

UNITED COMMUNITY BANKS INC
Form 10-Q
August 11, 2014

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 June 30, 2014

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
(State of Incorporation)

58-1807304
(I.R.S. Employer Identification
No.)

125 Highway 515 East
Blairsville, Georgia
Address of Principal
Executive Offices

30512
(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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data 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).

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YES 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

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

Common stock, par value \$1 per share 50,062,635 shares voting and 10,080,787 shares non-voting outstanding as of July 31, 2014.

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Part I – Financial Information
Item 1 – Financial Statements

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

| (in thousands, except per share data) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|------------|
| | June 30, 2014 | 2013 | June 30, 2014 | 2013 |
| Interest revenue: | | | | |
| Loans, including fees | \$ 48,261 | \$ 50,730 | \$ 95,949 | \$ 101,665 |
| Investment securities, including tax exempt of \$193, \$210, \$381 and \$422 | 12,165 | 10,074 | 23,772 | 20,018 |
| Deposits in banks and short-term investments | 980 | 916 | 1,823 | 1,786 |
| Total interest revenue | 61,406 | 61,720 | 121,544 | 123,469 |
| Interest expense: | | | | |
| Deposits: | | | | |
| NOW | 411 | 419 | 851 | 873 |
| Money market | 757 | 534 | 1,320 | 1,096 |
| Savings | 21 | 36 | 41 | 72 |
| Time | 2,018 | 2,950 | 3,789 | 6,241 |
| Total deposit interest expense | 3,207 | 3,939 | 6,001 | 8,282 |
| Short-term borrowings | 908 | 522 | 1,748 | 1,038 |
| Federal Home Loan Bank advances | 80 | 30 | 138 | 49 |
| Long-term debt | 2,638 | 2,666 | 5,272 | 5,328 |
| Total interest expense | 6,833 | 7,157 | 13,159 | 14,697 |
| Net interest revenue | 54,573 | 54,563 | 108,385 | 108,772 |
| Provision for credit losses | 2,200 | 48,500 | 4,700 | 59,500 |
| Net interest revenue after provision for credit losses | 52,373 | 6,063 | 103,685 | 49,272 |
| Fee revenue: | | | | |
| Service charges and fees | 8,527 | 7,972 | 16,425 | 15,375 |
| Mortgage loan and other related fees | 1,877 | 3,003 | 3,231 | 5,658 |
| Brokerage fees | 1,245 | 1,063 | 2,422 | 1,830 |
| Securities gains, net | 4,435 | — | 4,652 | 116 |
| Loss from prepayment of debt | (4,446) | — | (4,446) | — |
| Other | 2,505 | 3,905 | 4,035 | 5,875 |
| Total fee revenue | 14,143 | 15,943 | 26,319 | 28,854 |
| Total revenue | 66,516 | 22,006 | 130,004 | 78,126 |
| Operating expenses: | | | | |
| Salaries and employee benefits | 24,287 | 24,734 | 48,683 | 48,326 |
| Communications and equipment | 3,037 | 3,468 | 6,276 | 6,514 |
| Occupancy | 3,262 | 3,449 | 6,640 | 6,816 |
| Advertising and public relations | 1,139 | 1,037 | 1,765 | 1,975 |
| Postage, printing and supplies | 804 | 894 | 1,580 | 1,757 |

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| | | | | |
|--|-----------|------------|-----------|------------|
| Professional fees | 2,172 | 2,499 | 3,599 | 4,865 |
| Foreclosed property | 102 | 5,151 | 218 | 7,484 |
| FDIC assessments and other regulatory charges | 1,425 | 2,505 | 2,778 | 5,010 |
| Amortization of intangibles | 361 | 491 | 748 | 1,196 |
| Other | 3,943 | 4,595 | 7,295 | 8,650 |
| Total operating expenses | 40,532 | 48,823 | 79,582 | 92,593 |
| Net income (loss) before income taxes | 25,984 | (26,817) | 50,422 | (14,467) |
| Income tax expense (benefit) | 9,627 | (256,781) | 18,665 | (256,196) |
| Net income | 16,357 | 229,964 | 31,757 | 241,729 |
| Preferred stock dividends and discount accretion | — | 3,055 | 439 | 6,107 |
| Net income available to common shareholders | \$ 16,357 | \$ 226,909 | \$ 31,318 | \$ 235,622 |
| Earnings per common share: | | | | |
| Basic | \$.27 | \$ 3.90 | \$.52 | \$ 4.05 |
| Diluted | .27 | 3.90 | .52 | 4.05 |
| Weighted average common shares outstanding: | | | | |
| Basic | 60,712 | 58,141 | 60,386 | 58,111 |
| Diluted | 60,714 | 58,141 | 60,388 | 58,111 |

See accompanying notes to consolidated financial statements.

