

UNITED COMMUNITY BANKS INC  
Form 10-Q  
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended September 30, 2015**

**OR**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-35095**

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

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

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

(706) 781-2265

(Telephone Number)

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

YES x NO "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive 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 x NO "

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

Large accelerated filer x

Accelerated filer "

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

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

**YES**  **NO**

**Common stock, par value \$1 per share 63,193,854 shares voting and 8,285,516 shares non-voting outstanding as of October 31, 2015.**

INDEX

**PART I - Financial Information**

**Item 1. Financial Statements.**

**Consolidated Statement of Income (unaudited) for the Three and Nine Months Ended September 30, 2015 and 2014** 3

**Consolidated Statement of Comprehensive Income (unaudited) for the Three and Nine Months Ended September 30, 2015 and 2014** 4

**Consolidated Balance Sheet (unaudited) at September 30, 2015, December 31, 2014 and September 30, 2014** 5

**Consolidated Statement of Changes in Shareholders' Equity (unaudited) for the Nine Months Ended September 30, 2015 and 2014** 6

**Consolidated Statement of Cash Flows (unaudited) for the Nine Months Ended September 30, 2015 and 2014** 7

**Notes to Consolidated Financial Statements** 8

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.** 43

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.** 67

**Item 4. Controls and Procedures.** 67

**PART II - Other Information**

**Item 1. Legal Proceedings.** 67

**Item 1A. Risk Factors.** 67

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.** 68

**Item 3. Defaults Upon Senior Securities.** 68

**Item 4. Mine Safety Disclosures.** 68

**Item 5. Other Information.** 68

**Item 6. Exhibits.** 69

**Part I – Financial Information**

## UNITED COMMUNITY BANKS, INC.

**Consolidated Statement of Income** *(Unaudited)*

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Interest revenue:				
Loans, including fees	\$ 57,174	\$ 49,653	\$ 159,814	\$ 145,602
Investment securities, including tax exempt of \$177, \$177, \$516 and \$558	12,801	12,346	36,896	36,118
Deposits in banks and short-term investments	853	934	2,460	2,757
Total interest revenue	70,828	62,933	199,170	184,477
Interest expense:				
Deposits:				
NOW	337	365	1,079	1,216
Money market	981	872	2,460	2,192
Savings	25	20	71	61
Time	830	1,721	2,834	5,510
Total deposit interest expense	2,173	2,978	6,444	8,979
Short-term borrowings	99	316	279	2,064
Federal Home Loan Bank advances	461	435	1,307	573
Long-term debt	2,669	2,642	7,481	7,914
Total interest expense	5,402	6,371	15,511	19,530
Net interest revenue	65,426	56,562	183,659	164,947
Provision for credit losses	700	2,000	3,400	6,700
Net interest revenue after provision for credit losses	64,726	54,562	180,259	158,247
Fee revenue:				
Service charges and fees	9,335	8,202	25,325	24,627
Mortgage loan and other related fees	3,840	2,178	10,302	5,409
Brokerage fees	1,200	1,209	3,983	3,631
Gains from sales of SBA loans	1,646	945	4,281	1,689
Securities gains, net	325	11	1,877	4,663
Loss from prepayment of debt	(256 )	-	(1,294 )	(4,446 )
Other	2,207	1,867	6,771	5,158
Total fee revenue	18,297	14,412	51,245	40,731
Total revenue	83,023	68,974	231,504	198,978
Operating expenses:				
Salaries and employee benefits	29,342	25,666	83,749	74,349
Communications and equipment	3,963	3,094	10,538	9,370
Occupancy	4,013	3,425	10,706	10,065
Advertising and public relations	812	894	2,689	2,659
Postage, printing and supplies	1,049	876	2,980	2,456

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

Professional fees	2,668	2,274	6,844	5,873
FDIC assessments and other regulatory charges	1,136	1,131	3,643	3,909
Merger-related charges	5,744	-	8,917	-
Other	5,542	4,004	15,684	12,265
Total operating expenses	54,269	41,364	145,750	120,946
Net income before income taxes	28,754	27,610	85,754	78,032
Income tax expense	10,867	9,994	32,384	28,659
Net income	17,887	17,616	53,370	49,373
Preferred stock dividends and discount accretion	25	-	42	439
Net income available to common shareholders	\$ 17,862	\$ 17,616	\$ 53,328	\$ 48,934
Earnings per common share:				
Basic	\$.27	\$.29	\$.84	\$.81
Diluted	.27	.29	.84	.81
Weighted average common shares outstanding:				
Basic	66,294	60,776	63,297	60,511
Diluted	66,300	60,779	63,302	60,513

See accompanying notes to consolidated financial statements.

## UNITED COMMUNITY BANKS, INC.

**Consolidated Statement of Comprehensive Income** *(Unaudited)*

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	<b>Before-tax</b>	<b>Tax (Expense)</b>	<b>Net of Tax</b>	<b>Before-tax</b>	<b>Tax (Expense)</b>	<b>Net of Tax</b>
	<b>Amount</b>	<b>Benefit</b>	<b>Amount</b>	<b>Amount</b>	<b>Benefit</b>	<b>Amount</b>
2015						
Net income	\$ 28,754	\$ (10,867 )	\$ 17,887	\$ 85,754	\$ (32,384 )	\$ 53,370
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	2,313	(870 )	1,443	5,426	(2,143 )	3,283
Reclassification adjustment for gains included in net income	(325 )	121	(204 )	(1,877 )	724	(1,153 )
Net unrealized gains	1,988	(749 )	1,239	3,549	(1,419 )	2,130
Amortization of losses included in net income on available- for-sale securities transferred to held-to-maturity	269	(99 )	170	1,041	(387 )	654
Net amortization	269	(99 )	170	1,041	(387 )	654
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	550	(214 )	336	1,430	(556 )	874
Unrealized losses on derivative financial instruments accounted for as cash flow hedges	-	-	-	(471 )	183	(288 )
Net cash flow hedge activity	550	(214 )	336	959	(373 )	586
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	159	(62 )	97	478	(186 )	292
Net defined benefit pension plan activity	159	(62 )	97	478	(186 )	292
Total other comprehensive income	2,966	(1,124 )	1,842	6,027	(2,365 )	3,662
Comprehensive income	\$ 31,720	\$ (11,991 )	\$ 19,729	\$ 91,781	\$ (34,749 )	\$ 57,032
2014						
Net income	\$ 27,610	\$ (9,994 )	\$ 17,616	\$ 78,032	\$ (28,659 )	\$ 49,373
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	(4,357 )	1,626	(2,731 )	10,696	(4,031 )	6,665
Reclassification adjustment for gains included in net income	(11 )	4	(7 )	(4,663 )	1,821	(2,842 )

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

Net unrealized gains (losses)	(4,368 )	1,630	(2,738 )	6,033	(2,210 )	3,823
Amortization of losses included in net income on available- for-sale securities transferred to held-to-maturity	468	(176 )	292	1,207	(453 )	754
Net amortization	468	(176 )	292	1,207	(453 )	754
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	711	(277 )	434	1,381	(538 )	843
Unrealized gains (losses) on derivative financial instruments accounted for as cash flow hedges	412	(160 )	252	(5,967 )	2,322	(3,645 )
Net cash flow hedge activity	1,123	(437 )	686	(4,586 )	1,784	(2,802 )
Net actuarial gain on defined benefit pension plan	-	-	-	296	(115 )	181
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	91	(36 )	55	274	(107 )	167
Net defined benefit pension plan activity	91	(36 )	55	570	(222 )	348
Total other comprehensive income (loss)	(2,686 )	981	(1,705 )	3,224	(1,101 )	2,123
Comprehensive income	\$ 24,924	\$ (9,013 )	\$ 15,911	\$ 81,256	\$ (29,760 )	\$ 51,496

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, 2015	December 31, 2014	September 30, 2014
<b>ASSETS</b>			
Cash and due from banks	\$ 93,975	\$ 77,180	\$ 75,268
Interest-bearing deposits in banks	112,964	89,074	117,399
Short-term investments	-	26,401	23,397
Cash and cash equivalents	206,939	192,655	216,064
Securities available for sale	2,099,868	1,782,734	1,789,667
Securities held to maturity (fair value \$368,096, \$425,233 and \$440,311)	357,549	415,267	432,418
Mortgage loans held for sale	23,088	13,737	20,004
Loans, net of unearned income	6,023,585	4,672,119	4,568,886
Less allowance for loan losses	(69,062)	(71,619)	(71,928)
Loans, net	5,954,523	4,600,500	4,496,958
Premises and equipment, net	192,992	159,390	160,454
Bank owned life insurance	105,368	81,294	81,101
Accrued interest receivable	24,563	20,103	19,908
Net deferred tax asset	197,116	215,503	224,734
Derivative financial instruments	19,906	20,599	22,221
Goodwill and other intangible assets	141,415	3,641	3,910
Other assets	90,669	61,563	58,450
Total assets	\$ 9,413,996	\$ 7,566,986	\$ 7,525,889
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Demand	\$ 2,174,799	\$ 1,574,317	\$ 1,561,020
NOW	1,754,614	1,504,887	1,399,449
Money market	1,651,592	1,273,283	1,281,526
Savings	459,323	292,308	287,797
<b>Time:</b>			
Less than \$100,000	865,369	748,478	774,201
Greater than \$100,000	482,567	508,228	531,428
Brokered	516,748	425,011	405,308
Total deposits	7,905,012	6,326,512	6,240,729
Short-term borrowings	18,839	6,000	6,001
Federal Home Loan Bank advances	200,125	270,125	330,125
Long-term debt	165,620	129,865	129,865
Derivative financial instruments	27,401	31,997	36,171
Unsettled securities purchases	-	5,425	-
Accrued expenses and other liabilities	83,862	57,485	46,573
Total liabilities	8,400,859	6,827,409	6,789,464
<b>Shareholders' equity:</b>			
Preferred stock, \$1 par value; 10,000,000 shares authorized; Series H; \$1,000 stated value; 9,992, 0, and 0 shares issued and outstanding	9,992	-	-

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

Common stock, \$1 par value; 100,000,000 shares authorized; 63,186,437, 50,178,605 and 50,167,191 shares issued and outstanding	63,186	50,178	50,167
Common stock, non-voting, \$1 par value; 26,000,000 shares authorized; 8,285,516, 10,080,787 and 10,080,787 shares issued and outstanding	8,286	10,081	10,081
Common stock issuable; 454,870, 357,983 and 354,961 shares	6,670	5,168	5,116
Capital surplus	1,284,877	1,080,508	1,091,555
Accumulated deficit	(344,746 )	(387,568 )	(402,773 )
Accumulated other comprehensive loss	(15,128 )	(18,790 )	(17,721 )
Total shareholders' equity	1,013,137	739,577	736,425
Total liabilities and shareholders' equity	\$ 9,413,996	\$ 7,566,986	\$ 7,525,889

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,**

<i>(in thousands, except share and per share data)</i>	Series B	Series D	Series H	Common Stock	Non-Voting Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2013	\$105,000	\$16,613	\$-	\$46,243	\$13,188	\$3,930	\$1,078,676	\$(448,091)	\$(19,844)
Net income								49,373	
Other comprehensive income									2,123
Redemption of Series B preferred stock (105,000 shares)	(105,000)								
Redemption of Series D preferred stock (16,613 shares)		(16,613)							
Common stock issued at market (640,000 shares)				640			11,566		
Common stock issued to dividend reinvestment plan and employee benefit plans (25,284 shares)				25			399		
Conversion of non-voting common stock to voting (3,107,419 shares)				3,107	(3,107)				
Amortization of stock option and restricted stock awards							3,315		
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (137,920 shares issued, 115,609 shares deferred)				138		1,275	(2,658)		
Deferred compensation plan, net, including dividend equivalents						182			
Shares issued from deferred compensation plan (13,223 shares)				14		(271)	257		

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

Common stock dividends (\$0.06 per share)									(3,616 )	
Preferred stock dividends:										
Series B									(159 )	
Series D									(280 )	
Balance, September 30, 2014	\$-	\$-	\$-	\$50,167	\$10,081	\$5,116	\$1,091,555	\$(402,773)		\$(17,721)
Balance, December 31, 2014	\$-	\$-	\$-	\$50,178	\$10,081	\$5,168	\$1,080,508	\$(387,568)		\$(18,790)
Net income									53,370	
Other comprehensive income										3,662
Common stock issued to dividend reinvestment plan and to employee benefit plans (11,761 shares)				12			192			
Conversion of non-voting common stock to voting common stock (1,795,271 shares)				1,795	(1,795 )					
Common and preferred stock issued for acquisition (11,058,515 common shares and 9,992 preferred shares)			9,992	11,059			203,092			
Amortization of stock option and restricted stock awards							3,343			
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (118,672 shares issued, 106,935 shares deferred)				119		1,444	(3,009 )			
Deferred compensation plan, net, including dividend equivalents						274	(1 )			
Shares issued from deferred compensation plan (23,613 shares)				23		(216 )	193			
Common stock dividends (\$0.16 per share)									(10,506 )	
Tax on option exercise and restricted stock vesting							559			
Preferred stock dividends:										
Series H									(42 )	
Balance, September 30, 2015	\$-	\$-	\$9,992	\$63,186	\$8,286	\$6,670	\$1,284,877	\$(344,746)		\$(15,128)

See accompanying notes to consolidated financial statements.



