, 2015				
U.S. Treasuries	$169,034	$ 156	$ 484	$168,706
U.S. Government agencies	112,394	385	439	112,340
State and political subdivisions	56,265	461	458	56,268
Mortgage-backed securities [1]	1,108,206	12,077	7,165	1,113,118
Corporate bonds	308,102	933	3,009	306,026
Asset-backed securities	538,679	569	6,006	533,242
Other	1,811	-	-	1,811
Total	$2,294,491	$ 14,581	$ 17,561	$2,291,511

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

Securities with a carrying value of $1.31 billion and $1.63 billion were pledged to secure public deposits, derivatives and other secured borrowings at June 30, 2016 and December 31, 2015, respectively.

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

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$ 512	$ 1	$ -	$ -	$ 512	$ 1
Mortgage-backed securities	-	-	1,406	6	1,406	6
Total unrealized loss position	$ 512	$ 1	$ 1,406	$ 6	$ 1,918	$ 7
As of December 31, 2015						
Mortgage-backed securities	$ 140,362	$ 1,331	$ 13,127	$ 342	$ 153,489	$ 1,673
Total unrealized loss position	$ 140,362	$ 1,331	$ 13,127	$ 342	$ 153,489	$ 1,673

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Less than 12 Months		12 Months or More		Total	
As of June 30, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$31,875	$ 124	$108,620	$ 1,436	$140,495	$ 1,560
Corporate bonds	64,166	661	500	500	64,666	1,161
Asset-backed securities	207,774	2,990	109,599	1,154	317,373	4,144
Total unrealized loss position	$303,815	$ 3,775	$218,719	$ 3,090	$522,534	$ 6,865
As of December 31, 2015						
U.S. Treasuries	$126,066	$ 484	$-	$ -	$126,066	$ 484
U.S. Government agencies	74,189	439	-	-	74,189	439
State and political subdivisions	27,014	458	-	-	27,014	458
Mortgage-backed securities	274,005	2,580	173,254	4,585	447,259	7,165
Corporate bonds	221,337	2,759	750	250	222,087	3,009
Asset-backed securities	358,940	5,746	4,816	260	363,756	6,006
Total unrealized loss position	$1,081,551	$ 12,466	$178,820	$ 5,095	$1,260,371	$ 17,561

At June 30, 2016, there were 93 available-for-sale securities and 2 held-to-maturity securities that were in an unrealized loss position. United does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of their amortized cost basis. Unrealized losses at June 30, 2016 were primarily attributable to changes in interest rates and spread relationships.

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, among other factors. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. No impairment charges were recognized during the three or six months ended June 30, 2016 or 2015.

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes available-for-sale securities sales activity for the three and six months ended June 30, 2016 and 2015 *(in thousands)*.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds from sales	$ 26,992	$ 67,350	$ 88,297	$ 136,817
Gross gains on sales	$ 285	$ 13	$ 958	$ 1,552
Gross losses on sales	(3)	-	(297)	-
Net gains on sales of securities	$ 282	$ 13	$ 661	$ 1,552
Income tax expense attributable to sales	$ 106	$ 5	$ 247	$ 603

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The amortized cost and fair value of held-to-maturity and available-for-sale securities at June 30, 2016, by contractual maturity, are presented in the following table *(in thousands)*.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
US Treasuries:				
1 to 5 years	$66,014	$67,801	$-	$-
5 to 10 years	74,523	77,757	-	-
	140,537	145,558	-	-
US Government agencies:				
1 to 5 years	8,310	8,360	-	-
5 to 10 years	30,349	31,025	-	-
	38,659	39,385	-	-
State and political subdivisions:				
Within 1 year	926	940	5,017	5,069
1 to 5 years	9,589	9,838	14,170	15,109
5 to 10 years	52,311	53,917	22,357	25,107
More than 10 years	6,136	6,412	20,003	21,043
	68,962	71,107	61,547	66,328
Corporate bonds:				
1 to 5 years	223,094	224,777	-	-
5 to 10 years	83,559	85,846	-	-
More than 10 years	1,000	500	-	-
	307,653	311,123	-	-
Asset-backed securities:				
1 to 5 years	27,357	27,704	-	-
5 to 10 years	304,376	302,060	-	-
More than 10 years	196,119	195,428	-	-
	527,852	525,192	-	-
Other:				
More than 10 years	1,125	1,125	-	-
	1,125	1,125	-	-