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

| (in thousands) | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|-----------------------------|-----------------------------|----------------------|---------------------------|-----------------------------|----------------------|
| | Before-tax Amount | Tax (Expense) Benefit | Net of Tax Amount | Before-tax Amount | Tax (Expense) Benefit | Net of Tax Amount |
| 2014 | | | | | | |
| Net income | \$25,984 | \$(9,627) | \$16,357 | \$50,422 | \$(18,665) | \$31,757 |
| Other comprehensive income: | | | | | | |
| Unrealized gains (losses) on available-for-sale securities: | | | | | | |
| Unrealized holding gains (losses) arising during period | 11,184 | (4,216) | 6,968 | 15,053 | (5,657) | 9,396 |
| Reclassification adjustment for gains included in net income | (4,435) | 1,725 | (2,710) | (4,652) | 1,817 | (2,835) |
| Net unrealized gains (losses) | 6,749 | (2,491) | 4,258 | 10,401 | (3,840) | 6,561 |
| Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity | 409 | (154) | 255 | 739 | (277) | 462 |
| Net unrealized gains | 409 | (154) | 255 | 739 | (277) | 462 |
| Amounts reclassified into net income on cash flow hedges | 573 | (223) | 350 | 670 | (261) | 409 |
| Unrealized losses on derivative financial instruments accounted for as cash flow hedges | (3,547) | 1,380 | (2,167) | (6,379) | 2,482 | (3,897) |
| Net unrealized losses | (2,974) | 1,157 | (1,817) | (5,709) | 2,221 | (3,488) |
| Net actuarial gain on defined benefit pension plan | — | — | — | 296 | (115) | 181 |
| Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan | 92 | (36) | 56 | 183 | (71) | 112 |
| Net defined benefit pension plan activity | 92 | (36) | 56 | 479 | (186) | 293 |
| Total other comprehensive income | 4,276 | (1,524) | 2,752 | 5,910 | (2,082) | 3,828 |
| Comprehensive income | \$30,260 | \$(11,151) | \$19,109 | \$56,332 | \$(20,747) | \$35,585 |
| 2013 | | | | | | |
| Net (loss) income | \$(26,817) | \$256,781 | \$229,964 | \$(14,467) | \$256,196 | \$241,729 |
| Other comprehensive income (loss): | | | | | | |
| Unrealized (losses) gains on available-for-sale securities: | (15,358) | 5,798 | (9,560) | (13,717) | 5,177 | (8,540) |

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| | | | | | | |
|---|-----------|----------|-----------|-----------|----------|-----------|
| Unrealized holding gains (losses) arising during period | | | | | | |
| Reclassification adjustment for gains included in net income | — | — | — | (116) | 45 | (71) |
| Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities and release of valuation allowance | — | (3,526) | (3,526) | — | (2,950) | (2,950) |
| Net unrealized gains (losses) | (15,358) | 2,272 | (13,086) | (13,833) | 2,272 | (11,561) |
| Amortization of gains included in net income on available-for-sale securities transferred to held-to-maturity | (271) | 103 | (168) | (590) | 227 | (363) |
| Adjustment of valuation allowance for the change in deferred taxes arising from the amortization of gains included in net income (loss) on available-for-sale securities transferred to held-to-maturity and release of valuation allowance | — | 1,415 | 1,415 | — | 1,293 | 1,293 |
| Net unrealized losses | (271) | 1,518 | 1,247 | (590) | 1,520 | 930 |
| Amounts reclassified into net income on cash flow hedges | (306) | 119 | (187) | (844) | 328 | (516) |
| Unrealized gains on derivative financial instruments accounted for as cash flow hedges | 11,672 | (4,540) | 7,132 | 12,102 | (4,707) | 7,395 |
| Adjustment of valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges and release of valuation allowance | — | 13,740 | 13,740 | — | 13,698 | 13,698 |
| Net unrealized gains | 11,366 | 9,319 | 20,685 | 11,258 | 9,319 | 20,577 |
| Net actuarial loss on defined benefit pension plan | — | — | — | (415) | 161 | (254) |
| Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan | 133 | (52) | 81 | 265 | (103) | 162 |
| Adjustment of valuation allowance for the change in deferred taxes arising from reclassification of unamortized | — | 110 | 110 | — | — | — |

| | | | | | | | |
|--|-------------|-----------|-----------|-------------|-----------|-----------|--|
| prior service cost and actuarial losses and amortization of prior service cost and actuarial losses and release of valuation allowance | | | | | | | |
| Net defined benefit pension plan activity | 133 | 58 | 191 | (150) | 58 | (92) | |
| Total other comprehensive income (loss) | (4,130) | 13,167 | 9,037 | (3,315) | 13,169 | 9,854 | |
| Comprehensive income | \$(30,947) | \$269,948 | \$239,001 | \$(17,782) | \$269,365 | \$251,583 | |