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

(in thousands)	Nine Months Ended September 30,	
	2015	2014
Operating activities:		
Net income	\$53,370	\$49,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	16,788	15,098
Provision for credit losses	3,400	6,700
Stock based compensation	3,343	3,315
Deferred income tax benefit	28,495	28,112
Securities gains, net	(1,877 )	(4,663 )
Gains from sales of government guaranteed loans	(4,281 )	-
Net gains on sale of other assets	(437 )	-
Net gains and write downs on sales of other real estate owned	(368 )	(518 )
Loss on prepayment of borrowings	1,294	4,446
Changes in assets and liabilities:		
Other assets and accrued interest receivable	4,232	(12,334 )
Accrued expenses and other liabilities	4,191	(16,813 )
Mortgage loans held for sale	(5,562 )	(9,685 )
Net cash provided by operating activities	102,588	63,031
Investing activities:		
Investment securities held to maturity:		
Proceeds from maturities and calls of securities held to maturity	57,721	47,567
Purchases of securities held to maturity	-	(173 )
Investment securities available for sale:		
Proceeds from sales of securities available for sale	274,519	403,517
Proceeds from maturities and calls of securities available for sale	212,383	176,423
Purchases of securities available for sale	(476,917 )	(552,025)
Net increase in loans	(324,868 )	(220,061)
Funds (paid to) collected from FDIC under loss sharing agreements	(1,198 )	2,890
Proceeds from sales of premises and equipment	2,127	2,488
Purchases of premises and equipment	(7,191 )	(3,260 )
Net cash received (paid) for acquisition	35,497	(31,243 )
Proceeds from sale of notes	-	4,561
Proceeds from sale of other real estate	3,184	7,920
Net cash used in investing activities	(224,743 )	(161,396)
Financing activities:		
Net change in deposits	219,454	39,224
Net change in short-term borrowings	(16,238 )	(51,686 )
Repayments of trust preferred securities	(48,521 )	-
Proceeds from FHLB advances	1,495,000	930,000
Repayments of FHLB advances	(1,587,070)	(720,000)
Proceeds from issuance of senior debt, net of issuance costs	84,141	-
	204	424

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

Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans		
Proceeds from issuance of common stock, net of issuance costs	-	12,206
Retirement of preferred stock	-	(121,613)
Cash dividends on common stock	(10,506 )	(1,810 )
Cash dividends on preferred stock	(25 )	(1,214 )
Net cash provided by financing activities	136,439	85,531
Net change in cash and cash equivalents	14,284	(12,834 )
Cash and cash equivalents at beginning of period	192,655	228,898
Cash and cash equivalents at end of period	\$206,939	\$216,064
Supplemental disclosures of cash flow information:		
Interest paid	\$16,567	\$20,598
Income taxes paid	3,453	2,497
Significant non-cash investing and financing transactions:		
Unsettled government guaranteed loan sales	11,020	-
Transfers of loans to foreclosed properties	3,428	8,216
Acquisitions:		
Assets acquired	1,736,203	31,243
Liabilities assumed	1,427,358	-
Net assets acquired	308,845	31,243
Common stock issued in acquisitions	214,151	-
Preferred stock issued in acquisitions	9,992	-

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 of America (“GAAP”) and general banking industry practices. 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, 2014.

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

Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

#### Note 2 – Accounting Standards Updates and Recently Adopted Standards

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, effective for fiscal years beginning after December 15, 2015 and interim periods within those years with early adoption permitted. The new standard is intended to improve targeted areas of the consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. The amendments in the ASU affect the consolidation evaluation for reporting organizations. In addition, the amendments in this ASU simplify and improve current GAAP by reducing the number of consolidation models. United is currently evaluating the impact of this guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability consistent with debt discounts. The standard will be



effective for the United's fiscal year beginning after December 15, 2015 and subsequent interim periods. The adoption of ASU 2015-03 is not expected to have a material effect on United's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by ASC 820. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for fiscal years beginning after December 15, 2015, with retrospective application to all periods presented. Early application is permitted. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10: *Technical Corrections and Improvements*. The amendments in this Update cover a wide range of topics in the Codification including guidance clarification and reference corrections, simplification and minor improvements. Transition guidance varies based on the amendments. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon issuance. United retrospectively applied the provisions of ASU 2015-10 during the second quarter of 2015, with no material impact on United's financial position or results of operations. The adoption of ASU 2015-10 did affect certain disclosures related to nonrecurring fair value measurements as presented in Note 14.

In July 2015, the FASB issued ASU 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965)*. The guidance in the update designates contract value as the only required measure for fully benefit-responsive investment contracts and simplifies the disclosure of investments by requiring that investments be grouped only by general type rather than disaggregated in multiple ways. The amendments are effective for fiscal years beginning after December 15, 2015, with earlier application permitted. The adoption of this update is not expected to have a material impact on United's consolidated financial statements.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*. The guidance in this update delays the effective date of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)*, which supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, ASU 2014-09 was originally effective for interim and annual periods beginning after December 15, 2016. ASU 2015-14 delays the effective date for public companies to interim and annual reporting periods beginning after December 15, 2017. United is currently assessing the impact that this guidance will have on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The guidance in this update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. In addition, the acquirer will record, in the same period financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The update requires disclosure of amounts recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public entities, this update is effective for fiscal years beginning after December 15, 2015 with early application permitted. United applied the provisions of ASU 2015-16 during the third quarter of 2015, with no material impact on United's financial position or results of operations.

### Note 3 – Acquisitions

#### Acquisition of Palmetto Bancshares, Inc.

On September 1, 2015, United completed the acquisition of Palmetto Bancshares, Inc. (“Palmetto”) and its wholly-owned bank subsidiary The Palmetto Bank. Palmetto operated 25 branches in South Carolina. In connection with the acquisition, United acquired \$1.15 billion of assets and assumed \$1.02 billion of liabilities. Total consideration transferred was \$244 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of \$108 million, which consisted largely of the intangible value of Palmetto's business and reputation within the market it serves. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of \$12.9 million using the sum-of-the-years-digits method over 12

years, which represents the expected useful life of the asset.

The fair value of the 8.7 million common shares issued as part of the consideration paid for Palmetto was determined on the basis of the closing market price of United's common shares on the acquisition date.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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 Palmetto	Fair Value <u>Adjustments</u> <sup>(1)</sup>	As Recorded by United
<b>Assets</b>			
Cash and cash equivalents	\$ 64,906	\$ -	\$ 64,906
Securities	208,407	(624 )	207,783
Loans held for sale	2,356	91	2,447
Loans, net	802,111	(6,087 )	796,024
Premises and equipment, net	21,888	1,251	23,139
Bank owned life insurance	12,133	-	12,133
Accrued interest receivable	3,227	(346 )	2,881
Net deferred tax asset	14,798	(2,327 )	12,471
Core deposit intangible	-	12,900	12,900
<u>Other assets</u>	18,439	1,080	19,519
<u>Total assets acquired</u>	\$ 1,148,265	\$ 5,938	\$ 1,154,203
<b>Liabilities</b>			
Deposits	\$ 989,296	\$ -	\$ 989,296
Short-term borrowings	13,537	-	13,537
<u>Other liabilities</u>	11,994	3,037	15,031
<u>Total liabilities assumed</u>	1,014,827	3,037	1,017,864
Excess of assets acquired over liabilities assumed	\$ 133,438		
Aggregate fair value adjustments		\$ 2,901	
Consideration transferred			
Cash			74,003
Common stock issued (8,700,012 shares)			170,259
Total fair value of consideration transferred			244,262
Goodwill			\$ 107,923

<sup>(1)</sup> 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.

Purchased loans that show evidence of credit deterioration since origination are accounted for pursuant to Accounting Standards Codification (“ASC”) Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The following table presents additional information related to the acquired loan portfolio at acquisition date (*in thousands*):

	September 1, 2015
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	\$ 63,623
Non-accretable difference	13,397
Cash flows expected to be collected	50,226
Accretable yield	4,834
Fair value	\$ 45,392
Excluded from ASC 310-30:	
Fair value	\$ 750,632
Gross contractual amounts receivable	859,628
Estimate of contractual cash flows not expected to be collected	7,733

United's operating results for the nine months ended September 30, 2015 include the operating results of the acquired assets and assumed liabilities for the days subsequent to the acquisition date of September 1, 2015.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Acquisition of MoneyTree Corporation**

On May 1, 2015, United completed the acquisition of MoneyTree Corporation (“MoneyTree”) and its wholly-owned bank subsidiary, First National Bank (“FNB”). FNB operated ten branches in east Tennessee. In connection with the acquisition, United acquired \$460 million of assets and assumed \$409 million of liabilities and \$9.99 million of preferred stock. Total consideration transferred was \$54.6 million of common equity and cash. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of \$14.1 million, which consisted largely of the intangible value of FNB’s business and reputation within the market it serves. None of the goodwill recognized is expected to be deductible for income tax purposes. United will amortize the related core deposit intangible of \$4.22 million using the sum-of-the-years-digits method over 6.67 years, which represents the expected useful life of the asset. The deposit premium of \$917,000 will be amortized using the effective yield method over 5 years, which represents the weighted average maturity of the underlying deposits.

The fair value of the 2.36 million common shares issued as part of the consideration paid for MoneyTree was determined on the basis of the closing market price of United’s common shares on the acquisition date.

Upon completion of the acquisition, each share of preferred stock issued by MoneyTree as part of the Small Business Lending Fund (“SBLF”) program of the United States Department of Treasury (9,992 shares in the aggregate with a liquidation preference amount of \$1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company. See Note 12 for further detail.

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 MoneyTree	Fair Value <u>Adjustments</u> <u>(1)</u>	As Recorded by United
Assets			
Cash and cash equivalents	\$ 55,293	\$ -	\$ 55,293
Securities	127,123	(52 )	127,071
Loans held for sale	1,342	-	1,342

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

Loans, net	246,816	(2,464	)	244,352
Premises and equipment, net	9,497	2,228		11,725
Bank owned life insurance	11,194	-		11,194
Core deposit intangible	-	4,220		4,220
Other assets	5,462	(716	)	4,746
Total assets acquired	\$ 456,727	\$ 3,216		\$ 459,943
Liabilities				
Deposits	\$ 368,833	\$ 917		\$ 369,750
Short-term borrowings	15,000	-		15,000
Federal Home Loan Bank advances	22,000	70		22,070
Other liabilities	864	1,810		2,674
Total liabilities assumed	406,697	2,797		409,494
SBLF preferred stock assumed	9,992	-		9,992
Excess of assets acquired over liabilities and preferred stock assumed	\$ 40,038			
Aggregate fair value adjustments		\$ 419		
Consideration transferred				
Cash				10,699
Common stock issued (2,358,503 shares)				43,892
Total fair value of consideration transferred				54,591
Goodwill				\$ 14,134

(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**

Purchased loans that show evidence of credit deterioration since origination are accounted for pursuant to Accounting Standards Codification (“ASC”) Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The following table presents additional information related to the acquired loan portfolio at acquisition date (*in thousands*):

	May 1, 2015
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	\$ 15,152
Non-accretable difference	3,677
Cash flows expected to be collected	11,475
Accretable yield	1,029
Fair value	\$ 10,446
Excluded from ASC 310-30:	
Fair value	\$ 233,906
Gross contractual amounts receivable	258,931
Estimate of contractual cash flows not expected to be collected	1,231

United’s operating results for the nine months ended September 30, 2015 include the operating results of the acquired assets and assumed liabilities for the days subsequent to the acquisition date of May 1, 2015.

