

UNITED COMMUNITY BANKS INC
Form 10-Q
November 06, 2017

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 September 30, 2017

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 (Zip Code)
Executive Offices

(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).

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

YES " NO

Common stock, par value \$1 per share 73,405,731 shares outstanding as of October 31, 2017.

INDEX

PART I - Financial Information

Item 1. Financial Statements.

Consolidated Statement of Income (unaudited) for the Three and Nine Months Ended September 30, 2017 and 2016 3

Consolidated Statement of Comprehensive Income (unaudited) for the Three and Nine Months Ended September 30, 2017 and 2016 4

Consolidated Balance Sheet (unaudited) at September 30, 2017 and December 31, 2016 5

Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Nine Months Ended September 30, 2017 and 2016 6

Consolidated Statement of Cash Flows (unaudited) for the Nine Months Ended September 30, 2017 and 2016 7

Notes to Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. 41

Item 3. Quantitative and Qualitative Disclosures About Market Risk. 63

Item 4. Controls and Procedures. 63

PART II - Other Information

Item 1. Legal Proceedings. 64

Item 1A. Risk Factors. 64

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. 64

Item 3. Defaults Upon Senior Securities. 64

Item 4. Mine Safety Disclosures. 64

Item 5. Other Information. 64

Item 6. Exhibits. 65

Part I – Financial Information**UNITED COMMUNITY BANKS, INC.**
Consolidated Statement of Income (Unaudited)

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest revenue:				
Loans, including fees	\$80,264	\$69,440	\$227,816	\$196,888
Investment securities, including tax exempt of \$671, \$134, \$1,307, and \$449	17,875	15,418	53,365	48,039
Deposits in banks and short-term investments	700	581	1,782	2,315
Total interest revenue	98,839	85,439	282,963	247,242
Interest expense:				
Deposits:				
NOW	700	452	1,932	1,381
Money market	1,953	1,347	4,938	3,661
Savings	34	43	89	102
Time	1,870	667	4,257	2,052
Total deposit interest expense	4,557	2,509	11,216	7,196
Short-term borrowings	36	98	177	278
Federal Home Loan Bank advances	1,709	1,015	4,603	2,731
Long-term debt	2,762	2,828	8,490	8,178
Total interest expense	9,064	6,450	24,486	18,383
Net interest revenue	89,775	78,989	258,477	228,859
(Release of) provision for credit losses	1,000	(300)	2,600	(800)
Net interest revenue after provision for credit losses	88,775	79,289	255,877	229,659
Fee revenue:				
Service charges and fees	8,220	10,819	29,525	31,460
Mortgage loan and other related fees	4,200	6,039	13,435	13,776
Brokerage fees	1,009	1,199	3,565	3,369
Gains from sales of SBA/USDA loans	2,806	2,479	7,391	6,517
Securities gains, net	188	261	190	922
Other	4,150	5,564	12,226	12,420
Total fee revenue	20,573	26,361	66,332	68,464
Total revenue	109,348	105,650	322,209	298,123
Operating expenses:				
Salaries and employee benefits	38,027	36,478	112,056	103,112

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Communications and equipment	4,547	4,919	14,443	13,602
Occupancy	4,945	5,132	14,802	14,393
Advertising and public relations	1,026	1,088	3,347	3,275
Postage, printing and supplies	1,411	1,451	4,127	4,029
Professional fees	2,976	3,160	8,391	9,049
FDIC assessments and other regulatory charges	2,127	1,412	4,758	4,453
Amortization of intangibles	1,212	1,119	3,085	3,116
Merger-related and other charges	3,176	3,152	7,060	6,981
Other	6,227	6,112	19,660	17,958
Total operating expenses	65,674	64,023	191,729	179,968
Net income before income taxes	43,674	41,627	130,480	118,155
Income tax expense	15,728	15,753	50,743	44,720
Net income	\$27,946	\$25,874	\$79,737	\$73,435
Net income available to common shareholders	\$27,719	\$25,874	\$79,078	\$73,414
Earnings per common share:				
Basic	\$.38	\$.36	\$1.10	\$1.02
Diluted	.38	.36	1.10	1.02
Weighted average common shares outstanding:				
Basic	73,151	71,556	72,060	71,992
Diluted	73,162	71,561	72,071	71,996

See accompanying notes to consolidated financial statements.

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

<i>(in thousands)</i>	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
<u>2017</u>						
Net income	\$ 43,674	\$ (15,728)	\$ 27,946	\$ 130,480	\$ (50,743)	\$ 79,737
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	1,016	(355)	661	18,644	(7,036)	11,608
Reclassification adjustment for gains included in net income	(188)	73	(115)	(190)	72	(118)
Net unrealized gains	828	(282)	546	18,454	(6,964)	11,490
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	278	(105)	173	849	(319)	530
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	150	(58)	92	740	(288)	452
Reclassification of disproportionate tax effect related to terminated cash flow hedges	-	-	-	-	3,400	3,400
Net cash flow hedge activity	150	(58)	92	740	3,112	3,852
Net actuarial loss on defined benefit pension plan	-	-	-	(718)	280	(438)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	200	(78)	122	600	(235)	365
Net defined benefit pension plan activity	200	(78)	122	(118)	45	(73)
Total other comprehensive income	1,456	(523)	933	19,925	(4,126)	15,799
Comprehensive income	\$ 45,130	\$ (16,251)	\$ 28,879	\$ 150,405	\$ (54,869)	\$ 95,536
<u>2016</u>						
Net income	\$ 41,627	\$ (15,753)	\$ 25,874	\$ 118,155	\$ (44,720)	\$ 73,435
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	4,927	(1,927)	3,000	37,990	(14,488)	23,502
	(261)	101	(160)	(922)	348	(574)

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Reclassification adjustment for gains included in net income						
Net unrealized gains	4,666	(1,826)	2,840	37,068	(14,140)	22,928
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	663	(237)	426	1,601	(596)	1,005
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	466	(181)	285	1,426	(555)	871
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	167	(65)	102	501	(195)	306
Total other comprehensive income	5,962	(2,309)	3,653	40,596	(15,486)	25,110
Comprehensive income	\$ 47,589	\$ (18,062)	\$ 29,527	\$ 158,751	\$ (60,206)	\$ 98,545

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet (Unaudited)

(in thousands, except share and per share data)	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$ 98,396	\$ 99,489
Interest-bearing deposits in banks	148,449	117,859
Cash and cash equivalents	246,845	217,348
Securities available for sale	2,540,470	2,432,438
Securities held to maturity (fair value \$310,446 and \$333,170)	306,741	329,843
Mortgage loans held for sale (includes \$30,093 and \$27,891 at fair value)	30,292	29,878
Loans, net of unearned income	7,202,937	6,920,636
Less allowance for loan losses	(58,605)	(61,422)
Loans, net	7,144,332	6,859,214
Premises and equipment, net	193,915	189,938
Bank owned life insurance	167,680	143,543
Accrued interest receivable	29,573	28,018
Net deferred tax asset	128,731	154,336
Derivative financial instruments	20,972	23,688
Goodwill and other intangible assets	182,716	156,222
Other assets	136,760	144,189
Total assets	\$ 11,129,027	\$ 10,708,655
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	\$ 2,889,125	\$ 2,637,004
NOW	1,967,655	1,989,763
Money market	1,934,169	1,846,440
Savings	605,230	549,713
Time	1,363,949	1,287,142
Brokered	367,256	327,496
Total deposits	9,127,384	8,637,558
Short-term borrowings	16,005	5,000
Federal Home Loan Bank advances	494,484	709,209
Long-term debt	135,707	175,078
Derivative financial instruments	22,926	27,648
Accrued expenses and other liabilities	111,881	78,427
Total liabilities	9,908,387	9,632,920
Shareholders' equity:		
Common stock, \$1 par value; 150,000,000 shares authorized; 73,403,453 and 70,899,114 shares issued and outstanding	73,403	70,899
Common stock issuable; 588,445 and 519,874 shares	8,703	7,327
Capital surplus	1,341,346	1,275,849
Accumulated deficit	(192,128)	(251,857)

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Accumulated other comprehensive loss	(10,684	)	(26,483)
Total shareholders' equity	1,220,640		1,075,735	
Total liabilities and shareholders' equity	\$ 11,129,027		\$ 10,708,655	

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.**Consolidated Statement of Changes in Shareholders' Equity (Unaudited)****For the Nine Months Ended September 30,**

(in thousands, except share and per share data)	Preferred Stock Series	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2015	\$9,992	\$66,198	\$5,286	\$6,779	\$1,286,361	\$(330,879)	\$(25,452)
Net income						73,435	
Other comprehensive income							25,110
Redemption of Series H preferred stock (9,992 shares)	(9,992)						
Common stock issued to dividend reinvestment plan and to employee benefit plans (15,844 shares)		16			254		
Conversion of non-voting common stock to voting (5,285,516 shares)		5,286	(5,286)				
Amortization of stock option and restricted stock awards					3,257		
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (79,430 shares issued, 94,497 shares deferred)		79		1,384	(2,428)		
Purchases of common stock (764,000 shares)		(764)			(12,895)		
Deferred compensation plan, net, including dividend equivalents				291			
Shares issued from deferred compensation plan (45,758 shares)		46		(1,275)	1,229		
Common stock dividends (\$.22 per share)						(15,849)	
Tax on restricted stock vesting					(869)		
Series H preferred stock dividends						(21)	
Balance, September 30, 2016	\$-	\$70,861	\$-	\$7,179	\$1,274,909	\$(273,314)	\$(342)
Balance, December 31, 2016	\$-	\$70,899	\$-	\$7,327	\$1,275,849	\$(251,857)	\$(26,483)
Net income						79,737	
Other comprehensive income							15,799
Common stock issued to dividend reinvestment plan and to employee benefit plans (13,107 shares)		13			315		
Common stock issued for acquisition (2,370,331 shares)		2,370			63,430		
Amortization of stock option and restricted stock awards					4,359		
		89		1,454	(2,836)		

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Vesting of restricted stock, net of shares surrendered to cover payroll taxes (88,622 shares issued, 94,165 shares deferred)							
Deferred compensation plan, net, including dividend equivalents				290			
Shares issued from deferred compensation plan (32,279 shares)	32			(368)	229		
Common stock dividends (\$.28 per share)						(20,445)	
Cumulative effect of change in accounting principle						437	
Balance, September 30, 2017	\$-	\$73,403	\$-	\$8,703	\$1,341,346	\$(192,128)	\$(10,684)

See accompanying notes to consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$79,737	\$73,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	20,137	22,612
(Release of) provision for credit losses	2,600	(800)
Stock based compensation	4,359	3,257
Deferred income tax expense	51,806	45,308
Securities gains, net	(190)	(922)
Gains from sales of SBA/USDA loans	(7,391)	(6,517)
Net losses (gains) and write downs on sales of other real estate owned	667	(59)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	4,106	(42,267)
Accrued expenses and other liabilities	(8,382)	(1,788)
Mortgage loans held for sale	(414)	(6,441)
Net cash provided by operating activities	147,035	85,818
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	44,896	49,968
Purchases of securities held to maturity	(21,638)	(20,656)
Investment securities available for sale:		
Proceeds from sales of securities available for sale	275,769	189,164
Proceeds from maturities and calls of securities available for sale	465,817	292,200
Purchases of securities available for sale	(709,742)	(308,800)
Net increase in loans	(57,260)	(453,541)
Purchase of bank owned life insurance	(10,000)	-
Proceeds from sales of premises and equipment	2,229	5,038
Purchases of premises and equipment	(15,167)	(13,716)
Net cash received from acquisitions	17,822	1,912
Proceeds from sale of other real estate	7,076	9,370
Net cash used in investing activities	(198)	(249,061)
Financing activities:		
Net change in deposits	171,611	169,156
Net change in short-term borrowings	9,864	8,360
Proceeds from FHLB advances	3,370,000	7,080,000
Repayments of FHLB advances	(3,609,000)	(7,074,000)
Cash paid for shares withheld to cover payroll taxes upon vesting of restricted stock	(1,400)	(965)
Repayment of long-term debt	(40,000)	-
	328	270

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans		
Retirement of preferred stock	-	(9,992)
Purchase of common stock	-	(13,659)
Cash dividends on common stock	(18,743)	(10,085)
Cash dividends on preferred stock	-	(46)
Net cash (used in) provided by financing activities	(117,340)	149,039
Net change in cash and cash equivalents	29,497	(14,204)
Cash and cash equivalents at beginning of period	217,348	240,363
Cash and cash equivalents at end of period	\$246,845	\$226,159
Supplemental disclosures of cash flow information:		
Interest paid	\$25,513	\$25,815
Income taxes paid	5,705	3,431
Significant non-cash investing and financing transactions:		
Unsettled securities purchases	28,436	8,973
Unsettled government guaranteed loan sales	21,517	22,355
Transfers of loans to foreclosed properties	1,725	6,647
Acquisitions:		
Assets acquired	412,477	450,958
Liabilities assumed	346,646	439,749
Net assets acquired	65,831	11,209
Common stock issued in acquisitions	65,800	-

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 – Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. (“United”) and its subsidiaries conform to accounting principles generally accepted in the United States (“GAAP”) and reporting guidelines of banking regulatory authorities and regulators. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. 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, 2016.

Effective January 1, 2017, management elected to begin measuring residential mortgage servicing rights at fair value. The cumulative effect adjustment of this election to retained earnings, net of income tax effect, was \$437,000.

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 2016 amounts have been reclassified to conform to the 2017 presentation. As discussed in the Form 10-K for the year ended December 31, 2016, certain loan balances previously shown as retail loans were reclassified to several commercial categories to better align the reporting with the business purpose or underlying credit risk of the loans, rather than the collateral type. The reclassifications moved residential mortgages and home equity lines from the residential mortgage and home equity lines of credit categories to the owner-occupied and income-producing commercial real estate categories. Although these loans were secured by one-to-four family residential properties, their purpose was commercial since they included residential home rental property and business purpose loans secured by the borrower’s primary residence. In addition, residential construction loans were reclassified to the commercial construction category. These reclassified loans are to builders and developers of residential properties. Reclassifying these balances better aligned the loan categories with the management of credit risk. For the three and nine months ended September 30, 2016, historic charge-offs and recoveries on these same loans have been reclassified, as well as the corresponding allowance for loan loss balances, average impaired loan balances, and new troubled debt restructurings.

Note 2 – Accounting Standards Updates and Recently Adopted Standards

Accounting Standards Updates

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. This ASU provides guidance on the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and will be applied retrospectively either to each prior reporting period or with a cumulative effect recognized at the date of initial application. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, United does not expect the new revenue recognition guidance to have a material impact on the consolidated financial statements. United continues to evaluate the changes in disclosures required by the new guidance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. For public entities, this update is effective for fiscal years beginning after December 15, 2018, with modified retrospective application to prior periods presented. Upon adoption, United expects to report higher assets and liabilities as a result of including leases on the consolidated balance sheet. At December 31, 2016, future minimum lease payments amounted to \$29.1 million. United does not expect the new guidance to have a material impact on the consolidated statement of income or the consolidated statement of shareholders’ equity.

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost and allow only the service cost component to be eligible for capitalization. For public entities, this update is effective for fiscal years beginning after December 15, 2017, with retrospective presentation of the service cost and other components and prospective application for any capitalization of service cost. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. For public entities, this update is effective for fiscal years beginning after December 15, 2018, with modified retrospective application. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. This update clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Specifically, modification accounting should be applied unless the fair value of the modified award is the same as the original award immediately before modification, the vesting conditions of the modified award are the same as the original award immediately before modification, and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before modification. For public entities, this update is effective for fiscal years beginning after December 15, 2017, with prospective application. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

In August 2017, The FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This update expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This update also makes certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. For public entities, this update is effective for fiscal years beginning after December 15, 2018. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings. The amended presentation and disclosure guidance is required prospectively. The adoption of this update is not expected to have a material impact on the consolidated financial statements.

Recently Adopted Standards

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplified 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. United adopted this standard effective January 1, 2017, with no material impact on the consolidated financial statements, although management expects more volatility in the effective tax rate as excess tax benefits and deficiencies on stock compensation transactions flow through income tax expense rather than capital surplus. United prospectively adopted the amendment requiring 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, United elected to account for forfeitures as they occur, rather than estimate the number of awards expected to vest. United retrospectively implemented the clarification that cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****Note 3 – Acquisitions****Acquisition of HCSB Financial Corporation**

On July 31, 2017, United completed the acquisition of HCSB Financial Corporation (“HCSB”) and its wholly-owned bank subsidiary, Horry County State Bank. HCSB operated eight branches in coastal South Carolina. In connection with the acquisition, United acquired \$390 million of assets and assumed \$347 million of liabilities. Under the terms of the merger agreement, HCSB shareholders received .0050 shares of United common stock for each share of HCSB common stock issued and outstanding at the closing date. 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 \$23.9 million, representing the intangible value of HCSB’s business and reputation within the market it served. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of \$3.48 million using the sum-of-the-years-digits method over six years, which represents the expected useful life of the asset. United will amortize the related noncompete agreements of \$2.24 million using the straight line method over the terms of the agreements, which vary between one year and two years.

United’s operating results for the period ended September 30, 2017 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of July 31, 2017.

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 HCSB	Fair Value Adjustments ⁽¹⁾	As Recorded by United
Assets			
Cash and cash equivalents	\$ 17,855	\$ (2	) \$ 17,853
Securities	101,462	(142	) 101,320
Loans, net	228,483	(12,536	) 215,947
Premises and equipment, net	14,030	(6,113	) 7,917
Bank owned life insurance	11,827	-	11,827
Accrued interest receivable	1,322	(275	) 1,047
Net deferred tax asset	-	25,389	25,389
Intangibles	-	5,716	5,716
Other real estate owned	1,177	(372	) 805
Other assets	1,950	(32	) 1,918
Total assets acquired	\$ 378,106	\$ 11,633	\$ 389,739
Liabilities			

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Deposits	\$ 318,512	\$ 430	\$ 318,942
Repurchase agreements	1,141	-	1,141
Federal Home Loan Bank advances	24,000	517	24,517
Other liabilities	1,955	91	2,046
Total liabilities assumed	345,608	1,038	346,646
Excess of assets acquired over liabilities assumed	\$ 32,498		
Aggregate fair value adjustments		\$ 10,595	
Total identifiable net assets			\$ 43,093
Consideration transferred			
Cash			31
Common stock issued (2,370,331 shares)			65,800
Total fair value of consideration transferred			65,831
Equity interest in HCSB held before the business combination			1,125
Goodwill			\$ 23,863

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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

	July 31, 2017
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	\$ 46,069
Non-accretable difference	12,413
Cash flows expected to be collected	33,656
Accretable yield	3,410
Fair value	\$ 30,246
Excluded from ASC 310-30:	
Fair value	\$ 185,701
Gross contractual amounts receivable	212,780
Estimate of contractual cash flows not expected to be collected	3,985

Acquisition of Tidelands Bancshares, Inc.

On July 1, 2016, United completed the acquisition of Tidelands Bancshares, Inc. ("Tidelands") and its wholly-owned bank subsidiary Tidelands Bank. Information related to the fair value of assets and liabilities acquired from Tidelands is included in United's Annual Report on Form 10-K for the year ended December 31, 2016.