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, 2014 | December 31, 2013 | June 30, 2013 |
|---|--------------------|-------------------------|--------------------|
| ASSETS | | | |
| Cash and due from banks | \$91,791 | \$71,230 | \$62,564 |
| Interest-bearing deposits in banks | 100,270 | 119,669 | 141,016 |
| Short-term investments | 47,999 | 37,999 | 57,000 |
| Cash and cash equivalents | 240,060 | 228,898 | 260,580 |
| Securities available for sale | 1,741,268 | 1,832,217 | 1,937,264 |
| Securities held to maturity (fair value \$458,864, \$485,585 and \$226,695) | 448,752 | 479,742 | 214,947 |
| Mortgage loans held for sale | 14,918 | 10,319 | 19,150 |
| Loans, net of unearned income | 4,410,285 | 4,329,266 | 4,189,368 |
| Less allowance for loan losses | (73,248) | (76,762) | (81,845) |
| Loans, net | 4,337,037 | 4,252,504 | 4,107,523 |
| Assets covered by loss sharing agreements with the FDIC | 3,595 | 22,882 | 35,675 |
| Premises and equipment, net | 161,614 | 163,589 | 167,197 |
| Bank owned life insurance | 80,922 | 80,670 | 82,276 |
| Accrued interest receivable | 19,141 | 19,598 | 19,279 |
| Intangible assets | 2,731 | 3,480 | 4,315 |
| Foreclosed property | 2,969 | 4,221 | 3,936 |
| Net deferred tax asset | 233,149 | 258,518 | 272,287 |
| Derivative financial instruments | 22,024 | 23,833 | 9,017 |
| Other assets | 43,886 | 44,948 | 29,189 |
| Total assets | \$7,352,066 | \$7,425,419 | \$7,162,635 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities: | | | |
| Deposits: | | | |
| Demand | \$1,519,635 | \$1,388,512 | \$1,349,804 |
| NOW | 1,334,883 | 1,427,939 | 1,225,664 |
| Money market | 1,245,912 | 1,227,575 | 1,167,889 |
| Savings | 279,203 | 251,125 | 247,821 |
| Time: | | | |
| Less than \$100,000 | 805,289 | 892,961 | 982,009 |
| Greater than \$100,000 | 554,310 | 588,689 | 664,112 |
| Brokered | 424,313 | 424,704 | 374,530 |
| Total deposits | 6,163,545 | 6,201,505 | 6,011,829 |
| Short-term borrowings | 76,256 | 53,241 | 54,163 |
| Federal Home Loan Bank advances | 175,125 | 120,125 | 70,125 |
| Long-term debt | 129,865 | 129,865 | 124,845 |
| Derivative financial instruments | 36,545 | 46,232 | 29,330 |
| Unsettled securities purchases | 7,264 | 29,562 | 1,582 |
| Accrued expenses and other liabilities | 41,497 | 49,174 | 41,458 |
| Total liabilities | 6,630,097 | 6,629,704 | 6,333,332 |

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Shareholders' equity:

| | | | |
|---|-------------|-------------|-------------|
| Preferred stock, \$1 par value; 10,000,000 shares authorized; Series A; \$10 stated value; 0, 0 and 21,700 shares issued and outstanding | — | — | 217 |
| Series B; \$1,000 stated value; 0, 105,000 and 180,000 shares issued and outstanding | — | 105,000 | 179,323 |
| Series D; \$1,000 stated value; 0, 16,613 and 16,613 shares issued and outstanding | — | 16,613 | 16,613 |
| Common stock, \$1 par value; 100,000,000 shares authorized; 50,058,295, 46,243,345 and 43,356,492 shares issued and outstanding | 50,058 | 46,243 | 43,356 |
| Common stock, non-voting, \$1 par value; 26,000,000 shares authorized; 10,080,787, 13,188,206 and 14,474,810 shares issued and outstanding | 10,081 | 13,188 | 14,475 |
| Common stock issuable; 314,039, 241,832 and 271,215 shares | 4,649 | 3,930 | 4,705 |
| Capital surplus | 1,091,780 | 1,078,676 | 1,057,931 |
| Accumulated deficit | (418,583) | (448,091) | (473,531) |
| Accumulated other comprehensive loss | (16,016) | (19,844) | (13,786) |
| Total shareholders' equity | 721,969 | 795,715 | 829,303 |
| Total liabilities and shareholders' equity | \$7,352,066 | \$7,425,419 | \$7,162,635 |