*Pro forma information*

The following table discloses the impact of the merger with Palmetto and MoneyTree since the respective acquisition dates through September 30, 2015. The table also presents certain pro forma information as if Palmetto and MoneyTree had been acquired on January 1, 2014. These results combine the historical results of Palmetto and MoneyTree with United’s consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not necessarily indicative of what would have occurred had the acquisition taken place on January 1, 2014.



Merger-related costs of \$8.92 million from the acquisitions have been excluded from the 2015 pro forma information presented below and included in the 2014 pro forma information presented below. Furthermore, no adjustments have been made to the pro forma information to eliminate the pre-acquisition provision for loan losses for the nine months ended September 30, 2015 or 2014 of Palmetto or MoneyTree. No adjustments have been made to reduce the impact of any OREO write downs recognized by Palmetto or MoneyTree in either the nine months ended September 30, 2015 or 2014. In addition, expenses related to systems conversions and other costs of integration are expected to be recorded during the next several quarters. United expects to achieve further operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts below. The actual results and pro forma information were as follows (*in thousands*):

	Revenue	Net Income
Actual MoneyTree from May 1, 2015 - September 30, 2015	\$5,365	\$ 1,778
Actual Palmetto from September 1, 2015 - September 30, 2015	4,382	1,659
2015 supplemental consolidated pro forma from January 1, 2015 - September 30, 2015	273,129	65,229
2014 supplemental consolidated pro forma from January 1, 2014 - September 30, 2014	251,936	51,913

#### **Acquisition of Business Carolina, Inc.**

On June 26, 2014, United completed the acquisition of substantially all of the assets of Business Carolina, Inc., a specialty Small Business Administration (“SBA”) / United States Department of Agriculture (“USDA”) lender headquartered in Columbia, South Carolina. On the closing date, United paid \$31.3 million in cash for loans having a fair value on the purchase date of \$24.8 million, accrued interest of \$83,000, servicing rights with a fair value on the purchase date of \$2.13 million, premises and equipment with a fair value on the purchase date of \$2.60 million and goodwill in the amount of \$1.51 million representing the premium paid over the fair value of the separately identifiable assets and liabilities acquired. The gross contractual amount of loans receivable was \$28.0 million as of the acquisition date. United has not identified any material separately identifiable intangible assets resulting from the acquisition.

The valuation of loans and servicing assets that were acquired in this transaction included unobservable inputs. Therefore, United considers those valuations to be level 3 in the ASC 820 hierarchy. For the loans, the valuations were derived by estimating the expected cash flows using a combination of prepayment speed and default estimates. The cash flows are then discounted using the rates implied by observed transactions in the market place.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Note 4 – Balance Sheet Offsetting**

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 September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset on the Balance Sheet</b>	<b>Net Asset Balance</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instrument</b>	<b>Collateral Received</b>	
September 30, 2015						
Repurchase agreements / reverse repurchase agreements	\$ 400,000	\$ (400,000 )	\$ -	\$ -	\$ -	\$ -
Derivatives	19,906	-	19,906	(831 )	(5,529 )	13,546
Total	\$ 419,906	\$ (400,000 )	\$ 19,906	\$ (831 )	\$ (5,529 )	\$ 13,546
Weighted average interest rate of reverse repurchase agreements	1.25	%				
	<b>Gross Amounts of</b>	<b>Gross Amounts</b>	<b>Net</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>		

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

	<b>Recognized Liabilities</b>	<b>Offset on the Balance Sheet</b>	<b>Liability Balance</b>	<b>Financial Instrument</b>	<b>Collateral pledged</b>	<b>Net Amount</b>
Repurchase agreements / reverse repurchase agreements	\$ 400,000	\$ (400,000 )	\$ -	\$ -	\$ -	\$ -
Derivatives	27,401	-	27,401	(831 )	(28,169 )	-
Total	\$ 427,401	\$ (400,000 )	\$ 27,401	\$ (831 )	\$ (28,169 )	\$ -
Weighted average interest rate of repurchase agreements	.41	%				

	<b>Gross Amounts of Recognized Assets</b>	<b>Gross Amounts Offset on the Balance Sheet</b>	<b>Net Asset Balance</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>	<b>Financial Collateral Received</b>	<b>Net Amount</b>
December 31, 2014						
Repurchase agreements / reverse repurchase agreements	\$ 395,000	\$ (375,000 )	\$ 20,000	\$ -	\$ (20,302 )	\$ -
Derivatives	20,599	-	20,599	(869 )	(3,716 )	16,014
Total	\$ 415,599	\$ (375,000 )	\$ 40,599	\$ (869 )	\$ (24,018 )	\$ 16,014
Weighted average interest rate of reverse repurchase agreements	1.16	%				

	<b>Gross Amounts of Recognized Liabilities</b>	<b>Gross Amounts Offset on the Balance Sheet</b>	<b>Net Liability Balance</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>	<b>Financial Collateral pledged</b>	<b>Net Amount</b>
Repurchase agreements / reverse repurchase agreements	\$ 375,000	\$ (375,000 )	\$ -	\$ -	\$ -	\$ -
Derivatives	31,997	-	31,997	(869 )	(32,792 )	-
Total	\$ 406,997	\$ (375,000 )	\$ 31,997	\$ (869 )	\$ (32,792 )	\$ -
	.29	%				

Weighted average interest rate of  
repurchase agreements

13

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet		Gross Amounts not Offset in the Balance Sheet		Net Amount
		Net Asset Balance	Financial Instruments	Collateral Received		
September 30, 2014						
Repurchase agreements / reverse repurchase agreements	\$ 392,000	\$ (375,000 )	\$ 17,000	\$ -	\$ (17,985 )	\$ -
Derivatives	22,221	-	22,221	(2,093 )	(3,427 )	16,701
Total	\$ 414,221	\$ (375,000 )	\$ 39,221	\$ (2,093 )	\$ (21,412 )	\$ 16,701

Weighted average interest rate of  
reverse repurchase agreements 1.16 %

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet		Gross Amounts not Offset in the Balance Sheet		Net Amount
		Net Liability Balance	Financial Instruments	Collateral Pledged		
Repurchase agreements / reverse repurchase agreements	\$ 375,000	\$ (375,000 )	\$ -	\$ -	\$ -	\$ -
Derivatives	36,171	-	36,171	(2,093 )	(38,195 )	-
Total	\$ 411,171	\$ (375,000 )	\$ 36,171	\$ (2,093 )	\$ (38,195 )	\$ -

Weighted average interest rate of  
repurchase agreements .31 %

## Note 5 – Securities

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

The amortized cost basis, gross unrealized gains and losses and fair value of securities held-to-maturity at September 30, 2015, December 31, 2014 and September 30, 2014 are as follows (*in thousands*).

	Amortized	Gross	Gross	Fair
<u>As of September 30, 2015</u>	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
State and political subdivisions	\$ 42,094	\$ 3,394	\$ -	\$45,488
Mortgage-backed securities <sup>(1)</sup>	315,455	7,676	523	322,608
Total	357,549	11,070	523	368,096
As of December 31, 2014				
State and political subdivisions	\$ 48,157	\$ 3,504	\$ -	\$51,661
Mortgage-backed securities <sup>(1)</sup>	367,110	7,716	1,254	373,572
Total	\$ 415,267	\$ 11,220	\$ 1,254	\$425,233
As of September 30, 2014				
State and political subdivisions	\$ 50,248	\$ 3,849	\$ -	\$54,097
Mortgage-backed securities <sup>(1)</sup>	382,170	7,299	3,255	386,214
Total	\$ 432,418	\$ 11,148	\$ 3,255	\$440,311

<sup>(1)</sup> 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 following table summarizes held-to-maturity securities in an unrealized loss position as of September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

	Less than 12 Months		12 Months or More		Total	
<u>As of September 30, 2015</u>	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 80,174	\$ 355	\$ 11,981	\$ 168	\$92,155	\$ 523
Total unrealized loss position	\$ 80,174	\$ 355	\$ 11,981	\$ 168	\$92,155	\$ 523
As of December 31, 2014						
Mortgage-backed securities	\$ 126,514	\$ 917	\$ 17,053	\$ 337	\$143,567	\$ 1,254
Total unrealized loss position	\$ 126,514	\$ 917	\$ 17,053	\$ 337	\$143,567	\$ 1,254
As of September 30, 2014						
Mortgage-backed securities	\$ 189,223	\$ 3,147	\$ 2,798	\$ 108	\$192,021	\$ 3,255
Total unrealized loss position	\$ 189,223	\$ 3,147	\$ 2,798	\$ 108	\$192,021	\$ 3,255

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, 2015 or 2014.

## 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 at September 30, 2015, December 31, 2014 and September 30, 2014 are presented below (*in thousands*).

	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
<u>As of September 30, 2015</u>		Gains	Losses	
U.S. Treasuries	\$162,791	\$ 1,436	\$ -	\$164,227
U.S. Government agencies	100,947	858	35	101,770
State and political subdivisions	36,017	413	52	36,378
Mortgage-backed securities <sup>(1)</sup>	1,106,835	17,090	4,244	1,119,681
Corporate bonds	207,559	1,904	1,773	207,690
Asset-backed securities	469,736	1,842	3,322	468,256
Other	1,866	-	-	1,866
Total	\$2,085,751	\$ 23,543	\$ 9,426	\$2,099,868
As of December 31, 2014				
U.S. Treasuries	\$105,540	\$ 235	\$ 66	\$105,709
U.S. Government agencies	36,474	-	175	36,299
State and political subdivisions	19,748	504	19	20,233
Mortgage-backed securities <sup>(1)</sup>	988,012	16,273	7,465	996,820
Corporate bonds	165,018	1,686	1,076	165,628
Asset-backed securities	455,626	2,257	1,955	455,928
Other	2,117	-	-	2,117
Total	\$1,772,535	\$ 20,955	\$ 10,756	\$1,782,734
As of September 30, 2014				
U.S. Treasuries	\$105,385	\$ 245	\$ 608	\$105,022
State and political subdivisions	19,686	666	31	20,321
Mortgage-backed securities <sup>(1)</sup>	1,029,881	15,010	9,899	1,034,992
Corporate bonds	165,558	1,427	1,733	165,252
Asset-backed securities	458,569	3,629	154	462,044
Other	2,036	-	-	2,036
Total	\$1,781,115	\$ 20,977	\$ 12,425	\$1,789,667

<sup>(1)</sup> 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 following table summarizes available-for-sale securities in an unrealized loss position as of September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

<u>As of September 30, 2015</u>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agencies	\$ 10,605	\$ 35	\$-	\$ -	\$10,605	\$ 35
State and political subdivisions	10,276	52	-	-	10,276	52
Mortgage-backed securities	65,692	288	205,021	3,956	270,713	4,244
Corporate bonds	58,476	1,180	10,407	593	68,883	1,773
Asset-backed securities	265,064	3,024	14,665	298	279,729	3,322
Total unrealized loss position	\$ 410,113	\$ 4,579	\$230,093	\$ 4,847	\$640,206	\$ 9,426
As of December 31, 2014						
U.S. Treasuries	\$ 34,180	\$ 66	\$-	\$ -	\$34,180	\$ 66
U.S. Government agencies	36,299	175	-	-	36,299	175
State and political subdivisions	2,481	19	-	-	2,481	19
Mortgage-backed securities	88,741	446	251,977	7,019	340,718	7,465
Corporate bonds	37,891	371	20,275	705	58,166	1,076
Asset-backed securities	221,359	1,592	40,952	363	262,311	1,955
Total unrealized loss position	\$ 420,951	\$ 2,669	\$313,204	\$ 8,087	\$734,155	\$ 10,756
As of September 30, 2014						
U.S. Treasuries	\$ 104,777	\$ 608	\$-	\$ -	\$104,777	\$ 608
State and political subdivisions	-	-	3,638	31	3,638	31
Mortgage-backed securities	126,445	844	265,426	9,055	391,871	9,899
Corporate bonds	49,547	414	34,657	1,319	84,204	1,733
Asset-backed securities	57,716	137	9,952	17	67,668	154
Total unrealized loss position	\$ 338,485	\$ 2,003	\$313,673	\$ 10,422	\$652,158	\$ 12,425

At September 30, 2015, there were 137 available-for-sale securities and 15 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, 2015, December 31, 2014 and September 30, 2014 were primarily attributable to changes in interest rates and therefore, United does not consider them to be impaired.