Total securities other than mortgage-backed securities:				
Within 1 year	926	940	5,017	5,069
1 to 5 years	334,364	338,480	14,170	15,109
5 to 10 years	545,118	550,605	22,357	25,107
More than 10 years	204,380	203,465	20,003	21,043
Mortgage-backed securities	1,218,928	1,242,021	280,404	290,412
	$2,303,716	$2,335,511	$341,951	$356,740

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 6 – Loans and Allowance for Credit Losses

Major classifications of loans are summarized as of the dates indicated as follows *(in thousands)*.

	June 30, 2016	December 31, 2015
Owner occupied commercial real estate	$1,450,075	$1,493,966
Income producing commercial real estate	918,963	823,729
Commercial & industrial	925,578	785,417
Commercial construction	383,558	342,078
Total commercial	3,678,174	3,445,190
Residential mortgage	1,035,467	1,029,663
Home equity lines of credit	622,804	597,806
Residential construction	350,877	351,700
Consumer installment	124,067	115,111
Indirect auto	475,138	455,971
Total loans	6,286,527	5,995,441
Less allowance for loan losses	(64,253)	(68,448)
Loans, net	$6,222,274	$5,926,993

At June 30, 2016 and December 31, 2015, loans totaling $2.88 billion and $2.44 billion, respectively, were pledged as collateral to secure Federal Home Loan Bank advances and other contingent funding sources.

At June 30, 2016, the carrying value and outstanding balance of purchased credit impaired ("PCI") loans accounted for under ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, were $40.7 million and $56.3 million, respectively. At December 31, 2015, the carrying value and outstanding balance of PCI loans were $51.3 million and $71.0 million, respectively. The following table presents changes in the value of the accretable yield for PCI loans for the periods indicated *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$ 4,144	$ -	$ 4,279	$ -
Additions due to acquisitions	-	1,029	-	1,029
Accretion	(626)	(83)	(1,942)	(83)
Reclassification from nonaccretable difference	806	-	1,453	-
Changes in expected cash flows that do not affect nonaccretable difference	1,013	-	1,547	-
Balance at end of period	$ 5,337	$ 946	$ 5,337	$ 946

In addition to the accretable yield on PCI loans, the fair value adjustments on purchased loans outside the scope of ASC 310-30 are also accreted to interest revenue over the life of the loans. At June 30, 2016 and December 31, 2015, the remaining accretable fair value marks on loans acquired through a business combination and not accounted for under ASC 310-30 were $6.00 million and $7.03 million, respectively. In addition, indirect auto loans purchased at a premium outside of a business combination have a remaining premium of $12.4 million and $12.0 million, respectively, as of June 30, 2016 and December 31, 2015.

The allowance for loan losses represents management's estimate of probable incurred losses in the loan portfolio as of the end of the period. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheet. Combined, the allowance for loan losses and allowance for unfunded commitments are referred to as the allowance for credit losses.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Three Months Ended June 30,	2016 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	2015 Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balanc
Owner occupied commercial real estate	$16,864	$(610)	$46	$(1,868)	$14,432	$14,952	$(363)	$78	$1,672	$16,33
Income producing commercial real estate	6,020	(121)	144	(521)	5,522	9,655	(74)	350	(1,731)	8,200
Commercial & industrial	3,153	(223)	615	(338)	3,207	3,442	(162)	789	659	4,728
Commercial construction	8,938	(24)	2	22	8,938	5,335	(147)	51	(344)	4,895
Residential mortgage	14,205	(1,060)	231	2,286	15,662	20,138	(1,109)	322	(299)	19,05
Home equity lines of credit	5,995	(469)	216	(424)	5,318	4,321	(348)	26	1,480	5,479
Residential construction	9,034	(270)	278	(37)	9,005	10,210	(499)	392	(766)	9,337
Consumer installment	773	(390)	229	111	723	713	(349)	187	137	688
Indirect auto	1,328	(366)	42	442	1,446	1,241	(130)	8	292	1,411
Total allowance for loan losses	66,310	(3,533)	1,803	(327)	64,253	70,007	(3,181)	2,203	1,100	70,12
Allowance for unfunded commitments	2,342	-	-	27	2,369	2,780	-	-	(200)	2,580
Total allowance for credit losses	$68,652	$(3,533)	$1,803	$(300)	$66,622	$72,787	$(3,181)	$2,203	$900	$72,70