Pro forma information

The following table discloses the impact of the mergers with HCSB and Tidelands since the respective acquisition dates through September 30 of the year of acquisition. The table also presents certain pro forma information as if HCSB had been acquired on January 1, 2016 and Tidelands had been acquired on January 1, 2015. These results combine the historical results of the acquired entities with United's consolidated statement of income and, while adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisition taken place in earlier years.

Merger-related costs from the HCSB acquisition of \$1.62 million and \$1.88 million, respectively, have been excluded from the three months and nine months 2017 pro forma information presented below and included in the three months and nine months 2016 pro forma information below. Merger-related costs of \$2.93 million from the Tidelands acquisition have been excluded from the 2016 pro forma information presented below. The actual results and pro

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

forma information were as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Revenue	Net Income	Revenue	Net Income
<u>2017</u>				
Actual HCSB results included in statement of income since acquisition date	\$ 2,404	\$ 627	\$ 2,404	\$ 627
Supplemental consolidated pro forma as if HCSB had been acquired January 1, 2016	110,910	27,590	330,851	80,539
<u>2016</u>				
Actual Tidelands results included in statement of income since acquisition date	\$ 3,988	\$ 658	\$ 3,988	\$ 658
Supplemental consolidated pro forma as if HCSB had been acquired January 1, 2016 and Tidelands had been acquired January 1, 2015	108,549	24,715	309,662	57,114

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*).

	Gross	Gross	Gross Amounts not Offset			Net
	Amounts of	Amounts	in the Balance Sheet			
September 30, 2017	Recognized	Balance	Net Asset	Financial	Collateral	Amount
	Assets	Sheet	Balance	Instruments	Received	
Repurchase agreements / reverse repurchase agreements	\$ 200,000	\$ (200,000)	\$ -	\$ -	\$ -	\$ -
Derivatives	20,972	-	20,972	(2,232)	(2,048)	16,692
Total	\$ 220,972	\$ (200,000)	\$ 20,972	\$ (2,232)	\$ (2,048)	\$ 16,692
Weighted average interest rate of reverse repurchase agreements	2.02	%				

	Gross	Gross	Gross Amounts not Offset			Net
	Amounts of	Amounts	in the Balance Sheet			
	Recognized	Balance	Net Liability	Financial	Collateral	Amount
	Liabilities	Sheet	Balance	Instruments	Pledged	
Repurchase agreements / reverse repurchase agreements	\$ 200,000	\$ (200,000)	\$ -	\$ -	\$ -	\$ -
Derivatives	22,926	-	22,926	(2,232)	(20,900)	-
Total	\$ 222,926	\$ (200,000)	\$ 22,926	\$ (2,232)	\$ (20,900)	\$ -
Weighted average interest rate of repurchase agreements	1.20	%				

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

December 31, 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	\$ 150,000	\$ (150,000)	\$ -	\$ -	\$ -	\$ -
Derivatives	23,688	-	23,688	(3,485)	(3,366)	16,837
Total	\$ 173,688	\$ (150,000)	\$ 23,688	\$ (3,485)	\$ (3,366)	\$ 16,837

Weighted average interest rate of
reverse repurchase agreements 1.78 %

	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	\$ 150,000	\$ (150,000)	\$ -	\$ -	\$ -	\$ -
Derivatives	27,648	-	27,648	(3,485)	(18,505)	5,658
Total	\$ 177,648	\$ (150,000)	\$ 27,648	\$ (3,485)	\$ (18,505)	\$ 5,658

Weighted average interest rate of
repurchase agreements .88 %

At September 30, 2017, United recognized the right to reclaim cash collateral of \$20.9 million and the obligation to return cash collateral of \$2.39 million. At December 31, 2016, United recognized the right to reclaim cash collateral of \$18.5 million and the obligation to return cash collateral of \$3.37 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*).

As of September 30, 2017	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	
Mortgage-backed securities	\$1,005	\$ 100,000	\$ -	\$ 100,000	\$201,005
Total	\$1,005	\$ 100,000	\$ -	\$ 100,000	\$201,005
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					\$200,000
Amounts related to agreements not included in offsetting disclosure					\$1,005

As of December 31, 2016	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 Days	30 to 90 Days	91 to 110 days	
Mortgage-backed securities	\$-	\$ -	\$ 50,000	\$ 100,000	\$150,000
Total	\$-	\$ -	\$ 50,000	\$ 100,000	\$150,000
Gross amount of recognized liabilities for repurchase agreements in offsetting disclosure					\$150,000
Amounts related to agreements not included in offsetting disclosure					\$-

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

Note 5 – Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>As of September 30, 2017</u>				
State and political subdivisions	\$ 58,917	\$ 2,140	\$ 156	\$ 60,901
Mortgage-backed securities ⁽¹⁾	247,824	3,445	1,724	249,545
Total	\$ 306,741	\$ 5,585	\$ 1,880	\$ 310,446
As of December 31, 2016				
State and political subdivisions	\$ 57,134	\$ 2,197	\$ 249	\$ 59,082
Mortgage-backed securities ⁽¹⁾	272,709	4,035	2,656	274,088
Total	\$ 329,843	\$ 6,232	\$ 2,905	\$ 333,170

⁽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*).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>As of September 30, 2017</u>				
U.S. Treasuries	\$74,434	\$ 330	\$ -	\$74,764
U.S. Government agencies	27,276	473	21	27,728
State and political subdivisions	171,372	1,402	385	172,389
Mortgage-backed securities ⁽¹⁾	1,644,741	11,365	7,410	1,648,696
Corporate bonds	305,559	3,108	296	308,371
Asset-backed securities	306,127	2,505	167	308,465
Other	57	-	-	57
Total	\$2,529,566	\$ 19,183	\$ 8,279	\$2,540,470

As of December 31, 2016

U.S. Treasuries	\$170,360	\$ 20	\$ 764	\$169,616
U.S. Government agencies	21,053	6	239	20,820
State and political subdivisions	74,555	176	554	74,177
Mortgage-backed securities ⁽¹⁾	1,397,435	8,924	14,677	1,391,682
Corporate bonds	306,824	591	2,023	305,392
Asset-backed securities	468,742	2,798	1,971	469,569
Other	1,182	-	-	1,182
Total	\$2,440,151	\$ 12,515	\$ 20,228	\$2,432,438

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

Securities with a carrying value of \$1.35 billion and \$1.45 billion were pledged to secure public deposits, derivatives and other secured borrowings at September 30, 2017 and December 31, 2016, respectively.

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

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

	Less than 12 Months		12 Months or More		Total	Unrealized
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Loss
<u>As of September 30, 2017</u>						
State and political subdivisions	\$ 8,049	\$ 156	\$ -	\$ -	\$8,049	\$ 156
Mortgage-backed securities	80,277	1,025	18,871	699	99,148	1,724
Total unrealized loss position	\$ 88,326	\$ 1,181	\$ 18,871	\$ 699	\$107,197	\$ 1,880
<u>As of December 31, 2016</u>						
State and political subdivisions	\$ 18,359	\$ 249	\$ -	\$ -	\$18,359	\$ 249
Mortgage-backed securities	118,164	2,656	-	-	118,164	2,656
Total unrealized loss position	\$ 136,523	\$ 2,905	\$ -	\$ -	\$136,523	\$ 2,905

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	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	
<u>As of September 30, 2017</u>						
U.S. Treasuries	\$-	\$ -	\$-	\$ -	\$-	\$ -
U.S. Government agencies	2,656	13	1,007	8	3,663	21
State and political subdivisions	68,936	385	-	-	68,936	385
Mortgage-backed securities	466,703	3,666	155,799	3,744	622,502	7,410
Corporate bonds	31,113	106	810	190	31,923	296
Asset-backed securities	64,580	135	5,027	32	69,607	167
Total unrealized loss position	\$633,988	\$ 4,305	\$162,643	\$ 3,974	\$796,631	\$ 8,279
<u>As of December 31, 2016</u>						
U.S. Treasuries	\$145,229	\$ 764	\$-	\$ -	\$145,229	\$ 764
U.S. Government agencies	19,685	239	-	-	19,685	239
State and political subdivisions	61,782	554	-	-	61,782	554
Mortgage-backed securities	810,686	13,952	26,279	725	836,965	14,677
Corporate bonds	228,504	1,597	15,574	426	244,078	2,023
Asset-backed securities	54,477	540	115,338	1,431	169,815	1,971
Total unrealized loss position	\$1,320,363	\$ 17,646	\$157,191	\$ 2,582	\$1,477,554	\$ 20,228

At September 30, 2017, there were 116 available-for-sale securities and 37 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 September 30, 2017 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 nine months ended September 30, 2017 or 2016.

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

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, 2017 and 2016 (*in thousands*).

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Proceeds from sales	\$181,119	\$100,867	\$275,769	\$189,164
Gross gains on sales	\$923	\$607	\$1,248	\$1,565
Gross losses on sales	(735)	(346)	(1,058)	(643)
Net gains on sales of securities	\$188	\$261	\$190	\$922
Income tax expense attributable to sales	\$73	\$101	\$72	\$348

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 September 30, 2017, 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	\$44,523	\$44,827	\$-	\$-
5 to 10 years	29,911	29,937	-	-
	74,434	74,764	-	-
US Government agencies:				
1 to 5 years	2,103	2,117	-	-
5 to 10 years	19,757	19,913	-	-
More than 10 years	5,416	5,698	-	-
	27,276	27,728	-	-
State and political subdivisions:				
Within 1 year	1,500	1,515	4,092	4,146
1 to 5 years	29,696	29,617	13,661	14,182
5 to 10 years	44,422	44,740	16,956	18,423
More than 10 years	95,754	96,517	24,208	24,150
	171,372	172,389	58,917	60,901
Corporate bonds:				
1 to 5 years	258,158	260,793	-	-
5 to 10 years	46,401	46,768	-	-
More than 10 years	1,000	810	-	-
	305,559	308,371	-	-
Asset-backed securities:				
1 to 5 years	6,951	7,121	-	-
5 to 10 years	113,881	114,465	-	-
More than 10 years	185,295	186,879	-	-
	306,127	308,465	-	-
Other:				
More than 10 years	57	57	-	-
	57	57	-	-
Total securities other than mortgage-backed securities:				
Within 1 year	1,500	1,515	4,092	4,146

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

1 to 5 years	341,431	344,475	13,661	14,182
5 to 10 years	254,372	255,823	16,956	18,423
More than 10 years	287,522	289,961	24,208	24,150
Mortgage-backed securities	1,644,741	1,648,696	247,824	249,545
	\$2,529,566	\$2,540,470	\$306,741	\$310,446

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*).

	September 30, 2017	December 31, 2016
Owner occupied commercial real estate	\$ 1,791,762	\$ 1,650,360
Income producing commercial real estate	1,413,104	1,281,541
Commercial & industrial	1,083,591	1,069,715
Commercial construction	583,344	633,921
Total commercial	4,871,801	4,635,537
Residential mortgage	933,205	856,725
Home equity lines of credit	688,875	655,410
Residential construction	190,047	190,043
Consumer installment	118,742	123,567
Indirect auto	400,267	459,354
Total loans	7,202,937	6,920,636
Less allowance for loan losses	(58,605)	(61,422)
Loans, net	\$ 7,144,332	\$ 6,859,214

At September 30, 2017 and December 31, 2016, loans totaling \$3.57 billion and \$3.33 billion, respectively, were pledged as collateral to secure Federal Home Loan Bank advances and other contingent funding sources.

At September 30, 2017, the carrying value and outstanding balance of purchased credit impaired (“PCI”) loans accounted for under ASC 310-30 were \$68.7 million and \$104 million, respectively. At December 31, 2016, the carrying value and outstanding balance of PCI loans were \$62.8 million and \$87.9 million, respectively. The following table presents changes in the value of the accretible yield for PCI loans for the periods indicated (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$ 11,365	\$ 5,337	\$ 7,981	\$ 4,279
Additions due to acquisitions	3,410	2,113	3,410	2,113

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Accretion	(2,075)	(1,116)	(5,177)	(3,058)
Reclassification from nonaccretable difference	1,163	1,455	5,879	2,908
Changes in expected cash flows that do not affect nonaccretable difference	735	362	2,505	1,909
Balance at end of period	\$ 14,598	\$ 8,151	\$ 14,598	\$ 8,151

In addition to the accretable yield on PCI loans, the fair value adjustments on purchased loans outside the scope of ASC 310-30 are also accreted to interest revenue over the life of the loans. At September 30, 2017 and December 31, 2016, the remaining accretable fair value marks on loans acquired through a business combination and not accounted for under ASC 310-30 were \$9.19 million and \$7.14 million, respectively. In addition, indirect auto loans purchased at a premium outside of a business combination have a remaining premium of \$9.19 million and \$11.4 million, respectively, as of September 30, 2017 and December 31, 2016. During the three months ended September 30, 2017, United did not purchase indirect auto loans. During the nine months ended September 30, 2017, United purchased indirect auto loans of \$81.7 million. During the three and nine months ended September 30, 2016, United purchased indirect auto loans of \$38.8 million and \$149 million, respectively.

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 September 30,	2017					2016					
	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	
Owner occupied commercial real estate	\$ 15,422	\$(100)	\$ 144	\$(624)	\$ 14,842	\$ 15,675	\$(461)	\$ 415	\$(353)	\$ 15,276	
Income producing commercial real estate	9,354	(1,235)	76	1,138	9,333	8,683	(206)	136	1,477	9,080	
Commercial & industrial	3,620	(329)	529	690	4,510	3,202	(850)	398	690	3,350	
Commercial construction	11,038	(206)	320	(946)	10,206	13,097	(30)	224	(2,367)	10,924	
Residential mortgage	9,798	(396)	83	145	9,630	11,329	(63)	109	64	11,439	
Home equity lines of credit	4,590	(321)	265	187	4,721	5,247	(321)	54	197	5,157	
Residential construction	3,084	(57)	21	(92)	2,956	4,851	(253)	10	(267)	4,341	
Consumer installment	584	(475)	314	292	715	723	(426)	190	183	570	
Indirect auto	2,010	(333)	65	(50)	1,692	1,446	(354)	69	443	1,604	
Total allowance for loan losses	59,500	(3,452)	1,817	740	58,605	64,253	(2,964)	1,605	67	63,451	
Allowance for unfunded commitments	2,222	-	-	260	2,482	2,369	-	-	(367)	2,002	
Total allowance for credit losses	61,722	(3,452)	1,817	1,000	61,087	\$ 66,622	\$(2,964)	\$ 1,605	\$(300)	\$ 63,451	
Nine Months Ended September 30,	2017					2016					
	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	Beginning Balance	Charge-Offs	Recoveries	(Release) Provision	Ending Balance	
Owner occupied commercial real estate	\$ 16,446	\$(283)	\$ 501	\$(1,822)	\$ 14,842	\$ 18,016	\$(1,929)	\$ 605	\$(1,416)	\$ 16,276	
Income producing commercial real estate	8,843	(2,335)	123	2,702	9,333	11,548	(788)	463	(1,133)	10,820	
Commercial & industrial	3,810	(1,143)	1,141	702	4,510	4,433	(1,645)	1,302	(650)	3,440	
Commercial construction	13,405	(769)	912	(3,342)	10,206	9,553	(392)	617	1,146	10,124	
Residential mortgage	8,545	(1,069)	200	1,954	9,630	12,719	(776)	248	(752)	12,139	
Home equity lines of credit	4,599	(1,216)	485	853	4,721	5,956	(1,513)	361	373	4,777	
Residential construction	3,264	(127)	153	(334)	2,956	4,002	(531)	61	809	3,291	
Consumer installment	708	(1,374)	716	665	715	828	(1,123)	625	340	700	
Indirect auto	1,802	(1,066)	214	742	1,692	1,393	(953)	141	1,023	1,503	
Total allowance for loan losses	61,422	(9,382)	4,445	2,120	58,605	68,448	(9,650)	4,423	(260)	63,111	
Allowance for unfunded commitments	2,002	-	-	480	2,482	2,542	-	-	(540)	1,942	
Total allowance for credit losses	\$ 63,424	\$(9,382)	\$ 4,445	\$ 2,600	\$ 61,087	\$ 70,990	\$(9,650)	\$ 4,423	\$(800)	\$ 65,049	

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 September 30, 2017			Ending Balance	December 31, 2016			Ending Balance
	Individually evaluated for impairment	Collectively evaluated for impairment	PCI		Individually evaluated for impairment	Collectively evaluated for impairment	PCI	
Owner occupied commercial real estate	\$1,131	\$13,711	\$-	\$14,842	\$1,746	\$14,700	\$-	\$16,446
Income producing commercial real estate	869	8,439	25	9,333	885	7,919	39	8,843
Commercial & industrial	1,040	3,470	-	4,510	58	3,752	-	3,810
Commercial construction	165	10,040	1	10,206	168	13,218	19	13,405
Residential mortgage	1,111	8,504	15	9,630	517	7,997	31	8,545
Home equity lines of credit	-	4,721	-	4,721	2	4,597	-	4,599
Residential construction	82	2,874	-	2,956	64	3,198	2	3,264
Consumer installment	8	705	2	715	12	696	-	708
Indirect auto	30	1,662	-	1,692	-	1,802	-	1,802
Total allowance for loan losses	4,436	54,126	43	58,605	3,452	57,879	91	61,422
Allowance for unfunded commitments	-	2,482	-	2,482	-	2,002	-	2,002
Total allowance for credit losses	\$4,436	\$56,608	\$43	\$61,087	\$3,452	\$59,881	\$91	\$63,424
	Loans Outstanding September 30, 2017			Ending Balance	December 31, 2016			Ending Balance
	Individually evaluated for impairment	Collectively evaluated for impairment	PCI		Individually evaluated for impairment	Collectively evaluated for impairment	PCI	

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Owner occupied commercial real estate	\$29,429	\$ 1,744,318	\$18,015	\$1,791,762	\$31,421	\$ 1,600,355	\$18,584	\$ 1,650,360
Income producing commercial real estate	26,061	1,361,914	25,129	1,413,104	30,459	1,225,763	25,319	1,281,541
Commercial & industrial	5,653	1,076,890	1,048	1,083,591	1,915	1,066,764	1,036	1,069,715
Commercial construction	4,728	569,841	8,775	583,344	5,050	620,543	8,328	633,921
Residential mortgage	14,352	906,287	12,566	933,205	13,706	836,624	6,395	856,725
Home equity lines of credit	204	687,228	1,443	688,875	63	653,337	2,010	655,410
Residential construction	1,544	188,054	449	190,047	1,594	187,516	933	190,043
Consumer installment	293	117,146	1,303	118,742	290	123,118	159	123,567
Indirect auto	1,312	398,955	-	400,267	1,165	458,189	-	459,354
Total loans	\$83,576	\$ 7,050,633	\$68,728	\$7,202,937	\$85,663	\$ 6,772,209	\$62,764	\$6,920,636

Management individually evaluates for impairment all non-PCI relationships that are on nonaccrual with a balance of \$500,000 or greater, all troubled debt restructurings (“TDRs”), and all accruing substandard loans greater than \$2 million. 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.

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

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

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

Management 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Generally, closed-end retail loans (installment and residential mortgage loans) past due 90 cumulative days are written down to their collateral value less estimated selling costs. Open-end (revolving) unsecured retail loans which are past due 90 cumulative days from their contractual due date are generally charged-off.