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, 2015 and 2014 (*in thousands*).

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>2014</b>	<b>September 30, 2015</b>	<b>2014</b>
Proceeds from sales	\$ 137,702	\$ 13,290	\$ 274,519	\$ 403,517
Gross gains on sales	\$ 328	\$ 11	\$ 1,880	\$ 5,795
Gross losses on sales	(3 )	-	(3 )	(1,132 )
Net gains on sales of securities	\$ 325	\$ 11	\$ 1,877	\$ 4,663
Income tax expense attributable to sales	\$ 121	\$ 4	\$ 724	\$ 1,821

Securities with a carrying value of \$1.45 billion, \$1.51 billion and \$1.38 billion were pledged to secure public deposits and other secured borrowings at September 30, 2015, December 31, 2014 and September 30, 2014, respectively.

## 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, 2015, 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	\$87,168	\$87,925	\$-	\$-
5 to 10 years	75,623	76,302	-	-
	162,791	164,227	-	-
US Government agencies:				
1 to 5 years	23,027	23,018	-	-
5 to 10 years	77,920	78,752	-	-
	100,947	101,770	-	-
State and political subdivisions:				
Within 1 year	4,013	4,065	3,510	3,600
1 to 5 years	10,657	10,926	15,509	16,635
5 to 10 years	12,093	12,075	19,245	21,071
More than 10 years	9,254	9,312	3,830	4,182
	36,017	36,378	42,094	45,488
Corporate bonds:				
1 to 5 years	141,657	142,523	-	-
5 to 10 years	33,451	34,062	-	-
More than 10 years	32,451	31,105	-	-
	207,559	207,690	-	-
Asset-backed securities:				
1 to 5 years	2,837	2,868	-	-
5 to 10 years	241,369	240,672	-	-
More than 10 years	225,530	224,716	-	-
	469,736	468,256	-	-
Other:				
More than 10 years	1,866	1,866	-	-
	1,866	1,866	-	-

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

Total securities other than mortgage-backed securities:

Within 1 year	4,013	4,065	3,510	3,600
1 to 5 years	265,346	267,260	15,509	16,635
5 to 10 years	440,456	441,863	19,245	21,071
More than 10 years	269,101	266,999	3,830	4,182
Mortgage-backed securities	1,106,835	1,119,681	315,455	322,608
	\$2,085,751	\$2,099,868	\$357,549	\$368,096

Expected maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements**
**Note 6 – Loans and Allowance for Credit Losses**

Major classifications of loans as of September 30, 2015, December 31, 2014 and September 30, 2014, are summarized as follows (*in thousands*).

	September 30, 2015	December 31, 2014	September 30, 2014
Owner occupied commercial real estate	\$ 1,479,246	\$ 1,163,480	\$ 1,153,933
Income producing commercial real estate	817,833	598,537	604,727
Commercial & industrial	890,233	710,256	649,853
Commercial construction	318,345	196,030	180,794
Total commercial	3,505,657	2,668,303	2,589,307
Residential mortgage	1,061,610	865,789	865,568
Home equity lines of credit	584,934	465,872	458,819
Residential construction	334,084	298,627	307,178
Consumer installment	116,603	104,899	105,345
Indirect auto	420,697	268,629	242,669
Total loans	6,023,585	4,672,119	4,568,886
Less allowance for loan losses	(69,062 )	(71,619 )	(71,928 )
Loans, net	\$ 5,954,523	\$ 4,600,500	\$ 4,496,958

At September 30, 2015, December 31, 2014 and September 30, 2014, loans totaling \$2.51 billion, \$2.35 billion and \$2.21 billion, respectively, were pledged as collateral to secure FHLB advances and other contingent funding sources.

At September 30, 2015, the carrying value and unpaid principal balance of purchased credit impaired (“PCI”) loans accounted for under ASC 310-30 was \$52.2 million and \$73.1 million, respectively. The following table presents changes in the value of the accretible yield for acquired loans accounted for under ASC Topic 310-30 for the three and nine months ended September 30, 2015 (*in thousands*):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Balance at beginning of period	\$ 946	\$ -

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

Additions due to acquisitions	4,834		5,863
Accretion	(316	)	(399
Balance at end of period	\$ 5,464		\$ 5,464

In addition to the accretable yield on loans accounted for under ASC Topic 310-30, the fair value adjustments on purchased loans outside the scope of ASC Topic 310-30 are also accreted to interest income over the life of the loans. At September 30, 2015, the remaining accretable fair value mark on loans acquired through a business combination and not accounted for under ASC Topic 310-30 was \$7.71 million. In addition, indirect auto loans purchased at a premium outside of a business combination have a remaining premium of \$11.0 million.

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 three and nine months ended September 30, 2015 and 2014 (*in thousands*).

	2015				2014				Allocation	
	Beginning	Charge-	Recovery	Provision	Ending	Beginning	Charge-	Recovery	of	Provi
Three Months Ended September 30,	Balance	Offs			Balance	Balance	Offs			Unallocat
Owner occupied commercial real estate	\$16,339	\$(463 )	\$228	\$(495 )	\$15,609	\$17,804	\$(832 )	\$86	\$-	\$(1,7
Income producing commercial real estate	8,200	(126 )	231	(532 )	7,773	11,761	(598 )	494	-	(860
Commercial & industrial	4,728	(508 )	319	1,041	5,580	3,885	(30 )	372	-	(1,0
Commercial construction	4,895	(80 )	21	1,659	6,495	4,067	(104 )	1	-	1,68
Residential mortgage	19,052	(848 )	415	(1,880)	16,739	16,763	(1,357)	240	-	1,94
Home equity lines of credit	5,479	(413 )	120	1,119	6,305	6,338	(405 )	50	-	(1,1
Residential construction	9,337	(50 )	174	(1,078)	8,383	11,208	(753 )	41	-	2,35
Consumer installment	688	(496 )	221	352	765	599	(449 )	256	-	333
Indirect auto	1,411	(175 )	13	164	1,413	823	(178 )	11	-	295
Total allowance for loan losses	70,129	(3,159)	1,742	350	69,062	73,248	(4,706)	1,551	-	1,83
Allowance for unfunded commitments	2,580	-	-	350	2,930	2,165	-	-	-	165
Total allowance for credit losses	\$72,709	\$(3,159)	\$1,742	\$700	\$71,992	\$75,413	\$(4,706)	\$1,551	\$-	\$2,00
	2015				2014				Allocation	
	Beginning	Charge-	Recovery	Provision	Ending	Beginning	Charge-	Recovery	of	Provi
Nine Months Ended September 30,	Balance	Offs			Balance	Balance	Offs			Unalloca
Owner occupied commercial real estate	\$16,041	\$(1,194)	\$317	\$445	\$15,609	\$17,164	\$(2,116 )	\$2,929	\$1,278	
Income producing commercial real estate	10,296	(448 )	588	(2,663)	7,773	7,174	(1,435 )	691	688	
Commercial & industrial	3,255	(1,139)	1,236	2,228	5,580	6,527	(2,005 )	1,263	318	
Commercial construction	4,747	(249 )	72	1,925	6,495	3,669	(236 )	1	388	
Residential mortgage	20,311	(2,535)	899	(1,936)	16,739	15,446	(5,738 )	597	1,452	



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

Home equity lines of credit	4,574	(834 )	160	2,405	6,305	5,528	(2,032 )	218	391
Residential construction	10,603	(1,689)	645	(1,176)	8,383	12,532	(3,004 )	410	1,728
Consumer installment	731	(1,171)	784	421	765	1,353	(1,580 )	974	-
Indirect auto	1,061	(433 )	34	751	1,413	1,126	(344 )	38	-
Unallocated	-	-	-	-	-	6,243	-	-	(6,243)
Total allowance for loan losses	71,619	(9,692)	4,735	2,400	69,062	76,762	(18,490)	7,121	-
Allowance for unfunded commitments	1,930	-	-	1,000	2,930	2,165	-	-	-
Total allowance for credit losses	\$73,549	\$(9,692)	\$4,735	\$3,400	\$71,992	\$78,927	\$(18,490)	\$7,121	\$-

In the first quarter of 2014, United modified its allowance for loan losses methodology to incorporate a loss emergence period. The increase in precision resulting from the use of the loss emergence period led to the full allocation of the portion of the allowance that had previously been unallocated.

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 September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

Allowance for Loan Losses	September 30, 2015				December 31, 2014			September 30, 2014
	Individual evaluated for impairment	Collectively evaluated for impairment	Purchased with deteriorated credit quality	Ending Balance	Individual evaluated for impairment	Collectively evaluated for impairment	Ending Balance	Individual evaluated for impairment
Owner occupied commercial real estate	\$1,506	\$14,103	\$-	\$15,609	\$2,737	\$13,304	\$16,041	\$2,125
Income producing commercial real estate	625	7,148	-	7,773	1,917	8,379	10,296	2,380
Commercial & industrial	129	5,451	-	5,580	15	3,240	3,255	26
Commercial construction	482	6,013	-	6,495	729	4,018	4,747	1,164
Residential mortgage	3,205	13,534	-	16,739	3,227	17,084	20,311	3,501
Home equity lines of credit	19	6,286	-	6,305	47	4,527	4,574	51
Residential construction	207	8,176	-	8,383	1,192	9,411	10,603	1,037
Consumer installment	10	755	-	765	18	713	731	23
Indirect auto	-	1,413	-	1,413	-	1,061	1,061	-
Total allowance for loan losses	6,183	62,879	-	69,062	9,882	61,737	71,619	10,307
Allowance for unfunded commitments	-	2,930	-	2,930	-	1,930	1,930	-
Total allowance for credit losses	\$6,183	\$65,809	\$-	\$71,992	\$9,882	\$63,667	\$73,549	\$10,307

## Loans Outstanding

Owner occupied commercial real estate	\$38,513	\$1,426,787	\$13,946	\$1,479,246	\$34,654	\$1,128,826	\$1,163,480	\$33,635
Income producing commercial real estate	20,580	769,093	28,160	817,833	24,484	574,053	598,537	26,120
Commercial & industrial	4,564	885,002	667	890,233	3,977	706,279	710,256	4,540
Commercial construction	12,413	303,683	2,249	318,345	12,321	183,709	196,030	12,127
Residential mortgage	22,446	1,034,893	4,271	1,061,610	18,775	847,014	865,789	18,778
Home equity lines of credit	477	582,754	1,703	584,934	478	465,394	465,872	531
Residential construction	8,352	324,599	1,133	334,084	11,604	287,023	298,627	13,055
Consumer installment	235	116,349	19	116,603	179	104,720	104,899	245
Indirect auto	-	420,608	89	420,697	-	268,629	268,629	-
Total loans	\$107,580	\$5,863,768	\$52,237	\$6,023,585	\$106,472	\$4,565,647	\$4,672,119	\$109,031

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Excluding loans accounted for under ASC Topic 310-30, management considers all loans that are on nonaccrual with a balance of \$500,000 or greater and all troubled debt restructurings (“TDRs”) to be impaired. In addition, management reviews all accruing substandard loans greater than \$2 million to determine if the loan is impaired. A loan is considered impaired when, based on current events and circumstances, it is probable that all amounts due according to the original contractual terms of the loan will not be collected. All TDRs are considered impaired regardless of accrual status. Impairment is measured based on the present value of expected future cash flows, discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. For TDRs less than \$500,000, impairment is estimated based on the average impairment of TDRs greater than \$500,000 by loan category. For loan types that do not have TDRs greater than \$500,000, the average impairment for all TDR loans is used to quantify the amount of required specific reserve. 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 outstanding principal balance. For impaired loans not on nonaccrual status, interest is accrued according to the terms of the loan agreement. Loans are evaluated for impairment quarterly and specific reserves are established in the allowance for loan losses for any measured impairment.