Six Months Ended June 30,	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance
Owner occupied commercial real estate	$16,732	$(1,012)	$143	$(1,431)	$14,432	$16,041	$(731)	$89	$940	$16,339
Income producing commercial real estate	8,235	(343)	155	(2,525)	5,522	10,296	(322)	357	(2,131)	8,200
Commercial & industrial	4,442	(795)	904	(1,344)	3,207	3,255	(631)	917	1,187	4,728
Commercial construction	5,583	(311)	2	3,664	8,938	4,747	(169)	51	266	4,895
Residential mortgage	17,232	(1,236)	358	(692)	15,662	20,311	(1,687)	484	(56)	19,052
Home equity lines of credit	6,042	(1,192)	307	161	5,318	4,574	(421)	40	1,286	5,479
Residential construction	7,961	(329)	441	932	9,005	10,603	(1,639)	471	(98)	9,337
Consumer installment	828	(869)	435	329	723	731	(675)	563	69	688

Indirect auto	1,393	(599)	73	579	1,446	1,061	(258)	21	587	1,411
Total allowance for loan losses	68,448	(6,686)	2,818	(327)	64,253	71,619	(6,533)	2,993	2,050	70,129
Allowance for unfunded commitments	2,542	-	-	(173)	2,369	1,930	-	-	650	2,580
Total allowance for credit losses	$70,990	$(6,686)	$2,818	$(500)	$66,622	$73,549	$(6,533)	$2,993	$2,700	$72,709

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Allowance for Loan Losses							
	June 30, 2016				December 31, 2015			
	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance	Individually evaluated for impairment	Collectively evaluated for impairment	PCI	Ending Balance
Owner occupied commercial real estate	$1,444	$ 12,988	$-	$14,432	$1,465	$ 15,267	$ -	$16,732
Income producing commercial real estate	399	5,123	-	5,522	961	7,274	-	8,235
Commercial & industrial	71	2,980	156	3,207	280	4,162	-	4,442
Commercial construction	46	8,856	36	8,938	13	5,570	-	5,583
Residential mortgage	3,944	11,639	79	15,662	3,885	13,347	-	17,232
Home equity lines of credit	3	5,259	56	5,318	6	6,036	-	6,042
Residential construction	141	8,857	7	9,005	174	7,787	-	7,961
Consumer installment	9	714	-	723	13	815	-	828
Indirect auto	-	1,446	-	1,446	-	1,393	-	1,393
Total allowance for loan losses	6,057	57,862	334	64,253	6,797	61,651	-	68,448
Allowance for unfunded commitments	-	2,369	-	2,369	-	2,542	-	2,542
Total allowance for credit losses	$6,057	$ 60,231	$334	$66,622	$6,797	$ 64,193	$ -	$70,990

	Loans Outstanding							
	June 30, 2016				December 31, 2015			
	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	$31,527	$ 1,410,209	$8,339	$1,450,075	$38,268	$ 1,442,024	$13,674	$1,493,966
	23,647	873,916	21,400	918,963	23,013	772,945	27,771	823,729