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

	September 30, 2017			December 31, 2016		
	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	\$8,958	\$ 8,126	\$ -	\$9,171	\$ 8,477	\$ -
Income producing commercial real estate	14,739	14,739	-	16,864	16,864	-
Commercial & industrial	2,387	2,100	-	421	334	-
Commercial construction	981	776	-	845	841	-
Total commercial	27,065	25,741	-	27,301	26,516	-
Residential mortgage	2,980	2,885	-	630	628	-
Home equity lines of credit	393	204	-	-	-	-
Residential construction	239	164	-	-	-	-
Consumer installment	30	30	-	-	-	-
Indirect auto	134	134	-	1,165	1,165	-
Total with no related allowance recorded	30,841	29,158	-	29,096	28,309	-
With an allowance recorded:						
Owner occupied commercial real estate	21,645	21,303	1,131	23,574	22,944	1,746
Income producing commercial real estate	11,421	11,322	869	13,681	13,595	885

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Commercial & industrial	3,655	3,553	1,040	1,679	1,581	58
Commercial construction	4,490	3,952	165	4,739	4,209	168
Total commercial	41,211	40,130	3,205	43,673	42,329	2,857
Residential mortgage	12,009	11,467	1,111	13,565	13,078	517
Home equity lines of credit	-	-	-	63	63	2
Residential construction	1,458	1,380	82	1,947	1,594	64
Consumer installment	267	263	8	293	290	12
Indirect auto	1,178	1,178	30	-	-	-
Total with an allowance recorded	56,123	54,418	4,436	59,541	57,354	3,452
Total	\$86,964	\$ 83,576	\$ 4,436	\$88,637	\$ 85,663	\$ 3,452

As of September 30, 2017 and December 31, 2016, \$2.98 million and \$2.90 million, respectively, of specific reserves were allocated to customers whose loan terms have been modified in TDRs. United committed to lend additional amounts totaling up to \$45,000 and \$95,000, respectively, at September 30, 2017 and December 31, 2016 to customers with outstanding loans that are classified as TDRs.

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

Loans modified under the terms of a TDR during the three and nine months ended September 30, 2017 and 2016 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that defaulted (became 90 days or more delinquent) during the periods presented and were initially restructured within one year prior to default (*dollars in thousands*).

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	New TDRs					Recorded Investment	TDRs Modified Within Previous Twelve Month That Have Subsequently Defaulted	
	Pre-Modification Outstanding	Post-Modification Outstanding	Rate Reduction	Structure	Other		Number of Recorded Investment Contracts	Recorded Investment
Three Months Ended September 30, 2017								
Owner occupied commercial real estate	3	\$ 743	\$ -	\$ 301	\$ 108	\$ 409	-	\$ -
Income producing commercial real estate	1	31	-	-	26	26	-	-
Commercial & industrial	1	22	-	22	-	22	-	-
Commercial construction	-	-	-	-	-	-	-	-
Total commercial	5	796	-	323	134	457	-	-
Residential mortgage	9	773	-	773	-	773	1	160
Home equity lines of credit	-	-	-	-	-	-	-	-
Residential construction	1	31	-	31	-	31	-	-
Consumer installment	1	10	-	10	-	10	-	-
Indirect auto	10	188	-	-	188	188	-	-
Total loans	26	\$ 1,798	\$ -	\$ 1,137	\$ 322	\$ 1,459	1	\$ 160
Nine Months Ended September 30, 2017								
Owner occupied commercial real estate	6	\$ 2,603	\$ -	\$ 2,161	\$ 108	\$ 2,269	-	\$ -
Income producing commercial real estate	2	257	-	-	252	252	-	-
Commercial & industrial	3	75	-	75	-	75	-	-
Commercial construction	-	-	-	-	-	-	-	-
Total commercial	11	2,935	-	2,236	360	2,596	-	-
Residential mortgage	21	1,609	-	1,609	-	1,609	3	815
Home equity lines of credit	1	296	-	-	176	176	-	-
Residential construction	2	71	40	31	-	71	-	-
Consumer installment	2	16	-	16	-	16	-	-
Indirect auto	23	521	-	-	521	521	-	-
Total loans	60	\$ 5,448	\$ 40	\$ 3,892	\$ 1,057	\$ 4,989	3	\$ 815
Three Months Ended September 30, 2016								
Owner occupied commercial real estate	1	\$ 1,007	\$ -	\$ 1,007	\$ -	\$ 1,007	-	\$ -
Income producing commercial real estate	1	257	-	257	-	257	-	-
Commercial & industrial	2	66	-	66	-	66	2	34
Commercial construction	1	224	-	224	-	224	-	-
Total commercial	5	1,554	-	1,554	-	1,554	2	34
Residential mortgage	6	605	-	550	-	550	-	-
Home equity lines of credit	-	-	-	-	-	-	-	-
Residential construction	1	48	-	48	-	48	-	-

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Consumer installment	2	14	-	14	-	14	-	-
Indirect auto	8	226	-	-	226	226	-	-
Total loans	22	\$ 2,447	\$ -	\$ 2,166	\$ 226	\$ 2,392	2	\$ 34

Nine Months Ended September 30, 2016

Owner occupied commercial real estate	8	\$ 2,699	\$ -	\$ 2,699	\$ -	\$ 2,699	1	\$ 252
Income producing commercial real estate	1	257	-	257	-	257	-	-
Commercial & industrial	5	1,012	-	1,012	-	1,012	2	34
Commercial construction	3	459	-	393	66	459	-	-
Total commercial	17	4,427	-	4,361	66	4,427	3	286
Residential mortgage	23	3,033	1,957	982	-	2,939	1	85
Home equity lines of credit	1	38	38	-	-	38	-	-
Residential construction	5	307	45	125	82	252	-	-
Consumer installment	3	34	-	34	-	34	-	-
Indirect auto	26	699	-	-	699	699	-	-
Total loans	75	\$ 8,538	\$ 2,040	\$ 5,502	\$ 847	\$ 8,389	4	\$ 371

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2017			2016		
	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Three Months Ended September 30,						
Owner occupied commercial real estate	\$29,764	\$ 307	\$ 331	\$35,714	\$ 434	\$ 433
Income producing commercial real estate	26,203	329	331	31,753	416	380
Commercial & industrial	5,492	53	65	2,553	33	33
Commercial construction	4,863	51	48	5,984	66	69
Total commercial	66,322	740	775	76,004	949	915
Residential mortgage	14,448	139	139	14,060	140	140
Home equity lines of credit	207	4	4	103	1	1
Residential construction	1,561	24	24	1,542	19	17
Consumer installment	300	6	5	291	5	6
Indirect auto	1,339	18	18	959	11	11
Total	\$84,177	\$ 931	\$ 965	\$92,959	\$ 1,125	\$ 1,090
Nine Months Ended September 30,						
Owner occupied commercial real estate	\$30,149	\$ 1,023	\$ 1,043	\$33,997	\$ 1,280	\$ 1,307
Income producing commercial real estate	27,794	1,039	1,023	32,013	1,054	1,047
Commercial & industrial	3,103	106	110	2,614	98	94
Commercial construction	5,511	174	178	6,135	201	208
Total commercial	66,557	2,342	2,354	74,759	2,633	2,656
Residential mortgage	14,266	407	429	14,224	502	499
Home equity lines of credit	274	7	9	103	3	3
Residential construction	1,581	70	71	1,699	67	66
Consumer installment	298	17	17	303	17	18
Indirect auto	1,199	46	46	871	33	33
Total	\$84,175	\$ 2,889	\$ 2,926	\$91,959	\$ 3,255	\$ 3,275

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

PCI loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered to be performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or future period yield adjustments. The accrual of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at September 30, 2017 or December 31, 2016 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

The gross additional interest revenue that would have been earned if the loans classified as nonaccrual had performed in accordance with the original terms was approximately \$291,000 and \$262,000 for the three months ended September 30, 2017 and 2016, respectively, and \$814,000 and \$686,000 for the nine months ended September 30, 2017 and 2016, respectively.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	September 30, 2017	December 31, 2016
Owner occupied commercial real estate	\$ 5,027	\$ 7,373
Income producing commercial real estate	2,042	1,324
Commercial & industrial	2,378	966
Commercial construction	1,376	1,538
Total commercial	10,823	11,201
Residential mortgage	8,559	6,368
Home equity lines of credit	1,898	1,831
Residential construction	178	776
Consumer installment	84	88
Indirect auto	1,379	1,275
Total	\$ 22,921	\$ 21,539

Excluding PCI loans, substantially all loans more than 90 days past due were on nonaccrual status at September 30, 2017 and December 31, 2016. The following table presents the aging of the recorded investment in past due loans by class of loans as of the dates indicated (*in thousands*).

	Loans Past Due			Total	Loans Not		Total
	30 - 59 Days	60 - 89 Days	> 90 Days		Past Due	PCI Loans	
As of September 30, 2017							
Owner occupied commercial real estate	\$4,017	\$ 1,236	\$ 2,176	\$7,429	\$1,766,318	\$ 18,015	\$1,791,762
Income producing commercial real estate	1,189	595	463	2,247	1,385,728	25,129	1,413,104
Commercial & industrial	3,088	1,008	1,006	5,102	1,077,441	1,048	1,083,591
Commercial construction	494	5	219	718	573,851	8,775	583,344
Total commercial	8,788	2,844	3,864	15,496	4,803,338	52,967	4,871,801
Residential mortgage	6,133	1,883	3,301	11,317	909,322	12,566	933,205
Home equity lines of credit	2,545	666	608	3,819	683,613	1,443	688,875
Residential construction	400	110	16	526	189,072	449	190,047
Consumer installment	544	39	28	611	116,828	1,303	118,742
Indirect auto	936	415	1,047	2,398	397,869	-	400,267
Total loans	\$19,346	\$ 5,957	\$ 8,864	\$34,167	\$7,100,042	\$ 68,728	\$7,202,937

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

As of December 31, 2016

Owner occupied commercial real estate	\$2,195	\$ 1,664	\$ 3,386	\$7,245	\$1,624,531	\$ 18,584	\$1,650,360
Income producing commercial real estate	1,373	355	330	2,058	1,254,164	25,319	1,281,541
Commercial & industrial	943	241	178	1,362	1,067,317	1,036	1,069,715
Commercial construction	452	14	292	758	624,835	8,328	633,921
Total commercial	4,963	2,274	4,186	11,423	4,570,847	53,267	4,635,537
Residential mortgage	7,221	1,799	1,700	10,720	839,610	6,395	856,725
Home equity lines of credit	1,996	101	957	3,054	650,346	2,010	655,410
Residential construction	950	759	51	1,760	187,350	933	190,043
Consumer installment	633	117	35	785	122,623	159	123,567
Indirect auto	1,109	301	909	2,319	457,035	-	459,354
Total loans	\$16,872	\$ 5,351	\$ 7,838	\$30,061	\$6,827,811	\$ 62,764	\$6,920,636

Risk Ratings

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

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Pass	Watch	Substandard	Doubtful / Loss	Total
As of September 30, 2017					
Owner occupied commercial real estate	\$1,708,659	\$32,450	\$ 32,638	\$ -	\$1,773,747
Income producing commercial real estate	1,337,358	30,584	20,033	-	1,387,975
Commercial & industrial	1,054,999	14,645	12,899	-	1,082,543
Commercial construction	563,616	5,006	5,947	-	574,569
Total commercial	4,664,632	82,685	71,517	-	4,818,834
Residential mortgage	899,000	-	21,639	-	920,639
Home equity lines of credit	680,711	-	6,721	-	687,432
Residential construction	187,684	-	1,914	-	189,598
Consumer installment	116,877	-	562	-	117,439
Indirect auto	397,203	-	3,064	-	400,267
Total loans, excluding PCI loans	\$6,946,107	\$82,685	\$ 105,417	\$ -	\$7,134,209
As of September 30, 2016					
Owner occupied commercial real estate	\$3,628	\$4,851	\$ 9,536	\$ -	\$18,015
Income producing commercial real estate	12,459	9,739	2,931	-	25,129
Commercial & industrial	426	403	219	-	1,048
Commercial construction	4,742	2,391	1,642	-	8,775
Total commercial	21,255	17,384	14,328	-	52,967
Residential mortgage	9,732	-	2,834	-	12,566
Home equity lines of credit	663	-	780	-	1,443
Residential construction	431	-	18	-	449
Consumer installment	1,273	-	30	-	1,303
Indirect auto	-	-	-	-	-
Total PCI loans	\$33,354	\$17,384	\$ 17,990	\$ -	\$68,728
As of December 31, 2016					
Owner occupied commercial real estate	\$1,577,301	\$18,029	\$ 36,446	\$ -	\$1,631,776
Income producing commercial real estate	1,220,626	8,502	27,094	-	1,256,222
Commercial & industrial	1,055,282	4,188	9,209	-	1,068,679
Commercial construction	612,900	6,166	6,527	-	625,593
Total commercial	4,466,109	36,885	79,276	-	4,582,270
Residential mortgage	829,844	-	20,486	-	850,330
Home equity lines of credit	647,425	-	5,975	-	653,400
Residential construction	185,643	-	3,467	-	189,110
Consumer installment	122,736	-	672	-	123,408
Indirect auto	456,717	-	2,637	-	459,354
Total loans, excluding PCI loans	\$6,708,474	\$36,885	\$ 112,513	\$ -	\$6,857,872

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Owner occupied commercial real estate	\$2,044	\$3,444	\$ 13,096	\$ -	\$18,584
Income producing commercial real estate	13,236	8,474	3,609	-	25,319
Commercial & industrial	216	160	660	-	1,036
Commercial construction	3,212	1,265	3,851	-	8,328
Total commercial	18,708	13,343	21,216	-	53,267
Residential mortgage	5,189	-	1,206	-	6,395
Home equity lines of credit	1,094	-	916	-	2,010
Residential construction	898	-	35	-	933
Consumer installment	159	-	-	-	159
Indirect auto	-	-	-	-	-
Total PCI loans	\$26,048	\$13,343	\$ 23,373	\$ -	\$62,764

25

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 7 – Reclassifications Out of Accumulated Other Comprehensive Income

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

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement Where Net Income is Presented
	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016	
Realized gains on available-for-sale securities:					
	\$ 188	\$ 261	\$ 190	\$ 922	Securities gains, net
	(73)	(101)	(72)	(348)	Tax expense
	\$ 115	\$ 160	\$ 118	\$ 574	Net of tax
Amortization of losses included in net income on available-for-sale securities transferred to held to maturity:					
	\$(278)	\$(663)	\$(849)	\$(1,601)	Investment securities interest revenue
	105	237	319	596	Tax benefit
	\$(173)	\$(426)	\$(530)	\$(1,005)	Net of tax
Gains included in net income on derivative financial instruments accounted for as cash flow hedges:					
Amortization of losses on de-designated positions	\$-	\$-	\$-	\$(7)	Deposits in banks and short-term investments interest revenue
Amortization of losses on de-designated positions	(150)	(153)	(448)	(495)	Money market deposit interest expense
Amortization of losses on de-designated positions	-	(313)	(292)	(924)	Federal Home Loan Bank advances interest expense
	(150)	(466)	(740)	(1,426)	Total before tax
	58	181	288	555	Tax benefit
	\$(92)	\$(285)	\$(452)	\$(871)	Net of tax
Reclassification of disproportionate tax effect related to terminated cash flow hedges:					
	\$-	\$-	\$(3,400)	\$-	Income tax expense
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan:					
Prior service cost	\$(140)	\$(125)	\$(420)	\$(375)	Salaries and employee benefits expense
Actuarial losses	(60)	(42)	(180)	(126)	Salaries and employee benefits expense
	(200)	(167)	(600)	(501)	Total before tax

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

78	65	235	195	Tax benefit
\$(122)	\$(102)	\$(365)	\$(306)	Net of tax

Total reclassifications for the period \$(272) \$(653) \$(4,629) \$(1,608) Net of tax

Amounts shown above in parentheses reduce earnings.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 8 – Earnings Per Share

United is required to report on the face of the consolidated statement of income, earnings per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share.

During the nine months ended September 30, 2016, United accrued dividends of \$21,000 on its Series H preferred stock. The Series H preferred stock was redeemed in the first quarter of 2016; accordingly, United did not accrue any dividends in 2017 or the third quarter of 2016.

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,	
	2017	2016	2017	2016
Net income	\$ 27,946	\$ 25,874	\$ 79,737	\$ 73,435
Dividends and undistributed earnings allocated to unvested shares	(227)	-	(659)	-
Preferred dividends	-	-	-	(21)
Net income available to common shareholders	\$ 27,719	\$ 25,874	\$ 79,078	\$ 73,414
Weighted average shares outstanding:				
Basic	73,151	71,556	72,060	71,992
Effect of dilutive securities				
Stock options	11	5	11	4
Diluted	73,162	71,561	72,071	71,996
Net income per common share:				
Basic	\$.38	\$.36	\$ 1.10	\$ 1.02
Diluted	\$.38	\$.36	\$ 1.10	\$ 1.02

At September 30, 2017, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at \$61.40 per share; 60,489 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$24.15; and 710,145

shares of common stock issuable upon the vesting of restricted stock unit awards.

At September 30, 2016, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 shares of common stock at \$61.40 per share; 185,688 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$77.63; and 674,862 shares of common stock issuable upon the vesting of restricted stock unit awards.

Note 9 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Derivatives designated as hedging instruments under ASC 815		Fair Value	
Interest Rate Products	Balance Sheet Location	September 30, 2017	December 31, 2016
Fair value hedge of corporate bonds	Derivative assets	\$67	\$ 265
		\$67	\$ 265
Fair value hedge of brokered CDs	Derivative liabilities	\$1,816	\$ 1,980
		\$1,816	\$ 1,980
Derivatives not designated as hedging instruments under ASC 815		Fair Value	
Interest Rate Products	Balance Sheet Location	September 30, 2017	December 31, 2016
Customer derivative positions	Derivative assets	\$4,804	\$ 5,266
Dealer offsets to customer derivative positions	Derivative assets	4,424	3,869
Mortgage banking - loan commitment	Derivative assets	1,193	1,552
Mortgage banking - forward sales commitment	Derivative assets	149	534
Bifurcated embedded derivatives	Derivative assets	9,925	10,225
Interest rate caps	Derivative assets	410	-
Offsetting positions for de-designated hedges	Derivative assets	-	1,977
		\$20,905	\$ 23,423
Customer derivative positions	Derivative liabilities	\$4,524	\$ 3,897
Dealer offsets to customer derivative positions	Derivative liabilities	3,054	5,328
Risk participations	Derivative liabilities	22	26
Mortgage banking - forward sales commitment	Derivative liabilities	3	96
Dealer offsets to bifurcated embedded derivatives	Derivative liabilities	13,210	14,341
De-designated hedges	Derivative liabilities	297	1,980
		\$21,110	\$ 25,668

Customer derivative positions are between United and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap/cap program. 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 LIBOR and therefore provide an economic hedge.

To accommodate customers, United occasionally enters into credit risk participation agreements with counterparty banks to accept a portion of the credit risk related to interest rate swaps. This allows customers to execute an interest rate swap with one bank while allowing for the distribution of the credit risk among participating members. Credit risk participation agreements arise when United contracts with other financial institutions, as a guarantor, to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap. These transactions are typically executed in conjunction with a participation in a loan with the same customer. Collateral used to support the credit risk for the underlying lending relationship is also available to offset the risk of the credit risk participation.