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 | | | Non-Voting Common | | | | Accumulated | Accumulated |
|--|-----------------|-----------|----------|-------------------|--------------|----------------|-----------------|-------------|-----------------------------------|
| | Series A | Series B | Series D | Common Stock | Common Stock | Stock Issuable | Capital Surplus | Deficit | Other Comprehensive Income (Loss) |
| Balance, December 31, 2012 | \$217 | \$178,557 | \$16,613 | \$42,424 | \$15,317 | \$3,119 | \$1,057,951 | \$(709,153) | \$(23,640) |
| Net income | | | | | | | | 241,729 | |
| Other comprehensive income | | | | | | | | | 9,854 |
| Common stock issued to dividend reinvestment plan and employee benefit plans (35,667 shares) | | | | 35 | | | 348 | | |
| Conversion of non-voting common stock to voting (841,984 shares) | | | | 842 | (842) | | | | |
| Amortization of stock options and restricted stock awards | | | | | | | 1,359 | | |
| Vesting of restricted stock (50,450 shares issued, 133,914 shares deferred) | | | | 50 | | 1,934 | (2,161) | | |
| Deferred compensation plan, net, including dividend equivalents | | | | | | 91 | | | |
| Shares issued from deferred compensation plan (4,521 shares) | | | | 5 | | (439) | 434 | | |
| Preferred stock dividends: | | | | | | | | | |
| Series A | | | | | | | | (6) | |
| Series B | | 766 | | | | | | (5,266) | |
| Series D | | | | | | | | (835) | |
| Balance, June 30, 2013 | \$217 | \$179,323 | \$16,613 | \$43,356 | \$14,475 | \$4,705 | \$1,057,931 | \$(473,531) | \$(13,786) |
| Balance, December 31, 2013 | \$— | \$105,000 | \$16,613 | \$46,243 | \$13,188 | \$3,930 | \$1,078,676 | \$(448,091) | \$(19,844) |
| Net income | | | | | | | | 31,757 | |
| Other comprehensive income | | | | | | | | | 3,828 |
| Redemption of Series B preferred stock (105,000 shares) | | (105,000) | (16,613) | | | | | | |

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|--|-------|----------|-----|----------|----------|---------|-------------|-------------|------------|
| Redemption of Series D preferred stock (16,613 shares) | | | | | | | | | |
| Cash dividends declared on common stock (\$.03 per share) | | | | | | | | (1,810) | |
| Common stock issued at market (640,000 shares) | 640 | | | | | 11,566 | | | |
| Common stock issued to dividend reinvestment plan and to employee benefit plans (19,299 shares) | 19 | | | | | 309 | | | |
| Conversion of non-voting common stock to voting (3,107,419 shares) | 3,107 | (3,107) | | | | | | | |
| Amortization of stock options and restricted stock awards | | | | | | 2,228 | | | |
| Vesting of restricted stock, net of shares surrendered to cover payroll taxes (40,751 shares issued, 72,797 shares deferred) | 41 | | | | 749 | | (1,140) | | |
| Deferred compensation plan, net, including dividend equivalents | | | | | | 119 | | | |
| Shares issued from deferred compensation plan (7,481 shares) | 8 | | | | (149) | 141 | | | |
| Preferred stock dividends: | | | | | | | | | |
| Series B | | | | | | | | (159) | |
| Series D | | | | | | | | (280) | |
| Balance, June 30, 2014 | \$— | \$— | \$— | \$50,058 | \$10,081 | \$4,649 | \$1,091,780 | \$(418,583) | \$(16,016) |

See accompanying notes to consolidated financial statements.

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

| (in thousands) | Six Months Ended | |
|---|------------------|------------|
| | June 30, 2014 | 2013 |
| Operating activities: | | |
| Net income | \$31,757 | \$241,729 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 9,966 | 14,574 |
| Provision for credit losses | 4,700 | 59,500 |
| Stock based compensation | 2,228 | 1,359 |
| Deferred income tax expense (benefit) | 18,716 | (258,987) |
| Securities gains, net | (4,652) | (116) |
| Loss on prepayment of borrowings | 4,446 | — |
| Net (gains) losses on sales of foreclosed property | (362) | 5,460 |
| Changes in assets and liabilities: | | |
| Other assets and accrued interest receivable | (2,567) | 12,872 |
| Accrued expenses and other liabilities | (19,691) | 19,487 |
| Mortgage loans held for sale | (4,599) | 9,671 |
| Net cash provided by operating activities | 39,942 | 105,549 |
| Investing activities: | | |
| Investment securities held-to-maturity: | | |