Income producing commercial real estate								
Commercial & industrial	2,771	921,657	1,150	925,578	3,339	781,423	655	785,417
Commercial construction	1,865	376,745	4,948	383,558	10,616	329,320	2,142	342,078
Residential mortgage	23,421	1,008,835	3,211	1,035,467	19,627	1,005,860	4,176	1,029,663
Home equity lines of credit	101	621,525	1,178	622,804	167	595,951	1,688	597,806
Residential construction	5,971	344,428	478	350,877	7,900	342,677	1,123	351,700
Consumer installment	315	123,744	8	124,067	329	114,741	41	115,111
Indirect auto	937	474,179	22	475,138	749	455,173	49	455,971
Total loans	$90,555	$6,155,238	$40,734	$6,286,527	$104,008	$5,840,114	$51,319	$5,995,441

Excluding loans accounted for under ASC 310-30, management individually evaluates all loans that are on nonaccrual with a balance of $500,000 or greater and all troubled debt restructurings (“TDRs”) for impairment. In addition, management reviews all accruing substandard loans greater than $2 million to determine if the loan is impaired. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due according to the original contractual terms of the loan will not be collected. All TDRs are considered impaired regardless of accrual status. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. A specific reserve is established for impaired loans for the amount of calculated impairment. Interest payments received on impaired nonaccrual loans are applied as a reduction of the recorded investment in the loan. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Loans are evaluated for impairment quarterly and specific reserves are established in the allowance for loan losses for any measured impairment.

Each quarter, management prepares an analysis of the allowance for credit losses to determine the appropriate balance that measures and quantifies the amount of probable incurred losses in the loan portfolio and unfunded loan commitments. The allowance is comprised of specific reserves on individually impaired loans, which are determined as described above, and general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions multiplied by a loss emergence period factor. Management uses eight quarters of historical loss experience to determine the loss factors to be used in the reserve calculation for loans evaluated in the aggregate. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to minimize distortions caused by nonrecurring and unusual activity that might otherwise influence a shorter time period. Management believes the current weightings are appropriate to measure the probable losses incurred within the loan portfolio.

Management calculates the loss emergence period for each pool of loans based on the average length of time between the date a loan first exceeds 30 days past due and the date the loan is charged off.

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UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On junior lien home equity loans, management has limited ability to monitor the delinquency status of the first lien unless the first lien is also held by United. As a result, management applies the weighted average historical loss factor for this category and appropriately adjusts it to reflect the increased risk of loss from these credits.

Management carefully reviews the resulting loss factors for each category of the loan portfolio and evaluates whether qualitative adjustments are necessary to take into consideration recent credit trends such as increases or decreases in past due, nonaccrual, criticized and classified loans, and other macro environmental factors such as changes in unemployment rates, lease vacancy rates and trends in property values and absorption rates.

Management believes that its method of determining the balance of the allowance for credit losses provides a reasonable and reliable basis for measuring and reporting losses that are incurred in the loan portfolio as of the reporting date.

When a loan officer determines that a loan is uncollectible, he or she is responsible for recommending that the loan be placed on nonaccrual status and charged off. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department, the Loss Mitigation Department and the Foreclosure/OREO Department. Nonaccrual real estate loans are generally charged down to fair value less costs to sell at the time they are placed on nonaccrual status.

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

Generally, closed-end retail loans (installment and residential mortgage loans) past due 90 cumulative days are written down to their collateral value less estimated selling costs unless the loan is well secured and in process of collection (within the next 90 days). Open-end (revolving) unsecured retail loans which are past due 90 cumulative days from their contractual due date are generally charged-off.

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

	June 30, 2016			December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Owner occupied commercial real estate	$8,083	$ 7,630	$ -	$14,793	$ 14,460	$ -
Income producing commercial real estate	12,550	12,550	-	13,044	12,827	-
Commercial & industrial	447	447	-	493	469	-
Commercial construction	380	380	-	-	-	-
Total commercial	21,460	21,007	-	28,330	27,756	-
Residential mortgage	4,515	4,513	-	791	791	-
Home equity lines of credit	-	-	-	-	-	-
Residential construction	1,444	1,393	-	3,731	3,429	-
Consumer installment	-	-	-	-	-	-
Indirect auto	937	937	-	749	749	-
Total with no related allowance recorded						