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. Most of this hedging activity is executed on a matched basis, with a loan sale commitment hedging a specific loan. The commitments to originate residential mortgage loans and forward loan sales commitments are freestanding derivative instruments. Beginning late in the third quarter of 2016 for newly originated mortgage loans, United began to account for the underlying loans at fair value pursuant to the fair value option, and these loans are not reflected in the table above. Fair value adjustments on these derivative instruments are recorded within mortgage loan and other related fee income in the consolidated statement of income.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

In the second quarter of 2017, United purchased interest rate caps with a notional amount of \$200 million to serve as an economic macro hedge of exposure to rising interest rates.

Cash Flow Hedges of Interest Rate Risk

At September 30, 2017 and December 31, 2016 United did not have any designated cash flow hedges. Changes in balance sheet composition and interest rate risk position made cash flow hedges no longer necessary as protection against rising interest rates. The loss remaining in other comprehensive income on the de-designated swaps is being amortized into earnings over the original term of the swaps as the forecasted transactions that the swaps were originally designated to hedge are still expected to occur. United expects that \$545,000 will be reclassified as an increase to interest expense over the next twelve months related to these cash flow hedges.

The table below presents the effect of cash flow hedges on the consolidated statement of income for the periods indicated (*in thousands*).

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)				
	2017	2016		Location	2017	2016		
Three Months Ended September 30,								
Interest rate swaps	\$ -	\$ -	Interest expense	\$(150)	\$(466)	Interest expense	\$ -	\$ -
Nine Months Ended September 30,								
Interest rate swaps	\$ -	\$ -	Interest expense	\$(740)	\$(1,426)	Interest expense	\$ -	\$ -

Fair Value Hedges of Interest Rate Risk

United is exposed to changes in the fair value of certain of its fixed-rate obligations due to changes in interest rates. United uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in interest rates. Interest rate swaps designated as fair value hedges of brokered deposits involve the receipt of

fixed-rate amounts from a counterparty in exchange for United making variable rate payments over the life of the agreements without the exchange of the underlying notional amount. Interest rate swaps designated as fair value hedges of fixed-rate investments involve the receipt of variable-rate payments from a counterparty in exchange for United making fixed-rate payments over the life of the instrument without the exchange of the underlying notional amount. At September 30, 2017, United had four interest rate swaps with a notional amount of \$40.7 million that were designated as fair value hedges of interest rate risk and were pay-variable / receive-fixed swaps hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates. Also at September 30, 2017, United had one interest rate swap with a notional value of \$30.0 million that was designated as a pay-fixed / receive-variable fair value hedge of changes in the fair value of a fixed-rate corporate bond. At December 31, 2016, United had one interest rate swap with an aggregate notional amount of \$12.8 million that was designated as a fair value hedge of interest rate risk and was pay-variable / receive-fixed, hedging the changes in the fair value of fixed-rate brokered time deposits resulting from changes in interest rates. Also at December 31, 2016, United had one interest rate swap with a notional value of \$30 million that was designated as a pay-fixed / receive-variable fair value hedge of changes in the fair value of a fixed-rate corporate bond.

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. During the three and nine months ended September 30, 2017, United recognized net losses of \$160,000 and \$612,000, respectively, related to ineffectiveness in the fair value hedging relationships. During the three and nine months ended September 30, 2016, United recognized net gains of \$1.51 million and \$2.37 million, respectively, related to ineffectiveness in the fair value hedging relationships. United also recognized net reductions of interest expense of \$40,000 and \$137,000, respectively, for the three and nine months ended September 30, 2017 and net reductions of interest expense of \$388,000 and \$1.63 million, respectively, for the three and nine months ended September 30, 2016 related to fair value hedges of brokered time deposits, which includes net settlements on the derivatives. United recognized reductions of interest revenue on securities during the three and nine months ended September 30, 2017 of \$71,000 and \$244,000, respectively, and reductions of interest revenue on securities during the three and nine months ended September 30, 2016 of \$262,000 and \$508,000, respectively, related to fair value hedges of corporate bonds.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		Amount of Gain (Loss) Recognized in Income on Hedged Item	
		2017	2016	2017	2016
Three Months Ended September 30,					
Fair value hedges of brokered CDs	Interest expense	\$ (217)	\$ (389)	\$ 95	\$ 1,945
Fair value hedges of corporate bonds	Interest revenue	20	262	(58)	(307)
		\$ (197)	\$ (127)	\$ 37	\$ 1,638
Nine Months Ended September 30,					
Fair value hedges of brokered CDs	Interest expense	\$ (418)	\$ 2,882	\$ (60)	\$ (268)
Fair value hedges of corporate bonds	Interest revenue	(197)	(2,145)	63	1,896
		\$ (615)	\$ 737	\$ 3	\$ 1,628

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

Derivatives Not Designated as Hedging Instruments under ASC 815

The table below presents the gains and losses recognized in income on derivatives not designated as hedging instruments under ASC 815 for the periods indicated (*in thousands*).

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
Customer derivatives and dealer offsets	Other fee revenue	\$ 554	\$ 1,115	\$ 1,804	\$ 2,952
	Other fee revenue	225	291	431	(125)

Bifurcated embedded derivatives and dealer offsets					
Interest rate caps	Other fee revenue	(67)	-	23	-
De-designated hedges	Other fee revenue	30	-	34	-
Mortgage banking derivatives	Mortgage loan revenue	303	884	(573)	884
Risk participations	Other fee revenue	(1)	331	4	331
		\$ 1,044	\$ 2,621	\$ 1,723	\$ 4,042

Credit-Risk-Related Contingent Features

United manages its credit exposure on derivatives transactions by entering into a bilateral credit support agreement with each counterparty. The credit support agreements require collateralization of exposures beyond specified minimum threshold amounts. The details of these agreements, including the minimum thresholds, vary by counterparty. As of September 30, 2017, collateral totaling \$20.9 million was pledged toward derivatives in a liability position.

United's agreements with each of its derivative counterparties contain a provision where if either party defaults on any of its indebtedness, then it could also be declared in default on its derivative obligations. The agreements with derivatives counterparties also include provisions that if not met, could result in United being declared in default. United has agreements with certain of its derivative counterparties that contain a provision where 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****Note 10 – Stock-Based Compensation**

United has an equity compensation plan that allows for grants of incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards (also referred to as “nonvested stock” awards), stock awards, performance share awards or stock appreciation rights. Options granted under the plan can 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, restricted stock and restricted stock unit awards provide for accelerated vesting if there is a change in control (as defined in the plan). Through September 30, 2017, incentive stock options, nonqualified stock options, restricted stock and restricted stock unit awards, base salary stock grants and performance share awards have been granted under the plan. As of September 30, 2017, 1.94 million additional shares remained available for grant under the plan.

The following table shows stock option activity for the first nine months of 2017.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2016	72,665	\$ 34.34		
Expired	(1,538)	147.60		
Cancelled	(10,638)	75.91		
Outstanding at September 30, 2017	60,489	24.15	3.3	\$ 365
Exercisable at September 30, 2017	55,489	24.82	3.0	306

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, 2017 and 2016.

United’s stock option exercise patterns were significantly impacted by the past economic downturn, which rendered most of United’s outstanding options worthless to the grantee. Therefore, historical exercise patterns do not provide a reasonable basis for determining the expected life of new option grants. United therefore uses the formula provided in ASC 718-10-S99 to determine the expected life of options.

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

United recognized \$22,000 and \$23,000, respectively, in compensation expense related to stock options during the nine months ended September 30, 2017 and 2016. The amount of compensation expense was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. No options were exercised during the first nine months of 2017 or 2016.

The table below presents restricted stock units activity for the first nine months of 2017.

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, 2016	690,970	\$ 18.60		
Granted	259,220	26.48		
Vested	(230,080)	17.09		\$ 6,326
Cancelled	(9,965)	19.99		
Outstanding at September 30, 2017	710,145	22.06	3.2	20,268

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Compensation expense for restricted stock units is based on the fair value of restricted stock unit awards at the time of grant, which is equal to the value of United's common stock on the date of grant. United recognizes the impact of forfeitures as they occur. The value of restricted stock unit awards is amortized into expense over the vesting period. For the nine months ended September 30, 2017 and 2016, expense of \$4.13 million and \$3.16 million, respectively, was recognized related to employee restricted stock unit awards. Of the expense recognized related to restricted stock unit awards during the nine months ended September 30, 2017, \$696,000 relates to the modification of existing awards resulting from an acceleration of vesting of unvested awards due to retirement which was recognized in merger-related and other charges. The remaining expense of \$3.43 million was recognized in compensation expense. In addition, for the nine months ended September 30, 2017 and 2016, \$212,000 and \$75,000, respectively, was recognized in other operating expense for restricted stock unit awards granted to members of United's board of directors.

As of September 30, 2017, there was \$12.4 million of unrecognized expense related to non-vested stock options and restricted stock unit awards granted under the plan. That cost is expected to be recognized over a weighted-average period of 3.14 years.

Note 11 – Common and Preferred Stock Issued / Common Stock Issuable

United sponsors a Dividend Reinvestment and Share Purchase Plan ("DRIP") that allows participants who already own United's common stock to purchase additional shares directly from United. The DRIP also allows participants to automatically reinvest their quarterly dividends in additional shares of common stock without a commission. In the nine months ended September 30, 2017 and 2016, 2,842 shares and 2,938 shares, respectively, were issued through the DRIP.

In addition, United has an Employee Stock Purchase Program ("ESPP") that allows eligible employees to purchase shares of common stock at a 10% discount, with no commission charges. During the first nine months of 2017 and 2016, United issued 10,265 shares and 12,906 shares, respectively, through the ESPP.

United offers its common stock as an investment option in its deferred compensation plan. United also allows for the deferral of restricted stock unit awards. The common stock component of the deferred compensation plan is accounted for as an equity instrument and is reflected in the consolidated financial statements as common stock issuable. The deferred compensation plan does not allow for diversification once an election is made to invest in United's common stock and settlement must be accomplished in shares at the time the deferral period is completed. At September 30, 2017 and December 31, 2016, 588,445 and 519,874 shares of common stock, respectively, were issuable under the deferred compensation plan.

On March 22, 2016, United announced that its Board of Directors had authorized a program to repurchase up to \$50 million of United's outstanding common stock through December 31, 2017. Under the program, the shares may be repurchased periodically in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program depends on a number of factors, including the market price of United's common stock, general market and economic conditions, and applicable legal requirements. During the first nine months of 2017, United did not repurchase any shares under the program. As of September 30, 2017, \$36.3 million of United's outstanding common stock may be repurchased under the program. In November of 2017, the Board of Directors extended this program through December 31, 2018.

Note 12 – Income Taxes

The income tax provision for the three and nine months ended September 30, 2017 was \$15.7 million and \$50.7 million, respectively, which represents effective tax rates of 36.0% and 38.9%, respectively, for each period. The income tax provision for the three and nine months ended September 30, 2016 was \$15.8 million and \$44.7 million, respectively, which represents an effective tax rate of 37.8% for both periods. Upon reversal of United's former full deferred tax valuation allowance in 2013, certain disproportionate tax effects were retained in accumulated other comprehensive income (loss). During the first quarter of 2017, with the maturity and termination of certain dedesignated cash flow hedges, the disproportionate tax effect associated with these hedges was reversed and recorded as a tax expense of \$3.40 million, which was the primary reason for the increase in the effective tax rate compared to the first nine months of 2016.

At September 30, 2017 and December 31, 2016, United maintained a valuation allowance on its net deferred tax asset of \$4.20 million and \$3.88 million, respectively. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

United evaluated the need for a valuation allowance at September 30, 2017. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of its net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of \$4.20 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at September 30, 2017 that it was more likely than not that the net deferred tax asset of \$129 million will be realized is based upon internal forecasts that consider historical performance, various internal estimates and assumptions, as well as certain external data all of which management believes to be reasonable although inherently subject to significant judgment. If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the valuation allowance may need to be increased for some or all of its net deferred tax asset. Such an increase to the net deferred tax asset valuation allowance could have a material adverse effect on United's financial condition and results of operations.

United is subject to income taxation in the United States and various state jurisdictions. United's federal and state income tax returns are filed on a consolidated basis. Currently, no years for which United filed a federal income tax return are under examination by the IRS, and there are no state tax examinations currently in progress. United is no longer subject to income tax examinations from state and local income tax authorities for years before 2014. Although it is not possible to know the ultimate outcome of future examinations, management believes that the liability recorded for uncertain tax positions is appropriate. At September 30, 2017 and December 31, 2016, unrecognized income tax benefits totaled \$3.87 million and \$3.89 million, respectively.

Note 13 – Assets and Liabilities Measured at Fair Value

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

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 where 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. United's 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.

Securities Available-for-Sale

Investment securities available-for-sale 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, United States Department of Treasury ("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 asset-backed securities in less liquid markets. Securities classified as Level 3 are valued based on estimates obtained from broker-dealers and 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Mortgage Loans Held for Sale

Beginning in the third quarter of 2016, United elected the fair value option for newly originated mortgage loans held for sale. United elected the fair value option for its portfolio of 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).

Loans

United does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral.

Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, *Fair Value Measures and Disclosures*, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. 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.

Derivative Financial Instruments

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

curves. United also uses best effort and mandatory delivery forward loan sale commitments to hedge risk in its mortgage lending business.

To comply with the provisions of ASC 820, United incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, United has considered the effect of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although management has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2017, management had assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. Derivatives classified as Level 3 included structured derivatives for which broker quotes, used as a key valuation input, were not observable consistent with a Level 2 disclosure. The fair value of risk participations incorporates Level 3 inputs to evaluate the likelihood of customer default. The fair value of interest rate lock commitments, which is related to mortgage loan commitments, is categorized as Level 3 based on unobservable inputs for commitments that United does not expect to fund.

Servicing Rights for SBA/USDA Loans

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

Residential Mortgage Servicing Rights

United recognizes servicing rights upon the sale of residential mortgage loans sold with servicing retained. Effective January 1, 2017, management has elected to carry this asset at fair value. Given the nature of the asset, the key valuation inputs are unobservable and management classifies this asset as Level 3. The cumulative effect adjustment of this election to retained earnings, net of income tax effect, was \$437,000.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**Pension Plan Assets

For information on the fair value of pension plan assets, see Note 18 in the Annual Report on Form 10-K for the year ended December 31, 2016.

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, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Treasuries	\$74,764	\$-	\$-	\$74,764
U.S. Government agencies	-	27,728	-	27,728
State and political subdivisions	-	172,389	-	172,389
Mortgage-backed securities	-	1,648,696	-	1,648,696
Corporate bonds	-	307,561	810	308,371
Asset-backed securities	-	308,465	-	308,465
Other	-	57	-	57
Mortgage loans held for sale	-	30,093	-	30,093
Deferred compensation plan assets	5,368	-	-	5,368
Servicing rights for SBA/USDA loans	-	-	7,067	7,067
Residential mortgage servicing rights	-	-	6,926	6,926
Derivative financial instruments	-	9,854	11,118	20,972
Total assets	\$80,132	\$2,504,843	\$25,921	\$2,610,896
Liabilities:				
Deferred compensation plan liability	\$5,368	\$-	\$-	\$5,368
Derivative financial instruments	-	7,581	15,345	22,926
Total liabilities	\$5,368	\$7,581	\$15,345	\$28,294
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale				
U.S. Treasuries	\$169,616	\$-	\$-	\$169,616
U.S. Agencies	-	20,820	-	20,820
State and political subdivisions	-	74,177	-	74,177
Mortgage-backed securities	-	1,391,682	-	1,391,682

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Corporate bonds	-	304,717	675	305,392
Asset-backed securities	-	469,569	-	469,569
Other	-	1,182	-	1,182
Mortgage loans held for sale	-	27,891	-	27,891
Deferred compensation plan assets	4,161	-	-	4,161
Servicing rights for SBA/USDA loans	-	-	5,752	5,752
Derivative financial instruments	-	11,911	11,777	23,688
Total assets	\$173,777	\$2,301,949	\$18,204	\$2,493,930
Liabilities:				
Deferred compensation plan liability	\$4,161	\$-	\$-	\$4,161
Derivative financial instruments	-	11,301	16,347	27,648
Total liabilities	\$4,161	\$11,301	\$16,347	\$31,809

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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*).

	2017		2016		2015		2014		2013		
	Derivative Asset	Derivative Liability	Servicing rights for SBA/USDA loans	Residential mortgage servicing rights	Securities Available- for-Sale	Derivative Asset	Derivative Liability	Servicing rights for SBA/USDA loans	Securities Available- for-Sale	Derivative Asset	Derivative Liability
Three Months Ended September 30,											
Balance at beginning of period	\$ 11,856	\$ 16,091	\$ 6,640	\$ 6,499	\$ 810	\$ 2,657	\$ 7,531	\$ 4,615	\$ 500		
Additions	-	-	770	846	-	-	16	752	-		
Sales and settlements	(658)	(909)	(209)	(118)	-	(204)	(483)	(126)	-		
Other comprehensive income	-	-	-	-	-	-	-	-	-		
Amounts included in earnings - fair value adjustments	(80)	163	(134)	(301)	-	2,412	2,529	(141)	-		
Transfers between valuation levels, net	-	-	-	-	-	-	22	-	-		
Balance at end of period	\$ 11,118	\$ 15,345	\$ 7,067	\$ 6,926	\$ 810	\$ 4,865	\$ 9,615	\$ 5,100	\$ 500		
Nine Months Ended September 30,											
Balance at beginning of period	\$ 11,777	\$ 16,347	\$ 5,752	\$ -	\$ 675	\$ 9,418	\$ 15,794	\$ 3,712	\$ 750		
Transfer from amortization method to fair value	-	-	-	5,070	-	-	-	-	-		
Additions	-	-	1,991	2,659	-	-	16	1,852	-		
Sales and settlements	(1,744)	(2,423)	(508)	(232)	-	(204)	(483)	(297)	-		
Other comprehensive income	-	-	-	-	135	-	-	-	(250)		
Amounts included in earnings - fair value adjustments	1,085	1,421	(168)	(571)	-	(4,349)	(5,734)	(167)	-		
Transfers between valuation levels, net	-	-	-	-	-	-	22	-	-		
Balance at end of period	\$ 11,118	\$ 15,345	\$ 7,067	\$ 6,926	\$ 810	\$ 4,865	\$ 9,615	\$ 5,100	\$ 500		

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

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

Level 3 Assets	Fair Value		Valuation Technique	Unobservable Inputs	Weighted Average			
	September 30, 2017	December 31, 2016			September 30, 2017	December 31, 2016		
Servicing rights for SBA/USDA loans	\$7,067	\$ 5,752	Discounted cash flow	Discount rate	12.3 %	11.0 %		
				Prepayment rate	7.85 %	7.12 %		
Residential mortgage servicing rights	6,926	-	Discounted cash flow	Discount rate	10.0 %	N/A		
				Prepayment rate	10.8 %	N/A		
Corporate bonds	810	675	Indicative bid provided by a broker	Multiple factors, including but not limited to, current operations, financial condition, cash flows, and recently executed financing transactions related to the company	N/A	N/A		
Derivative assets - mortgage	1,193	1,552	Internal model	Pull through rate	80 %	80 %		
Derivative assets - other	9,925	10,225	Dealer priced	Dealer priced	N/A	N/A		
Derivative liabilities - risk participations	22	26	Internal model	Probable exposure rate	.34 %	.35 %		
				Probability of default rate	1.80 %	1.80 %		
Derivative liabilities - other	15,323	16,321	Dealer priced	Dealer priced	N/A	N/A		

Fair Value Option

At September 30, 2017, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of \$30.1 million and \$29.1 million, respectively. At December 31, 2016, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of \$27.9 million and \$27.6 million, respectively. Interest income on these loans is calculated based on the note rate of the loan and is recorded in interest revenue. During the three and nine months ended September 30, 2017, net gains resulting from changes in fair value of these loans of \$264,000 and \$708,000, respectively, were recorded in mortgage loan and other related fees. These changes in fair value were mostly offset by hedging activities.