Each quarter, United’s management prepares an analysis of the allowance for credit losses to determine the appropriate balance that measures and quantifies the amount of probable incurred losses in the loan portfolio and unfunded loan commitments. The allowance is comprised of specific reserves on individually impaired loans, which are determined as described above, and general reserves which are determined based on historical loss experience as adjusted for current trends and economic conditions multiplied by a loss emergence period factor. Management uses eight quarters of historical loss experience to determine the loss factors to be used in the reserve calculation for loans evaluated in the aggregate. Eight quarters has been determined to be an appropriate time period as it is recent enough to be relevant to current conditions and covers a length of time sufficient to minimize distortions caused by nonrecurring and unusual activity that might otherwise influence a shorter time period. In previous years, the loss rates were weighted toward more recent quarters by multiplying each quarter’s annualized historical net charge-off rate by 1 through 8, with 8 representing the most recent quarter and 1 representing the oldest quarter. Management adopted this method of weighting quarterly loss rates to capture the rapidly deteriorating credit conditions in its loss factors during the financial crisis. In the first quarter of 2014, in light of stabilizing credit conditions, management concluded that it was appropriate to apply a more level weighting to capture the full range and impacts of credit losses experienced during the most recent economic and credit cycle. For the four quarters of 2014, management applied a weighting factor of 1.75 to the most recent four quarters and a weighting of 1.00 for the four oldest quarters. Beginning with the first quarter of 2015, management began applying equal weight to all eight quarters to capture the full range of the loss cycle. Management believes the current weightings are more appropriate to measure the probable losses incurred within the loan portfolio.

Also, beginning in the first quarter of 2014, management updated its method for measuring the loss emergence period in the calculation of the allowance for credit losses. The rapidly deteriorating credit conditions during the peak of the credit cycle shortened the length of time between management’s estimation of the incurrence of a loss and its

recognition as a charge-off. In most cases, the loss emergence period was within a twelve month period which made the use of annualized loss factors appropriate for measuring the amount of incurred yet unconfirmed credit losses within the loan portfolio. As United has moved out beyond the peak of the financial crisis, management has observed that the loss emergence period has extended. Management calculates the loss emergence period for each pool of loans based on the average length of time between the date a loan first exceeds 30 days past due and the date the loan is charged off.

The updates to the weightings to the eight quarters of loss history and the update to our estimation of the loss emergence period did not have a material effect on the total allowance for loan losses or the provision for loan losses, however, the revised loss emergence period resulted in the full allocation of the previously unallocated portion of the allowance for loan losses.

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

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

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

When a loan officer determines that a loan is uncollectible, he or she is responsible for recommending that the loan be placed on nonaccrual and charged off. Full or partial charge-offs may also be recommended by the Collections Department, the Special Assets Department, the Loss Mitigation Department and the Foreclosure/OREO Department. Nonaccrual real estate loans that are collateral dependent are generally charged down to 80% of the appraised value of the underlying collateral at the time they are placed on nonaccrual status.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

	September 30, 2015			December 31, 2014			September 30, 2014		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	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	\$14,274	\$13,949	\$-	\$12,025	\$11,325	\$-	\$11,370	\$10,370	\$-
Income producing commercial real estate	10,746	10,603	-	8,311	8,311	-	9,872	9,872	-
Commercial & industrial	1,721	1,624	-	1,679	1,042	-	2,178	1,560	-
Commercial construction	-	-	-	-	-	-	-	-	-
Total commercial	26,741	26,176	-	22,015	20,678	-	23,420	21,802	-
Residential mortgage	1,943	1,220	-	2,569	1,472	-	1,319	954	-

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

Home equity lines of credit	-	-	-	-	-	-	-	-	-
Residential construction	3,255	3,255	-	4,338	3,338	-	5,460	4,172	-
Consumer installment	-	-	-	-	-	-	-	-	-
Indirect auto	-	-	-	-	-	-	-	-	-
Total with no related allowance recorded	31,939	30,651	-	28,922	25,488	-	30,199	26,928	-
With an allowance recorded:									
Owner occupied commercial real estate	24,755	24,564	1,506	24,728	23,329	2,737	24,828	23,265	2,125
Income producing commercial real estate	10,067	9,977	625	16,352	16,173	1,917	16,797	16,248	2,380
Commercial & industrial construction	2,940	2,940	129	2,936	2,935	15	2,980	2,980	26
Total commercial	50,346	49,894	2,742	56,417	54,758	5,398	56,886	54,620	5,695
Residential mortgage	21,738	21,226	3,205	17,732	17,303	3,227	18,657	17,824	3,501
Home equity lines of credit	477	477	19	478	478	47	531	531	51
Residential construction	6,098	5,097	207	8,962	8,266	1,192	9,427	8,883	1,037
Consumer installment	260	235	10	179	179	18	245	245	23
Indirect auto	-	-	-	-	-	-	-	-	-
Total with an allowance recorded	78,919	76,929	6,183	83,768	80,984	9,882	85,746	82,103	10,307
Total	\$ 110,858	\$ 107,580	\$ 6,183	\$ 112,690	\$ 106,472	\$ 9,882	\$ 115,945	\$ 109,031	\$ 10,307

Excluding loans accounted for under ASC Topic 310-30, there were no loans more than 90 days past due and still accruing interest at September 30, 2015, December 31, 2014 or September 30, 2014. Nonaccrual loans include both homogeneous loans that are collectively evaluated for impairment and individually evaluated impaired loans. United's policy is to place loans on nonaccrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms 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 outstanding principal.

Loans accounted for under ASC Topic 310-30 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. Loans accounted for under ASC Topic 310-30 were not classified as nonaccrual at September 30, 2015 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all acquired loans being accounted for under ASC Topic 310-30.

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 \$262,000 and \$705,000 for the three months ended September 30, 2015 and 2014, respectively and \$686,000 and \$1.37 million for the nine months ended September 30, 2015 and 2014, respectively. The gross additional interest revenue that would have been earned for the three and nine months ended September 30, 2015 and 2014 had performing TDRs performed in accordance with the original terms is immaterial.

## 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 three and nine months ended September 30, 2015 and 2014 (*in thousands*).

Three Months Ended September 30,	2015			2014		
	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received	Average Balance	Interest Revenue Recognized During Impairment	Cash Basis Interest Revenue Received
Owner occupied commercial real estate	\$37,840	\$ 484	\$ 523	\$33,715	\$ 430	\$ 448
Income producing commercial real estate	20,802	265	281	26,622	325	341
Commercial & industrial	4,637	43	77	4,698	43	85
Commercial construction	12,584	116	116	12,203	119	96
Total commercial	75,863	908	997	77,238	917	970
Residential mortgage	23,176	242	197	19,235	215	215
Home equity lines of credit	477	5	5	538	6	5
Residential construction	8,560	123	123	13,146	130	130
Consumer installment	242	5	4	251	4	5
Indirect auto	-	-	-	-	-	-
Total	\$108,318	\$ 1,283	\$ 1,326	\$110,408	\$ 1,272	\$ 1,325
Nine Months Ended September 30,						
Owner occupied commercial real estate	\$37,605	\$ 1,413	\$ 1,491	\$31,460	\$ 1,191	\$ 1,219
Income producing commercial real estate	21,427	805	810	26,299	953	991
Commercial & industrial	4,627	126	202	4,314	135	186
Commercial construction	12,340	349	353	12,086	335	338
Total commercial	75,999	2,693	2,856	74,159	2,614	2,734
Residential mortgage	21,955	667	633	20,384	672	670
Home equity lines of credit	504	15	15	531	16	17
Residential construction	9,294	371	381	13,315	452	455
Consumer installment	185	11	10	345	16	19
Indirect auto	-	-	-	-	-	-
Total	\$107,937	\$ 3,757	\$ 3,895	\$108,734	\$ 3,770	\$ 3,895

The following table presents the recorded investment in nonaccrual loans by loan class as of September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).



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

	Nonaccrual Loans		
	September 30, 2015	December 31, 2014	September 30, 2014
Owner occupied commercial real estate	\$5,918	\$ 4,133	\$ 2,156
Income producing commercial real estate	1,238	717	1,742
Commercial & industrial	1,068	1,571	1,593
Commercial construction	256	83	148
Total commercial	8,480	6,504	5,639
Residential mortgage	8,847	8,196	8,350
Home equity lines of credit	890	695	720
Residential construction	929	2,006	3,543
Consumer installment	196	134	139
Indirect auto	722	346	354
Total	\$20,064	\$ 17,881	\$ 18,745

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The following table presents the aging of the recorded investment in past due loans as of September 30, 2015, December 31, 2014 and September 30, 2014 by class of loans (*in thousands*).

<u>As of September 30, 2015</u>	Loans Past Due			Total	Loans Not		Total
	30 - 59 Days	60 - 89 Days	> 90 Days		Past Due	PCI Loans	
Owner occupied commercial real estate	\$3,200	\$ 788	\$ 3,267	\$7,255	\$1,458,045	\$ 13,946	\$1,479,246
Income producing commercial real estate	1,814	-	440	2,254	787,419	28,160	817,833
Commercial & industrial	1,040	163	858	2,061	887,505	667	890,233
Commercial construction	285	79	44	408	315,688	2,249	318,345
Total commercial	6,339	1,030	4,609	11,978	3,448,657	45,022	3,505,657
Residential mortgage	4,937	2,501	2,504	9,942	1,047,397	4,271	1,061,610
Home equity lines of credit	1,237	360	196	1,793	581,438	1,703	584,934
Residential construction	663	88	129	880	332,071	1,133	334,084
Consumer installment	549	94	50	693	115,891	19	116,603
Indirect auto	852	468	319	1,639	418,969	89	420,697
Total loans	\$14,577	\$ 4,541	\$ 7,807	\$26,925	\$5,944,423	\$ 52,237	\$6,023,585
As of December 31, 2014							
Owner occupied commercial real estate	\$1,444	\$ 1,929	\$ 1,141	\$4,514	\$1,158,966	\$ -	\$1,163,480
Income producing commercial real estate	2,322	1,172	-	3,494	595,043	-	598,537
Commercial & industrial	302	40	1,425	1,767	708,489	-	710,256
Commercial construction	-	-	66	66	195,964	-	196,030
Total commercial	4,068	3,141	2,632	9,841	2,658,462	-	2,668,303
Residential mortgage	5,234	2,931	3,278	11,443	854,346	-	865,789
Home equity lines of credit	961	303	167	1,431	464,441	-	465,872
Residential construction	1,172	268	1,395	2,835	295,792	-	298,627
Consumer installment	607	136	33	776	104,123	-	104,899
Indirect auto	200	146	141	487	268,142	-	268,629
Total loans	\$12,242	\$ 6,925	\$ 7,646	\$26,813	\$4,645,306	\$ -	\$4,672,119
As of September 30, 2014							
Owner occupied commercial real estate	\$2,769	\$ 257	\$ 947	\$3,973	\$1,149,960	\$ -	\$1,153,933
Income producing commercial real estate	417	991	226	1,634	603,093	-	604,727

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

Commercial & industrial	900	103	861	1,864	647,989	-	649,853
Commercial construction	123	182	-	305	180,489	-	180,794
Total commercial	4,209	1,533	2,034	7,776	2,581,531	-	2,589,307
Residential mortgage	6,985	3,136	2,563	12,684	852,884	-	865,568
Home equity lines of credit	1,566	373	375	2,314	456,505	-	458,819
Residential construction	1,262	329	2,803	4,394	302,784	-	307,178
Consumer installment	995	322	191	1,508	103,837	-	105,345
Indirect auto	278	83	200	561	242,108	-	242,669
Total loans	\$15,295	\$ 5,776	\$ 8,166	\$29,237	\$4,539,649	\$ -	\$4,568,886

As of September 30, 2015, December 31, 2014, and September 30, 2014, \$5.66 million, \$9.72 million and \$9.82 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 \$189,000, \$51,000 and \$38,000 as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively, to customers with outstanding loans that are classified as TDRs.

The modification of the terms of the TDRs 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.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The following table presents information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment as of September 30, 2015, December 31, 2014 and September 30, 2014 (*dollars in thousands*).

	September 30, 2015			December 31, 2014			September 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Owner occupied commercial real estate	55	\$ 32,931	\$ 32,796	54	\$ 27,695	\$ 26,296	52	\$ 27,811	\$ 26,248
Income producing commercial real estate	28	14,435	14,361	31	18,094	17,915	32	19,652	19,104
Commercial & industrial	31	3,465	3,459	32	2,848	2,847	33	2,941	2,941
Commercial construction	15	11,557	11,386	14	11,360	11,280	14	11,238	11,084
Total commercial	129	62,388	62,002	131	59,997	58,338	131	61,642	59,377
Residential mortgage	171	20,074	19,421	154	18,630	17,836	160	19,555	18,356
Home equity lines of credit	2	477	477	2	478	478	4	531	531
Residential construction	45	6,585	5,968	48	8,962	8,265	50	10,916	10,084
Consumer installment	22	254	235	17	179	179	20	245	245
Indirect auto	35	572	572	-	-	-	-	-	-
Total loans	404	\$ 90,350	\$ 88,675	352	\$ 88,246	\$ 85,096	365	\$ 92,889	\$ 88,593

Loans modified under the terms of a TDR during the three and nine months ended September 30, 2015 and 2014 are presented in the table below. In addition, the following table presents loans modified under the terms of a TDR that became 90 days or more delinquent during the three and nine months ended September 30, 2015 and 2014, that were initially restructured within one year prior to becoming delinquent (*dollars in thousands*).

	New TDRs for the Three Months Ended September 30, 2015			New TDRs for the Nine Months Ended September 30, 2015		
	Pre-Modification	Post-Modification	Modified Within the Previous Twelve Months	Pre-Modification	Post-Modification	Modified Within the Previous Twelve Months

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

2015	Outstanding		Twelve Months that Have Subsequently Defaulted During the Three Months Ended September 30, 2015		Outstanding		Outstanding that Have Subsequently Defaulted During the Nine Months Ended September 30, 2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Owner occupied commercial real estate	3	\$ 667	1	\$ 178	11	\$ 13,204	1	\$ 178
Income producing commercial real estate	-	-	-	-	3	310	-	-
Commercial & industrial	1	23	-	-	7	1,203	-	-
Commercial construction	-	-	-	-	1	233	-	-
Total commercial	4	690	1	178	22	14,950	1	178
Residential mortgage	10	939	-	-	33	3,060	-	-
Home equity lines of credit	-	-	-	-	1	83	-	-
Residential construction	1	347	-	-	3	510	-	-
Consumer installment	4	58	-	-	6	86	1	30
Indirect auto	-	-	-	-	-	-	-	-
Total loans	19	\$ 2,034	1	\$ 178	65	\$ 18,689	2	\$ 208

2014	Pre-Modification Outstanding		Post-Modification Outstanding		Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Three Months Ended September 30, 2014		Pre-Modification Outstanding		Post-Modification Outstanding		Modified Within the Previous Twelve Months that Have Subsequently Defaulted During the Nine Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Owner occupied commercial real estate	2	\$ 747	-	\$ -	9	\$ 4,139	1	\$ 104				
Income producing commercial real estate	-	-	-	-	5	1,992	-	-				
Commercial & industrial	6	452	-	-	10	782	2	54				
Commercial construction	-	-	-	-	2	471	-	-				

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

Total commercial	8	1,199	1,199	-	-	26	7,384	7,384	3	158
Residential mortgage	10	778	673	2	139	33	2,924	2,778	8	871
Home equity lines of credit	-	-	-	-	-	1	36	36	-	-
Residential construction	-	-	-	-	-	3	1,124	1,124	-	-
Consumer installment	-	-	-	-	-	5	226	226	-	-
Indirect auto	-	-	-	-	-	-	-	-	-	-
Total loans	18	\$ 1,977	\$ 1,872	2	\$ 139	68	\$ 11,694	\$ 11,548	11	\$ 1,029

Collateral dependent TDRs that subsequently default and are placed on nonaccrual are charged down to the fair value of the collateral consistent with United's policy for nonaccrual loans. Impairment on TDRs that are not collateral dependent continues to be measured on discounted cash flows regardless of whether the loan has subsequently defaulted.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of September 30, 2015, December 31, 2014 and September 30, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (*in thousands*).

<u>As of September 30, 2015</u>	Pass	Watch	Substandard	Doubtful / Loss	Total
Owner occupied commercial real estate	\$ 1,398,607	\$ 25,650	\$ 41,043	\$ -	\$ 1,465,300
Income producing commercial real estate	766,637	4,668	18,368	-	789,673
Commercial & industrial	874,385	8,402	6,779	-	889,566
Commercial construction	311,209	2,273	2,614	-	316,096
Total commercial	3,350,838	40,993	68,804	-	3,460,635
Residential mortgage	1,010,610	5,878	40,851	-	1,057,339
Home equity lines of credit	577,206	-	6,025	-	583,231
Residential construction	318,836	3,748	10,367	-	332,951
Consumer installment	115,619	-	965	-	116,584
Indirect auto	418,710	-	1,898	-	420,608
Total loans, excluding PCI loans	\$ 5,791,819	\$ 50,619	\$ 128,910	\$ -	\$ 5,971,348
Owner occupied commercial real estate	\$ 1,499	\$ 4,816	\$ 7,283	\$ 348	\$ 13,946
Income producing commercial real estate	9,624	5,809	12,727	-	28,160
Commercial & industrial	30	97	489	51	667
Commercial construction	1,722	9	518	-	2,249
Total commercial	12,875	10,731	21,017	399	45,022
Residential mortgage	-	426	3,845	-	4,271
Home equity lines of credit	223	-	1,480	-	1,703
Residential construction	350	42	741	-	1,133
Consumer installment	-	-	19	-	19
Indirect auto	-	-	89	-	89
Total PCI loans	\$ 13,448	\$ 11,199	\$ 27,191	\$ 399	\$ 52,237
<u>As of December 31, 2014</u>					
Owner occupied commercial real estate	\$ 1,094,057	\$ 18,889	\$ 50,534	\$ -	\$ 1,163,480
Income producing commercial real estate	560,559	16,701	21,277	-	598,537
Commercial & industrial	696,805	4,017	9,434	-	710,256
Commercial construction	190,070	2,311	3,649	-	196,030
Total commercial	2,541,491	41,918	84,894	-	2,668,303
Residential mortgage	814,168	11,594	40,027	-	865,789
Home equity lines of credit	459,881	-	5,991	-	465,872
Residential construction	280,166	5,535	12,926	-	298,627
Consumer installment	103,383	-	1,516	-	104,899
Indirect auto	267,709	-	920	-	268,629
Total loans	\$ 4,466,798	\$ 59,047	\$ 146,274	\$ -	\$ 4,672,119
<u>As of September 30, 2014</u>					

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

Owner occupied commercial real estate	\$1,076,822	\$25,098	\$ 52,013	\$ -	\$1,153,933
Income producing commercial real estate	563,451	17,319	23,957	-	604,727
Commercial & industrial	637,160	3,602	9,091	-	649,853
Commercial construction	174,443	2,356	3,995	-	180,794
Total commercial	2,451,876	48,375	89,056	-	2,589,307
Residential mortgage	803,937	10,300	51,331	-	865,568
Home equity lines of credit	450,026	-	8,793	-	458,819
Residential construction	284,491	7,389	15,298	-	307,178
Consumer installment	102,460	-	2,885	-	105,345
Indirect auto	242,315	-	354	-	242,669
Total loans	\$4,335,105	\$66,064	\$ 167,717	\$ -	\$4,568,886



## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 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.

**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 meeting the criteria of substandard 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 performing substandard or nonaccrual columns and all other consumer purpose loans are reported in the “pass” column. Loan balances reported in the “watch” column for residential mortgage are generally commercial purpose loans secured

by the borrower's residence.

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

### Note 7 – Servicing Rights for Government Guaranteed Loans

United accounts for servicing rights for government guaranteed loans serviced for others at fair value and includes them in other assets. Changes in the balances of servicing assets and servicing liabilities subsequently measured using the fair value measurement method for the three and nine months ended September 30, 2015 and 2014 are recorded as follows (*in thousands*).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Servicing rights for government guaranteed loans, beginning of period	\$ 3,118	\$ 2,262	\$ 2,551	\$ -
Additions:				
Acquired servicing rights	137	-	137	2,133
Originated servicing rights capitalized upon sale on loans	455	184	1,087	313
Changes in fair value:				
Due to change in valuation inputs or assumptions used in valuation model	(379 )	(27 )	(444 )	(27 )
Servicing rights for government guaranteed loans, end of period	\$ 3,331	\$ 2,419	\$ 3,331	\$ 2,419

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

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's government guaranteed servicing assets as of September 30, 2015 and December 31, 2014, and the sensitivity of the fair values to immediate adverse changes in those assumptions are shown in the table below (*in thousands*).

## Sensitivity of the Servicing Rights For Government Guaranteed Loans

	September 30, 2015	December 31, 2014		
Fair value of retained servicing assets	\$ 3,331	\$ 2,551		
Prepayment rate assumption	7.01	% 6.70		%
10% adverse change	\$ (87	) \$ (62	)	)
20% adverse change	\$ (170	) \$ (122	)	)
Discount rate	11.9	% 12.0		%
100 bps adverse change	\$ (116	) \$ (85	)	)
200bps adverse change	\$ (225	) \$ (164	)	)
Weighted-average life (months)	6.9	6.5		
Weighted-average gross margin	2.03	% 2.00		%

**Note 8 – Reclassifications Out of Accumulated Other Comprehensive Income**

The following table presents the details regarding amounts reclassified out of accumulated other comprehensive income for the three and nine months ended September 30, 2015 and 2014 (*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, 2015	For the Three Months Ended September 30, 2014	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014	
Realized gains on sales of available-for-sale securities:	\$ 325	\$ 11	\$ 1,877	\$ 4,663	Securities gains, net
	(121 )	(4 )	(724 )	(1,821 )	Tax expense

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

\$ 204    \$ 7        \$ 1,153    \$ 2,842    Net of tax

Amortization of (losses) gains included in net income on available-for-sale securities transferred to held to maturity:

	\$ (269 )	\$ (468 )	\$ (1,041 )	\$ (1,207 )	Investment securities interest revenue
	99	176	387	453	Tax benefit
	\$ (170 )	\$ (292 )	\$ (654 )	\$ (754 )	Net of tax

Gains included in net income on derivative financial instruments accounted for as cash flow hedges:

Effective portion of interest rate contracts	\$ -	\$ (317 )	\$ -	\$ (764 )	Time deposit interest expense
Amortization of losses on de-designated positions	(15 )	-	(93 )	-	Deposits in banks and short-term investmens in interest revenue
Amortization of losses on de-designated positions	(237 )	(81 )	(502 )	(105 )	Money market deposit interest expense
Amortization of losses on de-designated positions	(298 )	-	(835 )	-	Federal Home Loan Bank advances interest expense
Amortization of losses on de-designated positions	-	(313 )	-	(512 )	Time deposit interest expense
	(550 )	(711 )	(1,430 )	(1,381 )	Total before tax
	214	277	556	538	Tax benefit
	\$ (336 )	\$ (434 )	\$ (874 )	\$ (843 )	Net of tax

Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan

Prior service cost	\$ (91 )	\$ (91 )	\$ (274 )	\$ (274 )	Salaries and employee benefits expense
Actuarial losses	(68 )	-	(204 )	-	Salaries and employee benefits expense
	(159 )	(91 )	(478 )	(274 )	Total before tax
	62	36	186	107	Tax benefit
	\$ (97 )	\$ (55 )	\$ (292 )	\$ (167 )	Net of tax

Total reclassifications for the period    \$ (399 )    \$ (774 )    \$ (667 )    \$ 1,078    Net of tax

Amounts shown above in parentheses reduce earnings

**Note 9 – 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.

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

During the three and nine months ended September 30, 2015 and 2014, United accrued dividends on preferred stock as shown in the following table (*in thousands*).

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Series H - 1% until March 15, 2016, subject to change based on Qualified Small Business Lending, 9% thereafter	\$ 25	\$ -	\$ 42	\$ -
Series B - 5% fixed until December 6, 2013, 9% thereafter	-	-	-	159
Series D - LIBOR plus 9.6875%, resets quarterly	-	-	-	280
Total preferred stock dividends	\$ 25	\$ -	\$ 42	\$ 439

All preferred stock dividends are payable quarterly.

The preferred stock dividends were subtracted from net income in order to arrive at net income available to common shareholders.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014 (*in thousands, except per share data*).

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Net income available to common shareholders	\$ 17,862	\$ 17,616	\$ 53,328	\$ 48,934
Weighted average shares outstanding:				
Basic	66,294	60,776	63,297	60,511
Effect of dilutive securities				
Stock options	6	3	5	2
Diluted	66,300	60,779	63,302	60,513
Net income per common share:				
Basic	\$.27	\$.29	\$.84	\$.81
Diluted	\$.27	\$.29	\$.84	\$.81

At September 30, 2015, 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; 255,229 shares of common stock issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$90.10; and 735,280 shares of common stock issuable upon completion of vesting of restricted stock unit awards.