An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk. During the three and nine months ended September 30, 2016, net gains resulting from changes in fair value of these loans of \$11,000 were recorded in mortgage loan and other related fees.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****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, 2017 and December 31, 2016, 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, 2017				
Loans	\$ -	\$ -	\$ 8,843	\$ 8,843
<u>December 31, 2016</u>				
Loans	\$ -	\$ -	\$ 7,179	\$ 7,179

Loans that are reported above as being measured at fair value on a nonrecurring basis are generally impaired loans that have either been partially charged off or have specific reserves assigned to them. Nonaccrual impaired loans that are collateral dependent are generally written down to 80% of appraised value which considers the estimated costs to sell. Specific reserves are established for impaired loans based on appraised value of collateral or discounted cash flows, although only those specific reserves based on the fair value of collateral are considered nonrecurring fair value adjustments.

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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

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*).

	Carrying Amount	Fair Value Level			Total
		Level 1	Level 2	Level 3	
September 30, 2017					
Assets:					
Securities held to maturity	\$ 306,741	\$-	\$ 310,446	\$-	\$ 310,446
Loans, net	7,144,332	-	-	7,051,886	7,051,886
Mortgage loans held for sale	199	-	205	-	205
Liabilities:					
Deposits	9,127,384	-	9,128,990	-	9,128,990
Federal Home Loan Bank advances	494,484	-	494,411	-	494,411
Long-term debt	135,707	-	-	136,824	136,824
December 31, 2016					
Assets:					
Securities held to maturity	\$ 329,843	\$-	\$ 333,170	\$-	\$ 333,170
Loans, net	6,859,214	-	-	6,824,229	6,824,229
Mortgage loans held for sale	1,987	-	2,018	-	2,018
Residential mortgage servicing rights	4,372	-	-	5,175	5,175
Liabilities:					
Deposits	8,637,558	-	8,635,811	-	8,635,811
Federal Home Loan Bank advances	709,209	-	709,174	-	709,174
Long-term debt	175,078	-	-	175,750	175,750

Note 14 – Commitments and Contingencies

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

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

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

	September 30, 2017	December 31, 2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,793,538	\$ 1,542,186
Letters of credit	26,763	26,862

United's wholly-owned bank subsidiary, United Community Bank (the "Bank"), holds minor investments in certain limited partnerships for Community Reinvestment Act purposes. As of September 30, 2017, the Bank had invested \$4.13 million in these limited partnerships and had committed to fund an additional \$5.37 million related to future capital calls.

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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 15 – Goodwill and Other Intangible Assets

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

	September 30, 2017	December 31, 2016
Core deposit intangible	\$ 54,822	\$ 51,342
Less: accumulated amortization	(39,986)	(37,145)
Net core deposit intangible	14,836	14,197
Noncompete agreement	2,236	-
Less: accumulated amortization	(244)	-
Net noncompete agreement	1,992	-
Total intangibles subject to amortization, net	16,828	14,197
Goodwill	165,888	142,025
Total goodwill and other intangible assets, net	\$ 182,716	\$ 156,222

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	Goodwill	Accumulated Impairment Losses	Goodwill, net of Accumulated Impairment Losses	Goodwill	Accumulated Impairment Losses	Goodwill, net of Accumulated Impairment Losses
2017						
Balance, beginning of period	\$ 447,615	\$ (305,590)	\$ 142,025	\$ 447,615	\$ (305,590)	\$ 142,025
Acquisition of HCSB	23,863	-	23,863	23,863	-	23,863
Balance, end of period	\$ 471,478	\$ (305,590)	\$ 165,888	\$ 471,478	\$ (305,590)	\$ 165,888
2016						
Balance, beginning of period	\$ 436,902	\$ (305,590)	\$ 131,312	\$ 436,202	\$ (305,590)	\$ 130,612
Acquisition of Tidelands	10,713	-	10,713	10,713	-	10,713
Measurement period adjustments	-	-	-	700	-	700
Balance, end of period	\$ 447,615	\$ (305,590)	\$ 142,025	\$ 447,615	\$ (305,590)	\$ 142,025

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

Year	
Remainder of 2017	\$1,384
2018	4,810
2019	3,391
2020	2,272
2021	1,631
Thereafter	3,340
Total	\$16,828

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 16 – Subsequent Events

On October 15, 2017, United paid off \$35 million of maturing long-term debt that had an interest rate of 9%. On November 3, 2017, United's Board of Directors approved a regular quarterly cash dividend of ten cents per common share. The dividend is payable January 5, 2018, to shareholders of record on December 15, 2017.

Four Oaks Fincorp, Inc.

On November 1, 2017, United completed its previously announced acquisition of Four Oaks Fincorp, Inc. (“FOFN”) and its wholly-owned bank subsidiary, Four Oaks Bank & Trust Company. As of June 30, 2017, FOFN had total assets of \$740 million, loans of \$498 million and deposits of \$560 million. Four Oaks Bank & Trust Company, which operated 14 banking offices in the Raleigh, North Carolina metropolitan statistical area, will operate under the Four Oaks Bank & Trust Company brand until the system conversions are completed in the second quarter of 2018, at which time it will begin to operate as United Community Bank.

Under the terms of the merger agreement, FOFN shareholders received .6178 shares of United common stock and \$1.90 for each share of FOFN common stock, or an aggregate of approximately \$128 million based on United's closing price of \$27.42 on October 31, 2017.

The acquisition will be accounted for as a business combination, subject to the provisions of ASC 805-10-50, *Business Combinations*. Due to the timing of the acquisition, United is currently in the process of completing the purchase accounting and has not made all of the remaining disclosures required by ASC 805-10-50, such as the fair value of assets acquired and supplemental pro forma information, which will be disclosed in subsequent filings.

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

Forward-looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), about United and its subsidiaries. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and 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", "intends", or "anticipates", the negative thereof or comparable terminology. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions or events, and statements about the future performance, operations, products and services of United and its subsidiaries. We caution our shareholders and other readers not to place undue reliance on such statements.

Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experiences may differ materially from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experiences to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2016 as well as the following factors:

- the condition of the general business and economic environment;
- the results of our internal credit stress tests may not accurately predict the impact on our financial condition if the economy were to deteriorate;
- our ability to maintain profitability;
- our ability to fully realize the balance of our net deferred tax asset, including net operating loss carryforwards;
- the impact of lower federal income tax rates on the carrying amount of our deferred tax asset;
- the risk that we may be required to increase the valuation allowance on our net deferred tax asset in future periods;
- the condition of the banking system and financial markets;
- our ability to raise capital;
- our ability to maintain liquidity or access other sources of funding;
- changes in the cost and availability of funding;
- the success of the local economies in which we operate;
- our lack of geographic diversification;
- our concentrations of residential and commercial construction and development loans and commercial real estate loans are subject to unique risks that could adversely affect our earnings;
- changes in prevailing interest rates may negatively affect our net income and the value of our assets and other interest rate risks;
- our accounting and reporting policies;

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

- if our allowance for loan losses is not sufficient to cover actual loan losses;
- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;
- risks related to our communications and information systems, including risks with respect to cybersecurity breaches;
- our reliance on third parties to provide key components of our business infrastructure and services required to operate our business;
- competition from financial institutions and other financial service providers;
- risks with respect to our ability to successfully expand and complete acquisitions and integrate businesses and operations that are acquired;
- if the conditions in the stock market, the public debt market and other capital markets deteriorate;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and related regulations;
- changes in laws and regulations or failures to comply with such laws and regulations;
- changes in regulatory capital and other requirements;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto;
- regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators that may occur;
- changes in tax laws, regulations and interpretations or challenges to our income tax provision; and
- our ability to maintain effective internal controls over financial reporting and disclosure controls and procedures.

Additional information with respect to factors that may cause actual results to differ materially from those contemplated by such forward-looking statements may also be included in other reports that United files with the Securities and Exchange Commission (the "SEC"). United cautions that the foregoing list of factors is not exclusive and not to place undue reliance on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q. The financial statements and information contained herein have not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Overview

The following discussion is intended to provide insight into the results of operations and financial condition of United Community Banks, Inc. (“United”) and its subsidiaries and should be read in conjunction with the consolidated financial statements and accompanying notes.

United is a bank holding company registered with the Board of Governors of the Federal Reserve under the Bank Holding Company Act of 1956 that was incorporated under the laws of the State of Georgia in 1987 and commenced operations in 1988. At September 30, 2017, United had total consolidated assets of \$11.1 billion, total loans of \$7.20 billion, total deposits of \$9.13 billion, and shareholders’ equity of \$1.22 billion.

United conducts substantially all of its operations through its wholly-owned Georgia bank subsidiary, United Community Bank (the “Bank”), which as of September 30, 2017, operated at 142 locations throughout the Atlanta-Sandy Springs-Roswell, Georgia, and Gainesville, Georgia metropolitan statistical areas, upstate and coastal South Carolina, north and coastal Georgia, western North Carolina, and east Tennessee, as well as a commercial loan office in Charlotte, North Carolina.

On July 1, 2016, United completed its previously announced acquisition of Tidelands Bancshares, Inc. (“Tidelands”) and its wholly-owned bank subsidiary, Tidelands Bank. Tidelands’ results are included in United’s consolidated results beginning on the acquisition date.

On July 31, 2017, United completed its previously announced acquisition of HCSB Financial Corporation (“HCSB”) and its wholly-owned bank subsidiary, Horry County State Bank. HCSB’s results are included in United’s consolidated results beginning on the acquisition date.

United reported net income of \$27.9 million, or \$.38 per diluted share, for the third quarter of 2017, compared to net income of \$25.9 million, or \$.36 per diluted share, for the third quarter of 2016. For the nine months ended September 30, 2017, United reported net income of \$79.7 million, or \$1.10 per diluted share, compared to \$73.4 million, or \$1.02 per diluted share, for the first nine months of 2016. The increase in earnings per share resulted from an increase in net interest revenue, partially offset by a decrease in fee revenue and an increase in operating expenses.

Net interest revenue increased to \$89.8 million for the third quarter of 2017, compared to \$79.0 million for the third quarter of 2016, primarily due to higher loan volume, much of which resulted from the acquisition of HCSB. Net

interest margin increased to 3.54% for the three months ended September 30, 2017 from 3.34% for the same period in 2016 mostly due to the effect of rising interest rates on floating rate loans and investment securities. Growth in the loan portfolio also led to a more favorable earning asset mix. For the nine months ended September 30, 2017, net interest revenue was \$258 million and the net interest margin was 3.49% compared to net interest revenue of \$229 million and net interest margin of 3.36% for the same period in 2016.

The provision for credit losses was \$1.00 million for the third quarter of 2017, compared to a release of provision of \$300,000 for the third quarter of 2016. For the nine months ended September 30, 2017, the provision for credit losses was \$2.60 million, compared to a release of provision of \$800,000 for the same period in 2016. Net charge-offs for the third quarter of 2017 were \$1.64 million, compared to \$1.36 million for the third quarter of 2016.

As of September 30, 2017, the allowance for loan losses was \$58.6 million, or .81% of loans, compared to \$61.4 million, or .89% of loans, at December 31, 2016 reflecting continued asset quality improvement and the effect of loans acquired through a business combination which are recorded at fair value with credit losses reflected in the value rather than in the allowance for loan losses. Nonperforming assets of \$25.7 million were .23% of total assets at September 30, 2017, down from .28% at December 31, 2016 primarily due to sales of foreclosed properties. During the third quarter of 2017, \$7.96 million in loans were placed on nonaccrual compared with \$6.68 million in the third quarter of 2016.

Fee revenue of \$20.6 million for the third quarter of 2017 was down \$5.79, or 22%, from the third quarter of 2016. Service charges and fees decreased 24% compared to third quarter of 2016 due to the effect of the Durbin Amendment of the Dodd-Frank Act, which took effect for United in the third quarter of 2017 and limited the amount of interchange fees United could earn on debit card transactions. For the first nine months of 2017, fee revenue of \$66.3 million decreased \$2.13 million, or 3%, from the same period in 2016, primarily due to the same factors that affected the quarterly results.

For the third quarter and first nine months of 2017, operating expenses of \$65.7 million and \$192 million, respectively, were up \$1.65 million and \$11.8 million from the same periods of 2016, primarily due to the addition of HCSB and (for the year to date period) Tideland's operating expenses since acquisition. Salaries and benefits expense increased \$1.55 million from third quarter 2016 and \$8.94 million from the first nine months of 2016, also due to the addition of HCSB and Tideland's and higher incentives and commissions in connection with increased lending activities and improvement in earnings performance.

Recent Developments

On November 1, 2017, United completed its previously announced acquisition of Four Oaks Fincorp, Inc. (“FOFN”) and its wholly-owned bank subsidiary, Four Oaks Bank & Trust Company. As of June 30, 2017, FOFN had total assets of \$740 million, loans of \$498 million and deposits of \$560 million. Four Oaks Bank & Trust Company, which operated 14 banking offices in the Raleigh, North Carolina metropolitan statistical area, will operate under the Four Oaks Bank & Trust Company brand until the system conversions are completed in the second quarter of 2018, at which time it will begin to operate as United Community Bank.

Under the terms of the merger agreement, FOFN shareholders received .6178 shares of United common stock and \$1.90 for each share of FOFN common stock, or an aggregate of approximately \$128 million based on United’s closing price of \$27.42 on October 31, 2017.

Critical Accounting Policies

The accounting and reporting policies of United are in accordance with accounting principles generally accepted in the United States (“GAAP”) and conform to general practices within the banking industry. The more critical accounting and reporting policies include United’s accounting for the allowance for loan losses, fair value measurements, and income taxes which involve the use of estimates and require significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in United’s consolidated financial position or consolidated results of operations. See “Asset Quality and Risk Elements” herein for additional discussion of United’s accounting methodologies related to the allowance for loan losses.

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,” “average tangible equity to average assets,” “tangible equity to assets,” “average tangible common equity to average assets,” “tangible common equity to assets” and “tangible common equity to risk-weighted assets.” In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of United’s ongoing business operations. Operating performance measures include “expenses – operating,” “net income – operating,” “net income available to common shareholders – operating,” “diluted net 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 processes and procedures to capture and account for merger-related and other charges and those charges are reviewed with the audit

committee of United's Board of Directors each quarter. Management uses these non-GAAP measures because it believes they may provide useful supplemental information for evaluating United's operations and performance over periods of time, as well as in managing and evaluating United's business and in discussions about United's operations and performance. Management believes these non-GAAP measures may also provide users of United's financial information with a meaningful measure for assessing United's financial results and credit trends, as well as a comparison to financial results for prior periods. These non-GAAP measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable measures as reported in accordance with GAAP are included in the table on page 45.

Results of Operations

United reported net income of \$27.9 million for the third quarter of 2017. This compared to net income of \$25.9 million for the same period in 2016. For the third quarter of 2017, diluted earnings per common share were \$.38 compared to \$.36 for the third quarter of 2016. For the nine months ended September 30, 2017, United reported net income of \$79.7 million compared to net income of \$73.4 million for the same period in 2016.

United reported operating net income of \$30.2 million and \$87.9 million, respectively, for the third quarter and first nine months of 2017, compared to \$27.8 million and \$77.8 million, respectively, for the same periods in 2016. For the third quarter of 2017, operating net income excludes merger-related charges and impairment charges on surplus bank properties, which, net of the associated income tax benefit, totaled \$2.27 million. For the first nine months of 2017, operating net income excludes merger-related charges, impairment charges on surplus bank properties, executive retirement charges and the release from accumulated other comprehensive income of the disproportionate tax effect related to cash flow hedges, which, net of tax, totaled \$8.12 million. For the third quarter and first nine months of 2016, operating net income excludes merger-related charges, which, net of tax, totaled \$1.96 million and \$4.34 million, respectively.

UNITED COMMUNITY BANKS, INC.

**Table 1 - Financial Highlights
Selected Financial Information**

	2017			2016			Third Quarter	For the Nine Months Ended
(in thousands, except per share data)	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Change	2017-2016	September 30, 2017
INCOME SUMMARY								
Interest revenue	\$98,839	\$93,166	\$90,958	\$87,778	\$85,439		\$282,963	\$282,963
Interest expense	9,064	8,018	7,404	6,853	6,450		24,486	24,486
Net interest revenue	89,775	85,148	83,554	80,925	78,989	14 %	258,477	258,477
Provision for credit losses	1,000	800	800	-	(300)		2,600	2,600
Fee revenue	20,573	23,685	22,074	25,233	26,361	(22)	66,332	66,332
Total revenue	109,348	108,033	104,828	106,158	105,650	4	322,209	322,209
Expenses	65,674	63,229	62,826	61,321	64,023	3	191,729	191,729
Income before income tax expense	43,674	44,804	42,002	44,837	41,627	5	130,480	130,480
Income tax expense	15,728	16,537	18,478	17,616	15,753	-	50,743	50,743
Net income	27,946	28,267	23,524	27,221	25,874	8	79,737	79,737
Merger-related and other charges	3,420	1,830	2,054	1,141	3,152		7,304	7,304
Income tax benefit of merger-related and other charges	(1,147)	(675)	(758)	(432)	(1,193)		(2,580)	(2,580)
Impairment of deferred tax asset on canceled non-qualified stock options	-	-	-	976	-		-	-
Release of disproportionate tax effects lodged in OCI	-	-	3,400	-	-		3,400	3,400
Net income - operating ⁽¹⁾	\$30,219	\$29,422	\$28,220	\$28,906	\$27,833	9	\$87,861	\$87,861
PERFORMANCE MEASURES								
Per common share:								
Diluted net income - GAAP	\$.38	\$.39	\$.33	\$.38	\$.36	6	\$1.10	\$1.10
Diluted net income - operating ⁽¹⁾	.41	.41	.39	.40	.39	5	1.21	1.21
Cash dividends declared	.10	.09	.09	.08	.08		.28	.28
Book value	16.50	15.83	15.40	15.06	15.12	9	16.50	16.50
Tangible book value ⁽³⁾	14.11	13.74	13.30	12.95	13.00	9	14.11	14.11
Key performance ratios:								
Return on common equity - GAAP ⁽²⁾⁽⁴⁾	9.22 %	9.98 %	8.54 %	9.89 %	9.61 %		9.26 %	9.26 %
Return on common equity - operating ⁽¹⁾⁽²⁾⁽⁴⁾	9.97	10.39	10.25	10.51	10.34		10.20	10.20
Return on tangible common equity - operating ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	11.93	12.19	12.10	12.47	12.45		12.07	12.07
Return on assets - GAAP ⁽⁴⁾	1.01	1.06	.89	1.03	1.00		.99	.99
Return on assets - operating ⁽¹⁾⁽⁴⁾	1.09	1.10	1.07	1.10	1.08		1.09	1.09
Dividend payout ratio - GAAP	26.32	23.08	27.27	21.05	22.22		25.45	25.45

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Dividend payout ratio - operating ⁽¹⁾	24.39	21.95	23.08	20.00	20.51		23.14	2
Net interest margin (fully taxable equivalent) ⁽⁴⁾	3.54	3.47	3.45	3.34	3.34		3.49	3
Efficiency ratio - GAAP	59.27	57.89	59.29	57.65	60.78		58.81	6
Efficiency ratio - operating ⁽¹⁾	56.18	56.21	57.35	56.58	57.79		56.57	5
Average equity to average assets	10.86	10.49	10.24	10.35	10.38		10.54	1
Average tangible equity to average assets ⁽³⁾	9.45	9.23	8.96	9.04	8.98		9.21	9
Average tangible common equity to average assets ⁽³⁾	9.45	9.23	8.96	9.04	8.98		9.21	9
Tangible common equity to risk-weighted assets ⁽³⁾	12.80	12.44	12.07	11.84	12.22		12.80	1

ASSET QUALITY

Nonperforming loans	\$22,921	\$23,095	\$19,812	\$21,539	\$21,572	6	\$22,921	\$2
Foreclosed properties	2,736	2,739	5,060	7,949	9,187	(70)	2,736	9
Total nonperforming assets (NPAs)	25,657	25,834	24,872	29,488	30,759	(17)	25,657	3
Allowance for loan losses	58,605	59,500	60,543	61,422	62,961	(7)	58,605	6
Net charge-offs	1,635	1,623	1,679	1,539	1,359	20	4,937	5
Allowance for loan losses to loans	.81	% .85	% .87	% .89	% .94	%	.81	% .9
Net charge-offs to average loans ⁽⁴⁾	.09	.09	.10	.09	.08		.09	.1
NPAs to loans and foreclosed properties	.36	.37	.36	.43	.46		.36	.4
NPAs to total assets	.23	.24	.23	.28	.30		.23	.3

AVERAGE BALANCES (\$ in millions)

Loans	\$7,149	\$6,980	\$6,904	\$6,814	\$6,675	7	\$7,012	\$6
Investment securities	2,800	2,775	2,822	2,690	2,610	7	2,799	2
Earning assets	10,133	9,899	9,872	9,665	9,443	7	9,969	9
Total assets	10,980	10,704	10,677	10,484	10,281	7	10,788	9
Deposits	8,913	8,659	8,592	8,552	8,307	7	8,723	8
Shareholders' equity	1,193	1,123	1,093	1,085	1,067	12	1,137	1
Common shares - basic (thousands)	73,151	71,810	71,700	71,641	71,556	2	72,060	7
Common shares - diluted (thousands)	73,162	71,820	71,708	71,648	71,561	2	72,071	7

AT PERIOD END (\$ in millions)

Loans	\$7,203	\$7,041	\$6,965	\$6,921	\$6,725	7	\$7,203	\$6
Investment securities	2,847	2,787	2,767	2,762	2,560	11	2,847	2
Total assets	11,129	10,837	10,732	10,709	10,298	8	11,129	1
Deposits	9,127	8,736	8,752	8,638	8,442	8	9,127	8
Shareholders' equity	1,221	1,133	1,102	1,076	1,079	13	1,221	1
Common shares outstanding (thousands)	73,403	70,981	70,973	70,899	70,861	4	73,403	7

⁽¹⁾ Excludes merger-related and other charges which includes amortization of certain executive change of control benefits, a first quarter 2017 release of disproportionate tax effects lodged in OCI and a fourth quarter 2016 deferred tax asset impairment charge related to cancelled non-qualified stock options. ⁽²⁾ Net income available to common shareholders, which is net of preferred stock dividends, 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**

(in thousands, except per share data)	2017			2016			For the Nine Months Ended June 30,	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2017	2016	
Expense reconciliation								
Expenses (GAAP)	\$65,674	\$63,229	\$62,826	\$61,321	\$64,023	\$191,729	\$179,968	
Merger-related and other charges	(3,420)	(1,830)	(2,054)	(1,141)	(3,152)	(7,304)	(6,981)	
Expenses – operating	\$62,254	\$61,399	\$60,772	\$60,180	\$60,871	\$184,425	\$172,987	
Net income reconciliation								
Net income (GAAP)	\$27,946	\$28,267	\$23,524	\$27,221	\$25,874	\$79,737	\$73,435	
Merger-related and other charges	3,420	1,830	2,054	1,141	3,152	7,304	6,981	
Income tax benefit of merger-related and other charges	(1,147)	(675)	(758)	(432)	(1,193)	(2,580)	(2,642)	
Impairment of deferred tax asset on canceled non-qualified stock options	-	-	-	976	-	-	-	
Release of disproportionate tax effects lodged in OCI	-	-	3,400	-	-	3,400	-	
Net income - operating	\$30,219	\$29,422	\$28,220	\$28,906	\$27,833	\$87,861	\$77,774	
Diluted income per common share reconciliation								
Diluted income per common share (GAAP)	\$.38	\$.39	\$.33	\$.38	\$.36	\$1.10	\$1.02	
Merger-related and other charges	.03	.02	.01	.01	.03	.06	-	
Impairment of deferred tax asset on canceled non-qualified stock options	-	-	-	.01	-	-	-	
Release of disproportionate tax effects lodged in OCI	-	-	.05	-	-	.05	-	
Diluted income per common share - operating	\$.41	\$.41	\$.39	\$.40	\$.39	\$1.21	\$1.02	
Book value per common share reconciliation								
Book value per common share (GAAP)	\$16.50	\$15.83	\$15.40	\$15.06	\$15.12	\$16.50	\$15.12	
Effect of goodwill and other intangibles	(2.39)	(2.09)	(2.10)	(2.11)	(2.12)	(2.39)	(2.12)	
Tangible book value per common share	\$14.11	\$13.74	\$13.30	\$12.95	\$13.00	\$14.11	\$13.00	

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Return on tangible common equity reconciliation														
Return on common equity (GAAP)	9.22	%	9.98	%	8.54	%	9.89	%	9.61	%	9.26	%	9.25	%
Merger-related and other charges	.75		.41		.47		.26		.73		.55		.54	
Impairment of deferred tax asset on canceled non-qualified stock options	-		-		-		.36		-		-		-	
Release of disproportionate tax effects lodged in OCI	-		-		1.24		-		-		.39		-	
Return on common equity - operating	9.97		10.39		10.25		10.51		10.34		10.20		9.79	
Effect of goodwill and other intangibles	1.96		1.80		1.85		1.96		2.11		1.87		1.85	
Return on tangible common equity - operating	11.93	%	12.19	%	12.10	%	12.47	%	12.45	%	12.07	%	11.64	%
Return on assets reconciliation														
Return on assets (GAAP)	1.01	%	1.06	%	.89	%	1.03	%	1.00	%	.99	%	.99	%
Merger-related and other charges	.08		.04		.05		.03		.08		.06		.06	
Impairment of deferred tax asset on canceled non-qualified stock options	-		-		-		.04		-		-		-	
Release of disproportionate tax effects lodged in OCI	-		-		.13		-		-		.04		-	
Return on assets - operating	1.09	%	1.10	%	1.07	%	1.10	%	1.08	%	1.09	%	1.05	%
Dividend payout ratio reconciliation														
Dividend payout ratio (GAAP)	26.32	%	23.08	%	27.27	%	21.05	%	22.22	%	25.45	%	21.57	%
Merger-related and other charges	(1.93)	)	(1.13)	)	(.98)	)	(.54)	)	(1.71)	)	(1.31)	)	(1.20))
Impairment of deferred tax asset on canceled non-qualified stock options	-		-		-		(.51))	-		-		-	
Release of disproportionate tax effects lodged in OCI	-		-		(3.21)	)	-		-		(1.00))	-	
Dividend payout ratio - operating	24.39	%	21.95	%	23.08	%	20.00	%	20.51	%	23.14	%	20.37	%
Efficiency ratio reconciliation														
Efficiency ratio (GAAP)	59.27	%	57.89	%	59.29	%	57.65	%	60.78	%	58.81	%	60.56	%
Merger-related and other charges	(3.09)	)	(1.68)	)	(1.94)	)	(1.07)	)	(2.99)	)	(2.24)	)	(2.35))
Efficiency ratio - operating	56.18	%	56.21	%	57.35	%	56.58	%	57.79	%	56.57	%	58.21	%
Average equity to assets reconciliation														
Equity to assets (GAAP)	10.86	%	10.49	%	10.24	%	10.35	%	10.38	%	10.54	%	10.60	%
Effect of goodwill and other intangibles	(1.41)	)	(1.26)	)	(1.28)	)	(1.31)	)	(1.40)	)	(1.33)	)	(1.33))
Tangible equity to assets	9.45		9.23		8.96		9.04		8.98		9.21		9.27	
Effect of preferred equity	-		-		-		-		-		-		(.03))
Tangible common equity to assets	9.45	%	9.23	%	8.96	%	9.04	%	8.98	%	9.21	%	9.24	%
Tangible common equity to risk-weighted assets reconciliation														
Tier 1 capital ratio (Regulatory)	12.27	%	11.91	%	11.46	%	11.23	%	11.04	%	12.27	%	11.04	%
	(.13)	)	(.15)	)	(.24)	)	(.34)	)	-		(.13))	-	

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Effect of other comprehensive income							
Effect of deferred tax limitation	.94	.95	1.13	1.26	1.50	.94	1.50
Effect of trust preferred	(.24)	(.25)	(.25)	(.25)	(.26)	(.24)	(.26)
Basel III intangibles transition adjustment	(.04)	(.02)	(.03)	(.06)	(.06)	(.03)	(.06)
Tangible common equity to risk-weighted assets	12.80 %	12.44 %	12.07 %	11.84 %	12.22 %	12.81 %	12.22 %

Net Interest Revenue

Net interest revenue (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. Net interest revenue for the third quarter of 2017 was \$89.8 million. Taxable equivalent net interest revenue for the third quarter of 2017 was \$90.4 million, which represents an increase of \$11.2 million from the same period in 2016. The combination of the larger earning asset base from the acquisition of HCSB and growth in the loan portfolio were responsible for the increase in net interest revenue.

Average loans increased \$474 million, or 7%, from the third quarter of last year, while the yield on loans increased 32 basis points, reflecting the effect of rising interest rates on the floating rate loans in the portfolio.

Average interest-earning assets for the third quarter of 2017 increased \$689 million, or 7%, from the third quarter of 2016, which was due primarily to the increase in loans, including the acquisition of HCSB loans. Average investment securities for the third quarter of 2017 increased \$190 million from a year ago, partially due to the HCSB acquisition. The average yield on the taxable investment portfolio increased 19 basis points from a year ago, primarily due to the impact of higher short-term interest rates on the floating rate portion of the securities portfolio as well as accelerated discount accretion on called asset-backed securities and a higher reinvestment rate on maturing fixed rate investments.

Average interest-bearing liabilities of \$6.82 billion for the third quarter of 2017 increased \$196 million from the third quarter of 2016. Average non-interest-bearing deposits increased \$347 million from the third quarter of 2016 to \$2.84 billion for the third quarter of 2017. The average cost of interest-bearing liabilities for the third quarter of 2017 was .53% compared to .39% for the same period in 2016, reflecting higher average rates on money market deposits, NOW deposits, time deposits and brokered time deposits.

The banking industry uses two ratios to measure 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 net interest spread eliminates the effect of non-interest-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 non-interest-bearing deposits and stockholders' equity.

For the third quarters of 2017 and 2016, the net interest spread was 3.37% and 3.22%, while the net interest margin was 3.54% and 3.34%, respectively. The increase in the net interest margin reflects the impact of higher short-term

interest rates on floating-rate loans and securities, which exceeded the increase in deposit and other funds pricing from the prior year.

For the first nine months of 2017, net interest revenue was \$258 million, an increase of \$29.6 million, or 13%, from the first nine months of 2016. Similarly, fully taxable equivalent net interest revenue for the first nine months of 2017 was \$260 million, an increase of \$30.2 million, or 13%, from the first nine months of 2016. Average earning assets increased 9% to \$9.97 billion during the first nine months of 2017 compared to the same period a year ago, primarily due to the increase in loans, including the acquisition of HCSB and Tideland's loans. The yield on earning assets increased 18 basis points to 3.81% in the first nine months of 2017 primarily due to higher loan and securities yields. The higher loan portfolio yield reflects the effect of rising interest rates on the floating rate loans in the portfolio. Investment yield increased 16 basis points for the first nine months of 2017 compared to the same period in 2016, which further improved the net interest margin. The rate on interest-bearing liabilities over the same period increased 10 basis points. The higher yield on interest-earning assets more than offset the higher cost of interest-bearing liabilities and resulted in a 13 basis point increase in the net interest margin from the first nine months of 2016 to the first nine months of 2017.

The following tables show the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the periods indicated.

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

(dollars in thousands, fully taxable equivalent (FTE))	2017			2016		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (FTE) ⁽¹⁾⁽²⁾	\$7,149,348	\$80,301	4.46%	\$6,675,328	\$69,427	4.14%
Taxable securities ⁽³⁾	2,695,162	17,204	2.55	2,588,037	15,284	2.36
Tax-exempt securities (FTE) ⁽¹⁾⁽³⁾	105,151	1,098	4.18	22,113	219	3.96
Federal funds sold and other interest-earning assets	183,170	883	1.93	157,972	754	1.91
Total interest-earning assets (FTE)	10,132,831	99,486	3.90	9,443,450	85,684	3.61
Non-interest-earning assets:						
Allowance for loan losses	(60,098)			(63,874)		
Cash and due from banks	103,477			100,775		
Premises and equipment	203,579			198,234		
Other assets ⁽³⁾	599,725			602,690		
Total assets	\$10,979,514			\$10,281,275		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$1,863,160	700	.15	\$1,744,473	452	.10
Money market	2,170,148	1,953	.36	1,997,165	1,347	.27
Savings	593,823	34	.02	537,447	43	.03
Time	1,338,786	1,548	.46	1,375,706	833	.24
Brokered time deposits	109,811	322	1.16	162,255	(166)	(.41)
Total interest-bearing deposits	6,075,728	4,557	.30	5,817,046	2,509	.17
Federal funds purchased and other borrowings	11,313	36	1.26	42,234	98	.92
Federal Home Loan Bank advances	574,404	1,709	1.18	583,312	1,015	.69
Long-term debt	154,616	2,762	7.09	177,333	2,828	6.34
Total borrowed funds	740,333	4,507	2.42	802,879	3,941	1.95
Total interest-bearing liabilities	6,816,061	9,064	.53	6,619,925	6,450	.39
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	2,837,378			2,490,019		
Other liabilities	133,212			103,859		
Total liabilities	9,786,651			9,213,803		

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

Shareholders' equity	1,192,863		1,067,472	
Total liabilities and shareholders' equity	\$ 10,979,514		\$ 10,281,275	
Net interest revenue (FTE)		\$90,422		\$79,234
Net interest-rate spread (FTE)			3.37%	3.22%
Net interest margin (FTE) ⁽⁴⁾			3.54%	3.34%

Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, 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 where 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 \$12.6 million in 2017 and \$30.4 million in 2016 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,

(dollars in thousands, fully taxable equivalent (FTE))	2017			2016		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (FTE) ⁽¹⁾⁽²⁾	\$7,011,962	\$227,853	4.34%	\$6,277,972	\$196,956	4.19%
Taxable securities ⁽³⁾	2,731,081	52,058	2.54	2,665,272	47,590	2.38
Tax-exempt securities (FTE) ⁽¹⁾⁽³⁾	68,005	2,139	4.19	26,415	735	3.71
Federal funds sold and other interest-earning assets	157,582	2,290	1.94	150,146	2,719	2.41
Total interest-earning assets (FTE)	9,968,630	284,340	3.81	9,119,805	248,000	3.63
Non-interest-earning assets:						
Allowance for loan losses	(60,971)			(66,142)		
Cash and due from banks	102,529			93,802		
Premises and equipment	195,576			187,019		
Other assets ⁽³⁾	582,194			574,870		
Total assets	\$10,787,958			\$9,909,354		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW	\$1,907,889	1,932	.14	\$1,795,372	1,381	.10
Money market	2,100,296	4,938	.31	1,901,903	3,661	.26
Savings	576,927	89	.02	505,337	102	.03
Time	1,292,521	3,499	.36	1,280,503	2,325	.24
Brokered time deposits	106,753	758	.95	194,199	(273)	(.19)
Total interest-bearing deposits	5,984,386	11,216	.25	5,677,314	7,196	.17
Federal funds purchased and other borrowings	22,525	177	1.05	29,427	278	1.26
Federal Home Loan Bank advances	616,388	4,603	1.00	506,524	2,731	.72
Long-term debt	168,271	8,490	6.75	168,955	8,178	6.47
Total borrowed funds	807,184	13,270	2.20	704,906	11,187	2.12
Total interest-bearing liabilities	6,791,570	24,486	.48	6,382,220	18,383	.38
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	2,738,118			2,374,076		
Other liabilities	121,672			102,421		
Total liabilities	9,651,360			8,858,717		
Shareholders' equity	1,136,598			1,050,637		
Total liabilities and shareholders' equity	\$10,787,958			\$9,909,354		
Net interest revenue (FTE)		\$259,854			\$229,617	
Net interest-rate spread (FTE)			3.33%			3.25%

Net interest margin (FTE) ⁽⁴⁾	3.49%	3.36%
---	-------	-------

Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, 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 where the accrual of interest has been discontinued and loans that are held for sale.

⁽³⁾ Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$4.67 million in 2017 and \$15.1 million in 2016 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.

48

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
(in thousands)

	Three Months Ended September 30, 2017 Compared to 2016 Increase (decrease) Due to Changes in			Three Months Ended September 30, 2016 Compared to 2015 Increase (decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans (FTE)	\$ 5,115	\$ 5,759	\$ 10,874	\$ 23,658	\$ 7,239	\$ 30,897
Taxable securities	650	1,270	1,920	1,196	3,272	4,468
Tax-exempt securities (FTE)	866	13	879	1,297	107	1,404
Federal funds sold and other interest-earning assets	121	8	129	129	(558)	(429)
Total interest-earning assets (FTE)	6,752	7,050	13,802	26,280	10,060	36,340
Interest-bearing liabilities:						
NOW accounts	33	215	248	91	460	551
Money market accounts	125	481	606	409	868	1,277
Savings deposits	4	(13)	(9)	13	(26)	(13)
Time deposits	(23)	738	715	22	1,152	1,174
Brokered deposits	38	450	488	71	960	1,031
Total interest-bearing deposits	177	1,871	2,048	606	3,414	4,020
Federal funds purchased & other borrowings	(89)	27	(62)	(59)	(42)	(101)
Federal Home Loan Bank advances	(16)	710	694	675	1,197	1,872
Long-term debt	(385)	319	(66)	(33)	345	312
Total borrowed funds	(490)	1,056	566	583	1,500	2,083
Total interest-bearing liabilities	(313)	2,927	2,614	1,189	4,914	6,103
Increase in net interest revenue (FTE)	\$ 7,065	\$ 4,123	\$ 11,188	\$ 25,091	\$ 5,146	\$ 30,237

Provision for Credit Losses

The provision for credit losses is based on management's evaluation of probable incurred losses in the loan portfolio and corresponding analysis of the allowance for credit losses at quarter-end. Provision for credit losses was \$1.00

million for the third quarter of 2017, compared to a release of provision of \$300,000 in the third quarter of 2016. The provision for credit losses for the nine months ended September 30, 2017 and 2016 was provision expense of \$2.60 million and a release of provision expense of \$800,000, respectively. The amount of provision recorded in each period was the amount required such that the total allowance for loan losses reflected the appropriate balance, in the estimation of management, sufficient to cover incurred losses in the loan portfolio. For the three months ended September 30, 2017, net loan charge-offs as an annualized percentage of average outstanding loans were .09% compared to .08% for the same period in 2016.