At September 30, 2014, United had the following potentially dilutive stock options and warrants outstanding: a warrant to purchase 219,909 common shares at \$61.40 per share originally issued to the U.S. Treasury; 305,291 common shares issuable upon exercise of stock options granted to employees with a weighted average exercise price of \$95.98; 801,334 shares issuable upon completion of vesting of restricted stock awards; and warrants to purchase common stock equivalent junior preferred stock that would be convertible into 1,411,765 common shares exercisable at \$21.25 per share granted to Fletcher International Ltd. ("Fletcher") in connection with a 2010 asset purchase and sale agreement. United repurchased the warrant from Fletcher in the fourth quarter of 2014.

## **Note 10 – 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 its 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 United's derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

*Derivatives designated as hedging instruments under ASC 815*

Interest Rate Products	Balance Sheet Location	Fair Value		
		September 30, 2015	December 31, 2014	September 30, 2014
Cash flow hedge of money market deposits	Derivative assets	\$-	\$ -	\$ 1,349
Fair value hedge of brokered CD's	Derivative assets	118	-	-
		\$118	\$ -	\$ 1,349
Cash flow hedge of money market deposits	Derivative liabilities	\$-	\$ 350	\$ -
Fair value hedge of brokered CD's	Derivative liabilities	1,128	5,817	10,201
Fair value hedge of corporate bonds	Derivative liabilities	395	-	-
		\$1,523	\$ 6,167	\$ 10,201

## Derivatives not designated as hedging instruments under ASC 815

Interest Rate Products	Balance Sheet Location	Fair Value		
		September 30, 2015	December 31, 2014	September 30, 2014
Customer swap positions	Derivative assets	\$5,234	\$ 3,433	\$ 2,067
Dealer offsets to customer swap positions	Derivative assets	-	128	475
Mortgage banking - loan commitment	Derivative assets	384	-	-
Bifurcated embedded derivatives	Derivative assets	6,455	12,262	14,780
Offsetting positions for de-designated cash flow hedges	Derivative assets	7,715	4,776	3,550
		\$19,788	\$ 20,599	\$ 20,872
Customer swap positions	Derivative liabilities	\$5,270	\$ 129	\$ 475
Dealer offsets to customer swap positions	Derivative liabilities	-	3,456	2,087
Mortgage banking - forward sales commitment	Derivative liabilities	91	-	-
Dealer offsets to bifurcated embedded derivatives	Derivative liabilities	12,800	17,467	19,858
De-designated cash flow hedges	Derivative liabilities	7,717	4,778	3,550
		\$25,878	\$ 25,830	\$ 25,970

Derivative contracts that are not accounted for as hedging instruments under ASC 815, *Derivatives and Hedging*, and are described as "customer derivatives," are between United and certain commercial loan customers with offsetting



positions to dealers under a back-to-back swap 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 marked to market through earnings. The 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 effective economic hedge.

In addition, United originates certain residential mortgage loans with the intention of selling these loans. Between the time United enters into an interest-rate lock commitment to originate a residential mortgage loan that is to be held for sale and the time the loan is funded and eventually sold, the Company is subject to the risk of variability in market prices. United also enters into forward sale agreements to mitigate risk and to protect the expected gain on the eventual loan sale. Most of this activity is 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. The underlying loans are accounted for under the lower of cost or fair value method and 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****Cash Flow Hedges of Interest Rate Risk**

United's objectives in using interest rate derivatives are to add stability to net interest revenue and to manage its exposure to interest rate movements. To accomplish this objective, United uses interest rate swaps as part of its interest rate risk management strategy. United's interest rate swaps designated as cash flow hedges involved the payment of fixed-rate amounts to a counterparty in exchange for United receiving variable-rate payments over the life of the agreements without exchange of the underlying notional amount. United's cash flow hedges were for the purpose of converting variable rate deposits and wholesale borrowings to the economic equivalent of a fixed rate to protect United in a rising rate environment. At September 30, 2015 United did not have any active cash flow hedges. At December 31, 2014, United had one swap contract outstanding with a total notional amount of \$175 million that was designated as a cash flow hedge of indexed money market accounts. At September 30, 2014, United had two swap contracts outstanding with a total notional amount of \$275 million that were designated as cash flow hedges of indexed money market accounts. During the second and fourth quarters of 2014, United de-designated swaps with a notional of \$500 million and put on offsetting positions which had a similar effect to terminating the positions. In addition, in the first quarter of 2015, United terminated its one remaining cash flow hedge with a notional of \$175 million. Changes in United's balance sheet composition and interest rate risk position made the 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.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense when the swaps become effective, as interest payments are made on United's LIBOR based, variable-rate wholesale borrowings and indexed deposit accounts. United expects that \$1.93 million will be reclassified as an increase to deposit interest expense over the next twelve months related to these cash flow hedges.

The table below presents the effect of United's cash flow hedges on the consolidated statement of operations for the three and nine months ended September 30, 2015 and 2014 (*in thousands*).

Amount of Gain (Loss) Recognized in Other	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
---	---	--

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

	Comprehensive Income on Derivative (Effective Portion)		Income (Effective Portion)		Location	Location	2015	2014
	2015	2014	2015	2014				
Three Months Ended September 30,								
Interest rate swaps	\$ -	\$ 412	Interest expense	\$ (550 )	\$ (711 )	Interest expense	\$ -	\$ 12
Nine Months Ended September 30,								
Interest rate swaps	\$ (471 )	\$ (5,967 )	Interest expense	\$ (1,430 )	\$ (1,381 )	Interest expense	\$ (7 )	\$ (73 )

### 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, 2015, United had 14 interest rate swaps with an aggregate notional amount of \$174 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, 2015, United had one interest rate swap with a notional 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. At September 30, 2014, United had 16 interest rate swaps with an aggregate notional amount of \$199 million that were designated as fair value hedges of interest rate risk. These contracts were pay-variable / receive-fixed swaps hedging changes in the fair value of fixed rate brokered time deposits resulting from changes in interest rates.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in earnings. United includes the gain or loss on the hedged items in the same income statement line item as the offsetting loss or gain on the related derivatives. During the three and nine months ended September 30, 2015, United recognized net gains of \$14,000 and \$184,000, respectively, and during the three and nine months ended September 30, 2014, United recognized net losses of \$312,000 and \$937,000, respectively, related to ineffectiveness in the fair value hedging relationships. United also recognized net reductions of interest expense of \$1.12 million and \$3.39 million, respectively, for the three and nine months ended September 30, 2015 and net reductions of interest expense of \$1.04 million and \$3.47 million, respectively, for the three and nine months ended September 30, 2014 related to United's 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, 2015 of \$142,000 and \$361,000, respectively, and a

reduction of interest revenue on securities during the nine months ended September 30, 2014 of \$955,000 related to United's fair value hedges of corporate bonds that were terminated in the second quarter of 2014.

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

The table below presents the effect of United's derivatives in fair value hedging relationships on the consolidated statement of operations for the three and nine months ended September 30, 2015 and 2014 (*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	
		2015	2014	2015	2014
Three Months Ended September 30,					
Fair value hedges of brokered CD's	Interest expense	\$ 4,374	\$ (37 )	\$ (4,247 )	\$ (275 )
Fair value hedges of corporate bonds	Interest revenue	(1,365 )	-	1,252	-
		\$ 3,009	\$ (37 )	\$ (2,995 )	\$ (275 )
Nine Months Ended September 30,					
Fair value hedges of brokered CD's	Interest expense	\$ 3,599	\$ 10,078	\$ (3,365 )	\$ (10,691 )
Fair value hedges of corporate bonds	Interest revenue	(395 )	(2,487 )	345	2,163
		\$ 3,204	\$ 7,591	\$ (3,020 )	\$ (8,528 )

In certain cases, the estate of deceased brokered certificate of deposit holders may put the certificate of deposit back to the issuing bank 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.

**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, 2015, collateral totaling \$28.2 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.

#### **Note 11 – 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). As of September 30, 2015, 212,000 additional awards could be granted under the plan. Through September 30, 2015, 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.

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

The following table shows stock option activity for the first nine months of 2015.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2014	313,555	\$ 93.40		
Expired	(45,866 )	108.93		
Forfeited	(12,460 )	103.97		
Outstanding at September 30, 2015	255,229	90.10	2.6	\$ 157
Exercisable at September 30, 2015	242,729	93.89	2.3	107

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, 2015 and 2014.

Most of United's outstanding stock options were granted prior to the economic downturn during which time United's stock price decreased sharply. The lower stock price has rendered most of United's outstanding options severely out of the money and potentially 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 by the SEC in ASC Topic 718-10-S99 to determine the expected life of options.

United recognized \$28,000 and \$5,000, respectively, in compensation expense related to stock options during the nine months ended September 30, 2015 and 2014. The amount of compensation expense was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted that were expected to vest, which was then amortized over the vesting period. The forfeiture rate for new options issued is estimated to be approximately 3% per year. No options were exercised during the first nine months of 2015 or 2014.

The table below presents restricted stock units activity for the first nine months of 2015.

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

Restricted Stock Unit Awards	Shares	Weighted- Average Grant- Date Fair Value
Outstanding at December 31, 2014	829,201	\$ 14.76
Granted	257,789	18.60
Vested	(298,165)	13.93
Cancelled	(53,545 )	15.26
Outstanding at September 30, 2015	735,280	16.41
Vested at September 30, 2015	1,170	10.69

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. The value of restricted stock unit awards that are expected to vest is amortized into expense over the vesting period. For the nine months ended September 30, 2015 and 2014, compensation expense of \$3.22 million and \$3.23 million, respectively, was recognized related to restricted stock unit awards. In addition, for the nine months ended September 30, 2015 and 2014, \$95,000 and \$76,000, respectively, was recognized in other operating expense for restricted stock unit awards granted to members of United's board of directors. The total intrinsic value of outstanding restricted stock unit awards was \$15.0 million at September 30, 2015.

As of September 30, 2015, there was \$10.2 million of unrecognized compensation cost 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 2.64 years. The aggregate grant date fair value of options and restricted stock unit awards that vested during the nine months ended September 30, 2015, was \$4.11 million.



## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### Note 12 – 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. No shares were issued through the DRIP in the first nine months of 2014. The DRIP, which was suspended during the first six months of 2014, was re-activated following United’s reinstatement of its quarterly dividend in the second quarter of 2014. In the nine months ended September 30, 2015, 1,564 shares were issued through the DRIP.

United’s 401(k) Plan has routinely purchased shares of United’s common stock directly from United. Effective January 1, 2015, the 401(k) Plan discontinued offering shares of United’s common stock as an investment option. During the nine months ended September 30, 2014, United’s 401(k) Plan purchased 17,373 shares directly from United at the average of the high and low stock prices on the transaction dates which increased capital by \$297,000.

In addition, United has an Employee Stock Purchase Program (“ESPP”) that allows eligible employees to purchase shares of common stock at a 5% discount, with no commission charges. Effective January 1, 2015, the discount was increased to 10% on purchases made through the ESPP. During the first nine months of 2015 and 2014, United issued 10,197 shares and 7,911 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, 2015 and 2014, 454,870 and 354,961 shares of common stock, respectively, were issuable under the deferred compensation plan.

As discussed in Note 3, on May 1, 2015, the Company completed its previously announced acquisition of Moneytree. Upon completion of the acquisition, each share of preferred stock issued by MoneyTree as part of the SBLF program of the United States Department of Treasury (9,992 shares in the aggregate with a liquidation preference amount of \$1,000 per share) was converted automatically into one substantially identical share of preferred stock of the Company with a liquidation preference amount of \$1,000 per share, designated as the Company’s Non-Cumulative

Perpetual Preferred Stock, Series H. The SBLF Preferred Shares have terms and conditions identical to those shares of preferred stock issued by MoneyTree to the Treasury. United will pay noncumulative dividends quarterly. The current dividend rate is 1.00% per annum through March 15, 2016. Following this date, the dividend rate will increase to 9% per annum thereafter.