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

Additional discussion on credit quality and the allowance for loan losses is included in the “Asset Quality and Risk Elements” section of this report on page 54.

Fee Revenue

Fee revenue for the three and nine months ended September 30, 2017 was \$20.6 million and \$66.3 million, respectively, a decrease of \$5.79 million, or 22%, compared to the third quarter of 2016 and a decrease of \$2.13 million, or 3%, compared to the first nine months of 2016. The following table presents the components of fee revenue for the periods indicated.

Table 5 - Fee Revenue
(in thousands)

	Three Months Ended		Change		Nine Months Ended		Change	
	September 30, 2017	2016	Amount	Percent	September 30, 2017	2016	Amount	Percent
Overdraft fees	\$ 3,555	\$ 3,648	\$(93)	(3)	\$ 10,273	\$ 10,338	\$(65)	(1)
ATM and debit card fees	2,810	5,283	(2,473)	(47)	13,734	15,589	(1,855)	(12)
Other service charges and fees	1,855	1,888	(33)	(2)	5,518	5,533	(15)	-
Service charges and fees	8,220	10,819	(2,599)	(24)	29,525	31,460	(1,935)	(6)
Mortgage loan and related fees	4,200	6,039	(1,839)	(30)	13,435	13,776	(341)	(2)
Brokerage fees	1,009	1,199	(190)	(16)	3,565	3,369	196	6
Gains on sales of SBA/USDA loans	2,806	2,479	327	13	7,391	6,517	874	13
Customer derivatives	554	1,446	(892)	(62)	1,808	3,283	(1,475)	(45)
Securities gains, net	188	261	(73)	(28)	190	922	(732)	(79)
Other	3,596	4,118	(522)	(13)	10,418	9,137	1,281	14
Total fee revenue	\$ 20,573	\$ 26,361	\$(5,788)	(22)	\$ 66,332	\$ 68,464	\$(2,132)	(3)

Service charges and fees of \$8.22 million and \$29.5 million for the third quarter and first nine months of 2017 were down \$2.60 million, or 24%, from the third quarter of 2016 and \$1.94 million, or 6%, from the first nine months of 2016. The decrease in both periods was primarily due to the impact of the Durbin Amendment to the Dodd Frank Act which became effective for United on July 1, 2017 and reduced United's debit card interchange fees in the third quarter of 2017 by approximately \$2.7 million compared to the second quarter of 2017 and \$2.47 million compared to the third quarter of 2016.

Mortgage loan and related fees for the third quarter and first nine months of 2017 were down \$1.84 million, or 30%, and \$341,000, or 2%, respectively, from the same periods in 2016. The decrease reflects the impact of moving to mandatory delivery of loans to the secondary market from best efforts in late 2016, which accelerated revenue recognition to the time of the rate lock. Also, in the third quarter of 2017, the fair value mark on the mortgage servicing asset was a decrease in value of \$419,000. United elected to carry its mortgage servicing asset at fair value

effective January 1, 2017. In the third quarter of 2017, United closed 848 loans totaling \$193 million compared with 904 loans totaling \$194 million in the third quarter of 2016. Year-to-date mortgage production in 2017 amounted to 2,433 loans totaling \$548 million, compared to 2,407 loans totaling \$522 million for the same period in 2016. United had \$117 million and \$351 million, respectively, in home purchase mortgage originations in the third quarter and first nine months of 2017, compared with \$99.7 million and \$292 million, respectively, for the same periods a year ago. The volume of home purchase mortgages relative to total mortgages (both purchases and refinances) in the third quarter of 2017 was 60% compared with 51% in the third quarter of 2016.

Brokerage fees in the third quarter of 2017 decreased 16% compared to the same period of 2016, primarily due to the United States Department of Labor's new fiduciary rules, effective in June 2017, which implemented a level compensation requirement throughout the industry. Brokerage fees in the first nine months of 2017 increased 6% compared to the same period in 2016, reflecting the addition of several new financial advisors since early 2016.

In the third quarter and first nine months of 2017, United realized \$2.81 million and \$7.39 million, respectively, in gains from the sales of the guaranteed portion of SBA/USDA loans, compared to \$2.48 million and \$6.52 million, respectively, in the same periods of 2016. United's SBA/USDA lending strategy includes selling a portion of the loan production each quarter. United retains the servicing rights on the sold loans and earns a fee for servicing the loans. In the third quarter and first nine months of 2017, United sold the guaranteed portion of loans in the amount of \$29.9 million and \$83.6 million, respectively, compared to \$32.2 million and \$78.6 million, respectively, for the same periods a year ago.

Customer derivative fees were down \$892,000 and \$1.48 million from the third quarter and first nine months of 2016 due to lower demand for this product in the current rate environment.

Other fee revenue was down \$522,000, or 13%, for the third quarter of 2017 due to a number of small gains on disposition of assets in 2016. For the first nine months of 2017, other fee revenue was up \$1.28 million, or 14%, primarily due to volume driven increases in earnings on bank owned life insurance, increases in miscellaneous banking fees, decreases in losses attributable to hedge ineffectiveness, and increases in the value of equity investments held by United.

Operating Expenses

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

Table 6 - Operating Expenses*(in thousands)*

	Three Months Ended				Nine Months Ended			
	September 30, 2017	2016	Change Amount	Percent	September 30, 2017	2016	Change Amount	Percent
Salaries and employee benefits	\$ 38,027	\$ 36,478	\$ 1,549	4	\$ 112,056	\$ 103,112	\$ 8,944	9
Communications and equipment	4,547	4,919	(372)	(8)	14,443	13,602	841	6
Occupancy	4,945	5,132	(187)	(4)	14,802	14,393	409	3
Advertising and public relations	1,026	1,088	(62)	(6)	3,347	3,275	72	2
Postage, printing and supplies	1,411	1,451	(40)	(3)	4,127	4,029	98	2
Professional fees	2,976	3,160	(184)	(6)	8,391	9,049	(658)	(7)
FDIC assessments and other regulatory charges	2,127	1,412	715	51	4,758	4,453	305	7
Amortization of core deposit intangibles	968	1,119	(151)	(13)	2,841	3,116	(275)	(9)
Other	6,227	6,112	115	2	19,660	17,958	1,702	9
Total excluding merger-related and other charges	62,254	60,871	1,383	2	184,425	172,987	11,438	7
Merger-related and other charges	3,176	3,152	24	1	7,060	6,981	79	1
Amortization of noncompete agreements	244	-	244		244	-	244	
Total operating expenses	\$ 65,674	\$ 64,023	\$ 1,651	3	\$ 191,729	\$ 179,968	\$ 11,761	7

Operating expenses for the third quarter of 2017 totaled \$65.7 million, up \$1.65 million, or 3%, from the third quarter of 2016, primarily due to the inclusion of operating expenses of HCSB. For the nine months ended September 30, 2017, operating expenses totaled \$192 million, an increase of \$11.8 million, or 7%, from the same period in 2016. The increase year over year reflects the inclusion of the operating expenses of both the Tideland and the HCSB acquisitions.

Salaries and employee benefits for the third quarter of 2017 were \$38.0 million, up \$1.55 million, or 4%, from the third quarter of 2016. The increase was due to a number of factors including additional staff resulting from the HCSB acquisition and higher incentives and commissions. For the first nine months of 2017, salaries and employee benefits of \$112 million were up \$8.94 million, or 9%, from the same period in 2016. Full time equivalent headcount totaled

2,020 at September 30, 2017, up from 1,939 at September 30, 2016, reflecting the addition of HCSB personnel.

Communications and equipment and occupancy expenses decreased in third quarter 2017 relative to the same period in 2016 primarily due to lower telephone charges and service contract charges and lower building maintenance and rental charges. For the first nine months of 2017, communications and equipment and occupancy expenses increased primarily due to the Tideland acquisition.

Professional fees for the third quarter and first nine months of 2017 were down 6% and 7%, respectively, from the same periods in 2016 due primarily to lower fees related to outsourcing functions.

Amortization of intangibles in the third quarter and first nine months of 2017 decreased from the same periods in 2016 due to the accelerated method used to amortize core deposit intangibles, which more than offset the additional amortization resulting from the HCSB acquisition.

In the third quarter of 2017, merger-related and other charges of \$3.18 million consisted of merger costs of \$2.04 million and impairment charges on surplus properties of \$1.14 million. In the first nine months of 2017, merger-related and other charges of \$7.06 million included these costs as well as executive retirement costs, severance, branch closure costs and technology equipment write offs. In the third quarter and first nine months of 2016, merger-related charges of \$3.15 million and \$6.98 million, respectively, consisted primarily of severance, conversion costs, and legal and professional fees.

Other expense of \$6.23 million for the third quarter of 2017 increased \$115,000, or 2%, from the third quarter of 2016. Year-to-date, other expenses of \$19.7 million increased \$1.70 million, or 9%, from the first nine months of 2016. The increase was primarily due to writedowns on foreclosed property and higher lending support costs resulting from higher production volume in the Commercial Banking areas.

Income Taxes

The income tax provision for the three and nine months ended September 30, 2017 was \$15.7 million and \$50.7 million, respectively, as compared with \$15.8 million and \$44.7 million, respectively, for the same periods in 2016. The income tax provision represents effective tax rates of 36.0% and 38.9%, respectively, for the third quarter and first nine months of 2017, compared to 37.8% for both periods of 2016. Upon reversal of United's former full deferred tax valuation allowance in 2013, certain disproportionate tax effects were retained in accumulated other comprehensive income (loss). During the first quarter of 2017, with the maturity and termination of certain dedesignated cash flow hedges, the disproportionate tax effect associated with these hedges was reversed and recorded as a tax expense of \$3.40 million, which was the primary reason for the increase in the effective tax rate compared to the first nine months of 2016.

At September 30, 2017 and December 31, 2016, United maintained a valuation allowance on its net deferred tax asset of \$4.20 million and \$3.88 million, respectively. Management assesses the valuation allowance recorded against its net deferred tax asset at each reporting period. The determination of whether a valuation allowance for its net deferred tax asset is appropriate is subject to considerable judgment and requires an evaluation of all the positive and negative evidence.

United evaluated the need for a valuation allowance at September 30, 2017. Based on the assessment of all the positive and negative evidence, management concluded that it is more likely than not that nearly all of its net deferred tax asset will be realized based upon future taxable income. The remaining valuation allowance of \$4.20 million is related to specific state income tax credits that have short carryforward periods and are expected to expire unused.

The valuation allowance could fluctuate in future periods based on the assessment of the positive and negative evidence. Management's conclusion at September 30, 2017 that it was more likely than not that the net deferred tax asset of \$129 million will be realized is based upon internal forecasts that consider historical performance, various internal estimates and assumptions, as well as certain external data all of which management believes to be reasonable although inherently subject to significant judgment. If actual results differ significantly from the current estimates of future taxable income, the valuation allowance may need to be increased for some or all of its net deferred tax asset. Such an increase to the net deferred tax asset valuation allowance could have a material adverse effect on United's financial condition and results of operations.

United is subject to income taxation in the United States and various state jurisdictions. United's federal and state income tax returns are filed on a consolidated basis. Currently, no years for which United filed a federal income tax return are under examination by the IRS, and there are no state tax examinations currently in progress. United is no longer subject to income tax examinations from state and local income tax authorities for years before 2014. Although it is not possible to know the ultimate outcome of future examinations, management believes that the liability recorded for uncertain tax positions is appropriate.

Additional information regarding income taxes, including a reconciliation of the differences between the recorded income tax provision and the amount of income tax computed by applying the statutory federal income tax rate to income before income taxes, can be found in Note 17 to the consolidated financial statements filed with United's Annual Report on Form 10-K for the year ended December 31, 2016.

Balance Sheet Review

Total assets at September 30, 2017 and December 31, 2016 were \$11.1 billion and \$10.7 billion, respectively. Average total assets for the third quarter and first nine months of 2017 were \$11.0 billion and \$10.8 billion, respectively, up from \$10.3 billion and \$9.91 billion, respectively, in the third quarter and first nine months of 2016.

The following table presents a summary of the loan portfolio.

Table 7 - Loans Outstanding

(in thousands)

	September 30, 2017	December 31, 2016
By Loan Type		
Owner occupied commercial real estate	\$ 1,791,762	\$ 1,650,360
Income producing commercial real estate	1,413,104	1,281,541
Commercial & industrial	1,083,591	1,069,715
Commercial construction	583,344	633,921
Total commercial	4,871,801	4,635,537
Residential mortgage	933,205	856,725
Home equity lines of credit	688,875	655,410
Residential construction	190,047	190,043
Consumer installment	118,742	123,567
Indirect auto	400,267	459,354
Total loans	\$ 7,202,937	\$ 6,920,636

As a percentage of total loans:

Owner occupied commercial real estate	25	%	24	%
Income producing commercial real estate	20		19	
Commercial & industrial	15		15	
Commercial construction	8		9	
Total commercial	68		67	
Residential mortgage	13		12	
Home equity lines of credit	9		9	
Residential construction	3		3	
Consumer installment	2		2	
Indirect auto	5		7	
Total	100	%	100	%

By Geographic Location

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

North Georgia	\$ 1,047,254	\$ 1,096,974
Atlanta MSA	1,476,624	1,398,657
North Carolina	542,069	544,792
Coastal Georgia	634,048	581,138
Gainesville MSA	242,128	247,410
East Tennessee	470,407	503,843
South Carolina	1,470,392	1,233,185
Commercial Banking Solutions	919,748	855,283
Indirect Auto	400,267	459,354
Total loans	\$ 7,202,937	\$ 6,920,636

Substantially all of United's loans are to customers located in the immediate market areas of its community banks in Georgia, North Carolina, South Carolina and Tennessee, including customers who have a seasonal residence in United's market areas, or are generated by United's Commercial Banking Solutions division (formerly referred to as Specialized Lending) that focuses on specific commercial loan businesses, such as SBA and franchise lending. More than 77% of the loans were secured by real estate. Total loans averaged \$7.15 billion in the third quarter of 2017, compared with \$6.68 billion in the third quarter of 2016, an increase of 7% which includes the acquisition of HCSB. At September 30, 2017, total loans were \$7.20 billion, an increase of \$282 million from December 31, 2016.

United's home equity lines generally require the payment of interest only for a set period after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both principal and interest. At September 30, 2017 and December 31, 2016, the funded portion of home equity lines totaled \$689 million and \$655 million, respectively. Approximately 3% of the home equity lines at September 30, 2017 were amortizing. Of the \$689 million in balances outstanding at September 30, 2017, \$403 million, or 58%, were secured by first liens. At September 30, 2017, 55% of the total available home equity lines were drawn upon.

United monitors the performance of its home equity loans and lines secured by second liens similar to other consumer loans and utilizes assumptions specific to these loans in determining the necessary allowance. United also receives notification when the first lien holder is in the process of foreclosure and upon that notification, management reviews current valuations to determine if any charge-offs are warranted and whether it is in United's best interest to pay off the first lien holder, in order to potentially limit losses on the second lien.

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through review and oversight of the loan portfolio as well as adherence to policies designed to promote sound underwriting and loan monitoring practices. United's credit administration function is responsible for monitoring asset quality and Board of Directors approved portfolio limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all lending units. Additional information on the credit administration function is included in Item 1 under the heading *Loan Review and Nonperforming Assets* in United's Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

Table 8 - Performing Classified Loans

(in thousands)

September 30, June 30, March 31, December 31, September 30,

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

	2017	2017	2017	2016	2016
By Category					
Owner occupied commercial real estate	\$ 37,147	\$34,427	\$41,536	\$ 42,169	\$ 42,025
Income producing commercial real estate	20,922	22,457	24,143	29,379	31,627
Commercial & industrial	10,740	7,247	10,372	8,903	10,047
Commercial construction	6,213	4,808	8,564	8,840	8,788
Total commercial	75,022	68,939	84,615	89,291	92,487
Residential mortgage	15,914	12,929	14,632	15,324	18,303
Home equity	5,603	5,733	5,789	5,060	4,930
Residential construction	1,754	1,822	1,858	2,726	3,628
Consumer installment	508	627	657	584	662
Indirect auto	1,685	1,697	1,288	1,362	1,616
Total	\$ 100,486	\$91,747	\$ 108,839	\$ 114,347	\$ 121,626
By Market					
North Georgia	\$ 30,049	\$34,638	\$38,092	\$ 39,438	\$ 40,231
Atlanta MSA	9,936	10,384	14,258	17,954	19,040
North Carolina	11,341	11,916	10,022	11,089	12,179
Coastal Georgia	2,791	3,062	6,957	4,516	5,247
Gainesville MSA	456	475	698	713	540
East Tennessee	10,620	7,089	6,781	7,485	9,383
South Carolina	31,123	21,763	30,612	31,623	33,218
Commercial Banking Solutions	2,485	723	131	167	172
Indirect auto	1,685	1,697	1,288	1,362	1,616
Total loans	\$ 100,486	\$91,747	\$ 108,839	\$ 114,347	\$ 121,626

At September 30, 2017, performing classified loans totaled \$100 million and increased \$8.74 million from the prior quarter-end, and decreased \$21.1 million from a year ago. Performing classified loans reflect a general downward trend, offset by acquisition activity. The increase in performing classified loans in South Carolina in the third quarter of 2017 was attributable to the HCSB acquisition.

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

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

Table 9 - Allowance for Credit Losses

(in thousands)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Allowance for loan losses at beginning of period	\$ 59,500	\$ 64,253	\$ 61,422	\$ 68,448
Charge-offs:				
Owner occupied commercial real estate	100	461	283	1,929
Income producing commercial real estate	1,235	206	2,335	788
Commercial & industrial	329	850	1,143	1,645
Commercial construction	206	30	769	392
Residential mortgage	396	63	1,069	776
Home equity lines of credit	321	321	1,216	1,513
Residential construction	57	253	127	531
Consumer installment	475	426	1,374	1,123
Indirect auto	333	354	1,066	953
Total loans charged-off	3,452	2,964	9,382	9,650
Recoveries:				
Owner occupied commercial real estate	144	415	501	605
Income producing commercial real estate	76	136	123	463
Commercial & industrial	529	398	1,141	1,302
Commercial construction	320	224	912	617
Residential mortgage	83	109	200	248
Home equity lines of credit	265	54	485	361
Residential construction	21	10	153	61
Consumer installment	314	190	716	625
Indirect auto	65	69	214	141
Total recoveries	1,817	1,605	4,445	4,423
Net charge-offs	1,635	1,359	4,937	5,227
(Release of) provision for loan losses	740	67	2,120	(260)
Allowance for loan losses at end of period	\$ 58,605	\$ 62,961	\$ 58,605	\$ 62,961
Allowance for unfunded commitments at beginning of period	\$ 2,222	\$ 2,369	\$ 2,002	\$ 2,542
(Release of) provision for losses on unfunded commitments	260	(367)	480	(540)
Allowance for unfunded commitments at end of period	2,482	2,002	2,482	2,002
Allowance for credit losses	\$ 61,087	\$ 64,963	\$ 61,087	\$ 64,963
Total loans:				

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

At period-end	\$ 7,202,937	\$ 6,725,110	\$ 7,202,937	\$ 6,725,110
Average	7,149,348	6,675,328	7,011,962	6,277,972
Allowance for loan losses as a percentage of period-end loans	.81	% .94	% .81	% .94
As a percentage of average loans (annualized):				
Net charge-offs	.09	.08	.09	.11
(Release of) provision for loan losses	.04	.00	.04	(.01)

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

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled \$61.1 million at September 30, 2017, compared with \$63.4 million at December 31, 2016. At September 30, 2017, the allowance for loan losses was \$58.6 million, or .81% of loans, compared with \$61.4 million, or .89% of total loans, at December 31, 2016.

Management believes that the allowance for credit losses at September 30, 2017 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values change substantially with respect to one or more loan relationships or portfolios. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the 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 loan losses.

Nonperforming Assets

The table below summarizes nonperforming assets.

Table 10 - Nonperforming Assets

(in thousands)

	September 30, 2017		December 31, 2016	
Nonperforming loans	\$ 22,921		\$ 21,539	
Foreclosed properties (OREO)	2,736		7,949	
Total nonperforming assets	\$ 25,657		\$ 29,488	
Nonperforming loans as a percentage of total loans	.32	%	.31	%
Nonperforming assets as a percentage of total loans and OREO	.36		.43	
Nonperforming assets as a percentage of total assets	.23		.28	

At September 30, 2017, nonperforming loans were \$22.9 million compared to \$21.5 million at December 31, 2016. Nonperforming assets, which include nonperforming loans and foreclosed real estate, totaled \$25.7 million at September 30, 2017 and \$29.5 million at December 31, 2016.

United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in full or when the loan becomes 90 days past due. When a loan is classified on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Principal and interest payments received on a nonaccrual loan are applied to reduce the loan's recorded investment.

Purchased credit impaired ("PCI") loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement remains unpaid after the due date of the scheduled payment. However, these loans are considered as performing, even though they may be contractually past due, as any non-payment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or future period yield adjustments. The accrual of interest is discontinued on PCI loans if management can no longer reliably estimate future cash flows on the loan. No PCI loans were classified as nonaccrual at September 30, 2017 or December 31, 2016 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

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

Table 11 - Nonperforming Assets by Category and Market
(in thousands)

	September 30, 2017			December 31, 2016		
	Nonaccrued Loans	Foreclosed Properties	Total NPAs	Nonaccrued Loans	Foreclosed Properties	Total NPAs
BY CATEGORY						
Owner occupied commercial real estate	\$5,027	\$ 764	\$5,791	\$7,373	\$ 3,145	\$10,518
Income producing commercial real estate	2,042	121	2,163	1,324	36	1,360
Commercial & industrial	2,378	-	2,378	966	-	966
Commercial construction	1,376	923	2,299	1,538	2,977	4,515
Total commercial	10,823	1,808	12,631	11,201	6,158	17,359
Residential mortgage	8,559	392	8,951	6,368	1,260	7,628
Home equity lines of credit	1,898	195	2,093	1,831	531	2,362
Residential construction	178	341	519	776	-	776
Consumer installment	84	-	84	88	-	88
Indirect auto	1,379	-	1,379	1,275	-	1,275
Total NPAs	\$22,921	\$ 2,736	\$25,657	\$21,539	\$ 7,949	\$29,488
BY MARKET						
North Georgia	\$6,707	\$ 404	\$7,111	\$5,278	\$ 856	\$6,134
Atlanta MSA	1,098	338	1,436	1,259	716	1,975
North Carolina	4,376	318	4,694	4,750	632	5,382
Coastal Georgia	2,532	-	2,532	1,778	-	1,778
Gainesville MSA	763	-	763	279	-	279
East Tennessee	1,734	67	1,801	2,354	675	3,029
South Carolina	1,903	1,609	3,512	2,494	5,070	7,564
Commercial Banking Solutions	2,429	-	2,429	2,072	-	2,072
Indirect auto	1,379	-	1,379	1,275	-	1,275
Total NPAs	\$22,921	\$ 2,736	\$25,657	\$21,539	\$ 7,949	\$29,488

The table below summarizes activity in nonperforming assets for the periods indicated.

Table 12 - Activity in Nonperforming Assets*(in thousands)*

	Third Quarter 2017			Third Quarter 2016		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$23,095	\$ 2,739	\$25,834	\$21,348	\$ 6,176	\$27,524
Acquisitions	20	805	825	-	7,495	7,495
Loans placed on non-accrual	7,964	-	7,964	6,680	-	6,680
Payments received	(5,192)	-	(5,192)	(3,938)	-	(3,938)
Loan charge-offs	(2,159)	-	(2,159)	(1,236)	-	(1,236)
Foreclosures	(807)	683	(124)	(1,282)	2,335	1,053
Capitalized costs	-	-	-	-	3	3
Property sales	-	(1,295)	(1,295)	-	(6,553)	(6,553)
Write downs	-	(236)	(236)	-	(53)	(53)
Net gains on sales	-	40	40	-	(216)	(216)
Ending Balance	\$22,921	\$ 2,736	\$25,657	\$21,572	\$ 9,187	\$30,759

	First Nine Months of 2017			First Nine Months 2016		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$21,539	\$ 7,949	\$29,488	\$22,653	\$ 4,883	\$27,536
Acquisitions	20	805	825	-	6,998	6,998
Loans placed on non-accrual	19,246	-	19,246	18,237	-	18,237
Payments received	(11,193)	-	(11,193)	(9,951)	-	(9,951)
Loan charge-offs	(5,015)	-	(5,015)	(4,718)	-	(4,718)
Foreclosures	(1,676)	1,725	49	(4,649)	6,647	1,998
Capitalized costs	-	-	-	-	101	101
Note / property sales	-	(7,076)	(7,076)	-	(9,501)	(9,501)
Write downs	-	(1,010)	(1,010)	-	(133)	(133)
Net gains on sales	-	343	343	-	192	192
Ending Balance	\$22,921	\$ 2,736	\$25,657	\$21,572	\$ 9,187	\$30,759

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. Financed sales of foreclosed property are accounted for in accordance with ASC 360-20, *Real Estate Sales*.

Impaired Loans

At September 30, 2017 and December 31, 2016, United had \$65.2 million and \$73.2 million, respectively, in loans with terms that have been modified in TDRs. Included therein were \$5.65 million and \$5.35 million, respectively, of TDRs that were classified as nonaccrual and were included in nonperforming loans. The remaining TDRs with an aggregate balance of \$59.6 million and \$67.8 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At September 30, 2017 and December 31, 2016, there were \$83.6 million and \$85.7 million, respectively, of loans classified as impaired under the definition outlined in the Accounting Standards Codification, including TDRs which are by definition considered impaired. Included in impaired loans at September 30, 2017 and December 31, 2016 was \$29.2 million and \$28.3 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The balance of impaired loans at September 30, 2017 and December 31, 2016 of \$54.4 million and \$57.4 million, respectively, had specific reserves that totaled \$4.44 million and \$3.45 million, respectively. The average recorded investment in impaired loans for the third quarters of 2017 and 2016 was \$84.2 million and \$93.0 million, respectively. For the nine months ended September 30, 2017 and 2016, the average recorded investment in impaired loans was \$84.2 million and \$92.0 million, respectively. For the three and nine months ended September 30, 2017, United recognized \$931,000 and \$2.89 million in interest revenue on impaired loans compared to \$1.13 million and \$3.26 million, respectively, for the same periods of the prior year.

Investment Securities

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

At September 30, 2017 and December 31, 2016, United had securities held-to-maturity with a carrying amount of \$307 million and \$330 million, respectively, and securities available-for-sale totaling \$2.54 billion and \$2.43 billion, respectively. At September 30, 2017 and December 31, 2016, the securities portfolio represented approximately 26% 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 rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will usually differ from contractual maturities because loans underlying the securities can prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining or prolonged low interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. In a rising rate environment, the opposite occurs - prepayments tend to slow and the weighted average life extends. This is referred to as extension risk which can lead to lower levels of liquidity due to the delay of cash receipts and can result in the holding of a below market yielding asset for a longer period of time. United's asset-backed securities include collateralized loan obligations and securities backed by student loans.

Management evaluates its securities portfolio each quarter to determine if any security is considered to be other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. Losses on United's fixed income securities at September 30, 2017 primarily reflect the effect of changes in interest rates. United did not recognize any other than temporary impairment losses on its investment securities during the third quarter of 2017 or 2016.

At September 30, 2017 and December 31, 2016, 16% and 22%, respectively, of the securities portfolio was invested in floating-rate securities or fixed-rate securities that were swapped to floating rates in order to manage exposure to rising interest rates.

Goodwill and Core Deposit Intangibles

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

Core deposit intangibles, representing the value of acquired deposit relationships, 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 management to believe that any impairment exists in goodwill or other intangible assets.

Deposits

Total customer deposits, excluding brokered deposits, as of September 30, 2017 were \$8.76 billion, compared to \$8.31 billion at December 31, 2016. Total core transaction deposits (demand, NOW, money market and savings deposits, excluding public funds deposits) of \$6.45 billion at September 30, 2017 increased \$532 million since December 31, 2016, partly due to the HCSB acquisition. United's high level of service, as evidenced by its strong customer satisfaction scores, has been instrumental in attracting and retaining core transaction deposit accounts.

Borrowing Activities

The Bank is a shareholder in the Federal Home Loan Bank of Atlanta ("FHLB"). Through this affiliation, FHLB secured advances totaled \$494 million and \$709 million, respectively, as of September 30, 2017 and December 31, 2016. United anticipates continued use of this short and long-term source of funds. Additional information regarding FHLB advances is provided in Note 13 to the consolidated financial statements included in United's Annual Report on Form 10-K for the year ended December 31, 2016.

Contractual Obligations

There have not been any material changes to United's contractual obligations since December 31, 2016.

Off-Balance Sheet Arrangements

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

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

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

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amount of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments expire without being used. United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly affect earnings. See Note 14 to the consolidated financial statements for additional information on off-balance sheet arrangements.

Interest Rate Sensitivity Management

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

United's net interest revenue, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. United limits its exposure to fluctuations in interest rates through policies developed by the 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 a number of 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. Another commonly analyzed scenario is a most-likely scenario that projects the expected change in rates based on the slope of the forward yield curve. 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 twelve month time frame, longer time horizons are also modeled.

United's policy is based on the 12-month impact on net interest revenue of interest rate shocks and ramps that increase from 100 to 400 basis points or decrease 100 basis points from the base scenario. In the shock scenarios, rates immediately change the full amount at the scenario onset. In the ramp scenarios, rates change by 25 basis points per month. United's policy limits the projected change in net interest revenue over the first 12 months to a 5% decrease for each 100 basis point change in the increasing and decreasing rate ramp and shock scenarios. Historically low rates on September 30, 2016 made use of the down scenarios irrelevant. The following table presents United's interest sensitivity position at the dates indicated.

Table 13 - Interest Sensitivity

Change in Rates	Increase (Decrease) in Net Interest Revenue from Base Scenario at September 30,							
	2017				2016			
	Shock		Ramp		Shock		Ramp	
100 basis point increase	0.6	%	0.0	%	0.6	%	0.0	%
100 basis point decrease	(8.7	)	(6.7	)	n/a		n/a	

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

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

Management uses derivative financial instruments to assist in the management of interest rate sensitivity. Derivative financial instruments can be a cost-effective and capital-effective means of modifying the re-pricing characteristics of on-balance sheet assets and liabilities. These contracts generally consist of interest rate swaps under which United pays a variable rate (or fixed rate, as the case may be) and receives a fixed rate (or variable rate, as the case may be), interest rate caps that fix the maximum amount of interest paid on a variable rate borrowing and interest rate floors that fix the minimum amount of interest received for floating rate loans. In addition to derivative instruments, management uses a variety of balance sheet instruments to manage interest rate risk such as investment securities, wholesale funding, and bank-issued deposits.

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

From time to time, United will terminate hedging positions when conditions change and the position is no longer necessary to manage overall sensitivity to changes in interest rates. In those situations where the terminated contract was in an effective hedging relationship at the time of termination and the hedging relationship is expected to remain effective throughout the original term of the contract, the resulting gain or loss is amortized over the remaining life of the original contract. For swap contracts, the gain or loss is amortized over the remaining original contract term using the straight line method of amortization. United expects that \$545,000 will be reclassified as an increase to interest expense from other comprehensive income over the next twelve months related to these terminated cash flow hedges.

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

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at a reasonable cost, to meet ongoing operational cash needs and to take advantage of revenue producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a sufficient level of liquidity in all expected economic environments. To assist in determining the adequacy of its liquidity, United performs a variety of liquidity stress tests including idiosyncratic, systemic and combined scenarios

for both moderate and severe events. 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. United maintains an unencumbered liquid asset reserve to help ensure its ability to meet its obligations under normal conditions for at least a 12-month period and under severely adverse liquidity conditions for a minimum of 30 days.

An important part of the Bank's liquidity resides in the asset portion of the balance sheet, which provides liquidity primarily through loan interest and principal repayments and the maturities and sales of securities, as well as the ability to use these assets as collateral for borrowings on a secured basis. The Bank also maintains excess funds in short-term interest-bearing assets that provide additional liquidity.

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, brokered deposits and securities sold under agreements to repurchase. 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 United's holding company is a separate entity and apart from the Bank, it must provide for its own liquidity. United's holding company is responsible for the payment of dividends declared for its common shareholders, and interest and principal on any outstanding debt or trust preferred securities. United's holding company currently has internal capital resources to meet these obligations. While United's holding company has access to the capital markets, the ultimate source of holding company liquidity is subsidiary service fees and dividends from the Bank, which are limited by applicable law and regulations.

At September 30, 2017, United had cash and cash equivalent balances of \$247 million and had sufficient qualifying collateral to increase FHLB advances by \$834 million and Federal Reserve discount window borrowing capacity of \$1.17 billion. United also has the ability to raise substantial funds through brokered deposits. In addition to these wholesale sources, United has the ability to attract retail deposits by competing more aggressively on pricing.

As disclosed in the consolidated statement of cash flows, net cash provided by operating activities was \$147 million for the nine months ended September 30, 2017. Net income of \$79.7 million for the nine month period included deferred income tax expense of \$51.8 million, and non-cash expenses for the following: depreciation, amortization and accretion of \$20.1 million and stock-based compensation expense of \$4.36 million. Other sources of cash from operating activities included a decrease in other assets and accrued interest receivable of \$4.11 million. These sources of cash from operating activities were offset by a decrease in accrued expenses and other liabilities of \$8.38 million. Net cash used in investing activities of \$198,000 consisted primarily of a \$57.3 million net increase in loans, purchases of investment securities available-for-sale totaling \$710 million and purchases of investment securities held-to-maturity of \$21.6 million. These uses of cash were partially offset by \$44.9 million in proceeds from maturities and calls of investment securities held-to-maturity, \$276 million in proceeds from the sale of investment securities available-for-sale and \$466 million in proceeds from maturities and calls of investment securities available-for-sale. Net cash used in financing activities of \$117 million consisted primarily of a net decrease in FHLB advances of \$239 million, repayment of long-term debt of \$40.0 million, and \$18.7 million in dividends to common shareholders, partially offset by a net increase in deposits of \$172 million. In the opinion of management, United's liquidity position at September 30, 2017, was sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Shareholders' equity at September 30, 2017 was \$1.22 billion, an increase of \$145 million from December 31, 2016 due to year-to-date earnings less dividends declared, stock issued for the HCSB acquisition, an increase in the value of available-for-sale securities and the release of the disproportionate tax effect related to terminated cash flow hedges. Accumulated other comprehensive loss, which includes unrealized gains and losses on securities available-for-sale, the unrealized gains and losses on derivatives qualifying as cash flow hedges and unamortized prior service cost and actuarial gains and losses on United's modified retirement plan, is excluded in the calculation of regulatory capital adequacy ratios.

The following table shows United's capital ratios, as calculated under applicable regulatory guidelines, at September 30, 2017 and December 31, 2016. As of September 30, 2017, capital levels remained characterized as "well-capitalized" under the Basel III Capital Rules in effect at the time.

Table 14 - Capital Ratios

(dollars in thousands)

Basel III Guidelines	United Community Banks, Inc. (Consolidated)		United Community Bank	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Well Minimum Capitalized				

Risk-based ratios:

Common equity tier 1 capital	4.5	%	6.5	%	12.22	%	11.23	%	12.67	%	12.66	%
Tier I capital	6.0		8.0		12.27		11.23		12.67		12.66	
Total capital	8.0		10.0		13.02		12.04		13.43		13.48	
Leverage ratio	4.0		5.0		9.30		8.54		9.61		9.63	

Common equity tier 1 capital				\$ 993,706	\$ 874,452	\$ 1,028,893	\$ 984,529
Tier I capital				997,883	874,452	1,028,893	984,529
Total capital				1,058,970	937,876	1,089,980	1,047,953
Risk-weighted assets				8,134,417	7,789,089	8,118,459	7,775,352
Average total assets				10,726,624	10,236,868	10,710,987	10,221,318

United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI". Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2017 and 2016.

Table 15 - Stock Price Information

	2017				2016			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	\$ 30.47	\$ 25.29	\$ 27.69	459,018	\$ 19.27	\$ 15.74	\$ 18.47	440,759
Second quarter	28.57	25.39	27.80	402,802	20.60	17.07	18.29	771,334
Third quarter	29.02	24.47	28.54	365,102	21.13	17.42	21.02	379,492
Fourth quarter					30.22	20.26	29.62	532,944

Effect of Inflation and Changing Prices

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United's market risk as of September 30, 2017 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2016. The interest rate sensitivity position at September 30, 2017 is included in management's discussion and analysis on page 59 of this report.

Item 4. Controls and Procedures

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of United's disclosure controls and procedures as of September 30, 2017. Based on, and as of the date of that evaluation, United's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the SEC's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no significant changes in the internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Part II. Other Information**Item 1.****Legal Proceedings**

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

Item 1A.**Risk Factors**

There have been no material changes from the risk factors previously disclosed in United's Annual Report on Form 10-K for the year ended December 31, 2016.

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

On March 22, 2016, United announced that its Board of Directors had authorized a program to repurchase up to \$50 million of United's outstanding common stock through December 31, 2017. Under the program, the shares may be repurchased periodically in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program depends on a number of factors, including the market price of United's common stock, general market and economic conditions, and applicable legal requirements. As of September 30, 2017, the remaining authorization was \$36.3 million. In November of 2017, the Board of Directors extended this program through December 31, 2018.

The following table contains information for shares repurchased during the third quarter of 2017.

(Dollars in thousands, except for per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2017 - July 31, 2017	-	\$ -	-	\$ 36,342
August 1, 2017 - August 31, 2017	-	-	-	36,342

Edgar Filing: UNITED COMMUNITY BANKS INC - Form 10-Q

September 1, 2017 - September 30, 2017	-	-	-	36,342
Total	-	\$ -	-	\$ 36,342

Item 3. Defaults upon Senior Securities – None

Item 4. Mine Safety Disclosures – None

Item 5. Other Information – None

Item 6.

Exhibits

Exhibit No.	Description
<u>31.1</u>	<u>Certification by Jimmy C. Tallent, Chairman and Chief Executive Officer of United Community Banks, Inc., pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification by Jefferson L. Harralson, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32</u>	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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/ Jimmy C. Tallent

Jimmy C. Tallent
Chairman 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 3, 2017