The SBLF Preferred Shares may be redeemed at any time at the option of United, subject to the approval of the appropriate federal banking agency. All redemptions must be made at a per share redemption price equal to 100% of the liquidation preference, plus accrued and unpaid dividends as of the date of the redemption ("Redemption Date") for the quarter that includes the Redemption Date, and a pro rata portion of any lending incentive fee. All redemptions must be in amounts equal to at least 25% of the number of originally issued shares, or 100% of the then outstanding shares, if less than 25% of the number of originally issued shares.

In the first quarter of 2014, United redeemed all of its outstanding Series B and D preferred stock. The preferred stock was redeemed at par and did not result in any gain or loss. The redemptions were funded from a combination of dividends from United Community Bank and cash on hand.

#### **Note 13 – Income Taxes**

The income tax provision for the three and nine months ended September 30, 2015 was \$10.9 million and \$32.4 million, respectively, which represents an effective tax rate of 37.8% for each period. The income tax provision for the three and nine months ended September 30, 2014 was \$9.99 million and \$28.7 million, respectively, which represents effective tax rates of 36.2% and 36.7%, respectively, for each period. At September 30, 2015, December 31, 2014 and September 30, 2014, United maintained a valuation allowance on its net deferred tax asset of \$4.58 million, \$4.12 million and \$4.45 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, 2015. 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 \$4.58 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, 2015 that it was more likely than not that United's net deferred tax asset of \$197 million will be realized is based upon management's estimate of future taxable income. Management's estimate of future taxable income is based on 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 2012. Although United is unable to determine the ultimate outcome of future examinations, United believes that the liability recorded for uncertain tax positions is appropriate.

At September 30, 2015, December 31, 2014 and September 30, 2014, unrecognized income tax benefits totaled \$3.88 million, \$4.20 million and \$4.10 million, respectively.

#### **Note 14 – 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, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds, corporate debt securities and asset-backed securities and are valued based on observable inputs that include: quoted market prices for similar assets, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the securities. Securities classified as Level 3 include 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.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### Deferred Compensation Plan Assets and Liabilities

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

#### Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for mortgage loans with similar characteristics.

#### 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, 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.

#### Foreclosed Assets

Foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, United records the foreclosed asset 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 foreclosed asset 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, 2015, 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. Additionally, in the review of the structured derivative inputs, it was determined that the broker quotes, used as a key valuation input, were not observable consistent with a level 2 disclosure. This resulted in United transferring those derivatives to Level 3 in the ASC 820 leveling disclosures as of December 31, 2014. The fair value of interest rate lock commitments, which are related to mortgage loan commitments and are categorized as Level 3, are based on quoted market prices adjusted for commitments that United does not expect to fund.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**Servicing Rights for Government Guaranteed Loans

United recognizes servicing rights upon the sale of government guaranteed loans sold with servicing retained. This asset is recorded at fair value on recognition, and management has elected to carry this asset at fair value for subsequent reporting. Given the nature of the asset, the key valuation inputs are unobservable and management classifies this asset as Level 3.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The table below presents United's assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, December 31, 2014 and September 30, 2014, aggregated by the level in the fair value hierarchy within which those measurements fall (*in thousands*).

September 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Treasuries	\$164,227	\$-	\$-	\$164,227
U.S. Government agencies	-	101,770	-	101,770
State and political subdivisions	-	36,378	-	36,378
Mortgage-backed securities	-	1,119,681	-	1,119,681
Corporate bonds	-	206,940	750	207,690
Asset-backed securities	-	468,256	-	468,256
Other	-	1,866	-	1,866
Deferred compensation plan assets	3,290	-	-	3,290
Servicing rights for government guaranteed loans	-	-	3,331	3,331
Derivative financial instruments	-	13,067	6,839	19,906
Total assets	\$167,517	\$1,947,958	\$10,920	\$2,126,395
Liabilities:				
Deferred compensation plan liability	\$3,290	\$-	\$-	\$3,290
Derivative financial instruments	-	14,601	12,800	27,401
Total liabilities	\$3,290	\$14,601	\$12,800	\$30,691

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

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Treasuries	\$105,709	\$-	\$-	\$105,709
U.S. Government agencies	-	36,299	-	36,299
State and political subdivisions	-	20,233	-	20,233
Mortgage-backed securities	-	996,820	-	996,820
Corporate bonds	-	164,878	750	165,628
Asset-backed securities	-	455,928	-	455,928
Other	-	2,117	-	2,117
Deferred compensation plan assets	3,864	-	-	3,864
Servicing rights for government guaranteed loans	-	-	2,551	2,551
Derivative financial instruments	-	8,337	12,262	20,599
Total assets	\$109,573	\$1,684,612	\$15,563	\$1,809,748
Liabilities:				
Deferred compensation plan liability	\$3,864	\$-	\$-	\$3,864
Derivative financial instruments	-	13,018	18,979	31,997
Total liabilities	\$3,864	\$13,018	\$18,979	\$35,861



## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
U.S. Treasuries	\$-	\$105,022	\$-	\$105,022
State and political subdivisions	-	20,321	-	20,321
Mortgage-backed securities	-	1,034,992	-	1,034,992
Corporate bonds	-	164,952	300	165,252
Asset-backed securities	-	462,044	-	462,044
Other	-	2,036	-	2,036
Deferred compensation plan assets	3,734	-	-	3,734
Derivative financial instruments	-	22,221	-	22,221
Total assets	\$3,734	\$1,811,588	\$300	\$1,815,622
Liabilities:				
Deferred compensation plan liability	\$3,734	\$-	\$-	\$3,734
Brokered certificates of deposit	-	175,053	-	175,053
Derivative financial instruments	-	36,171	-	36,171
Total liabilities	\$3,734	\$211,224	\$-	\$214,958

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

	2015			2014	
	Derivative Asset	Derivative Liability	Servicing rights	Securities Available-for- Sale	Securities Available-for- Sale
Three Months Ended September 30,					
Balance at beginning of period	\$11,531	\$18,261	\$3,118	\$750	\$300
Purchases	286	-	137	-	-
Additions	-	-	455	-	-
Sales and settlements	-	-	-	-	-
Amounts included in earnings - fair value adjustments	(4,978)	(5,461)	(379)	-	-
Balance at end of period	\$6,839	\$12,800	\$3,331	\$750	\$300
Nine Months Ended September 30,					
Balance at beginning of period	\$12,262	\$18,979	\$2,551	\$750	\$350
Purchases	286	-	137	-	-
Additions	-	-	1,087	-	-

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

Sales and settlements	-	-	-	-	(50 )
Amounts included in earnings - fair value adjustments	(5,709 )	(6,179 )	(444 )	-	-
Balance at end of period	\$6,839	\$ 12,800	\$ 3,331	\$ 750	\$ 300

38

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The following table presents quantitative information about Level 3 fair value measurements for fair value on a recurring basis at September 30, 2015, December 31, 2014 and September 30, 2014 (*in thousands*).

Level 3 Assets	2014 Fair Value		September 30, 2014	Valuation Technique	Unobservable Inputs	Weighted Average	
	September 30, 2015	December 31, 2014				September 30, 2015	December 31, 2014
Servicing Rights for Government Guaranteed Loans	\$3,331	\$ 2,551	\$ -	Discounted cash flow	Discount rate Prepayment Rate	11.9 % 7.01 %	12.0 % 6.70 %
Corporate Bonds	750	750	300	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	6,839	12,262	-	Dealer Priced	Dealer Priced	N/A	N/A
Derivative liabilities	12,800	18,979	-	Dealer Priced	Dealer Priced	N/A	N/A

### 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 assets are not measured at fair value on a recurring basis, but are subject to fair value adjustments in certain circumstances. These adjustments to fair value usually result from the application of lower of 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, 2015, December 31, 2014 and September 30, 2014, for which a nonrecurring fair value adjustment was recorded during the periods presented (*in thousands*).

	Level 1	Level 2	Level 3	Total
September 30, 2015				
Loans	\$ -	\$ -	\$6,948	\$6,948
December 31, 2014				
Loans	\$ -	\$ -	\$7,317	\$7,317
September 30, 2014				
Loans	\$ -	\$ -	\$8,165	\$8,165

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. As discussed in Note 2, United retrospectively adopted ASU 2015-10 *Technical Corrections and Improvements* during second quarter 2015, which clarified the guidance for disclosure of nonrecurring fair value measurements and has been reflected in the disclosures presented in the table above.

#### **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.

United's cash and cash equivalents and repurchase agreements have short maturities and therefore the carrying value approximates fair value. The fair value of securities available-for-sale equals the balance sheet 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. Because no ready market exists for a significant portion of United's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.



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

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) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

The carrying amount and fair values for other financial instruments that are not measured at fair value on a recurring basis in United's balance sheet at September 30, 2015, December 31, 2014, and September 30, 2014 are as follows (*in thousands*).

	Carrying Amount	Fair Value Level			Total
		Level 1	Level 2	Level 3	
September 30, 2015					
Assets:					
Securities held to maturity	\$357,549	\$-	\$368,096	\$-	\$368,096
Loans, net	5,954,523	-	-	5,947,615	5,947,615
Mortgage loans held for sale	23,088	-	23,605	-	23,605
Liabilities:					
Deposits	7,905,012	-	7,904,994	-	7,904,994
Federal Home Loan Bank advances	200,125	-	200,140	-	200,140
Long-term debt	165,620	-	-	167,340	167,340
December 31, 2014					
Assets:					
Securities held to maturity	415,267	-	425,233	-	425,233
Loans, net	4,600,500	-	-	4,549,027	4,549,027
Mortgage loans held for sale	13,737	-	14,139	-	14,139
Liabilities:					
Deposits	6,326,512	-	6,328,264	-	6,328,264

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

Federal Home Loan Bank advances	270,125	-	270,125	-	270,125
Long-term debt	129,865	-	-	132,814	132,814
September 30, 2014					
Assets:					
Securities held to maturity	432,418	-	440,311	-	440,311
Loans, net	4,496,958	-	-	4,437,039	4,437,039
Mortgage loans held for sale	20,004	-	20,253	-	20,253
Liabilities:					
Deposits	6,240,729	-	6,228,804	-	6,228,804
Federal Home Loan Bank advances	330,125	-	330,134	-	330,134
Long-term debt	129,865	-	-	132,636	132,636

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****Note 15 – Commitments and Contingencies**

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

The following table summarizes, as of September 30, 2015, December 31, 2014 and September 30, 2014, the contractual amount of off-balance sheet instruments (*in thousands*).

	September 30, 2015	December 31, 2014	September 30, 2014
Financial instruments whose contract amounts represent credit risk:			
Commitments to extend credit	\$ 1,339,680	\$ 878,160	\$ 852,635
Letters of credit	21,977	19,861	20,534

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

**Note 16 – Goodwill and Other Intangible Assets**

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



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

	September 30, 2015	December 31, 2014	September 30, 2014
Core deposit intangible	\$ 49,772	\$ 32,652	\$ 32,652
Less: accumulated amortization	(31,923 )	(30,520 )	(30,233 )
Total intangibles subject to amortization, net	17,849	2,132	2,419
Goodwill	123,566	1,509	1,491
Total goodwill and other intangible assets, net	\$ 141,415	\$ 3,641	\$ 3,910

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
2015						
Balance, beginning of period	\$ 320,117	\$ (305,590 )	\$ 14,527	\$ 307,099	\$ (305,590 )	\$ 1,509
Acquisition of Palmetto	107,923	-	107,923	107,923	-	107,923
Acquisition of MoneyTree	1,116	-	1,116	14,134	-	14,134
Balance, end of period	\$ 429,156	\$ (305,590 )	\$ 123,566	\$ 429,156	\$ (305,590 )	\$ 123,566
2014						
Balance, beginning of period	\$ 305,590	\$ (305,590 )	\$ -	\$ 305,590	\$ (305,590 )	\$ -
Acquisition of Business Carolina, Inc.	1,491	-	1,491	1,491	-	1,491
Balance, end of period	\$ 307,081	\$ (305,590 )	\$ 1,491	\$ 307,081	\$ (305,590 )	\$ 1,491

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The amortization expense for intangibles subject to amortization for the three and nine months ended September 30, 2015 was \$714,000 and \$1.4 million, respectively, which was recognized in operating expenses. The amortization expense for intangibles subject to amortization for the three and nine months ended September 30, 2014 was \$313,000 and \$1.06 million, respectively. The estimated aggregate amortization expense for future periods is as follows (*in thousands*):

Year	
Remainder of 2015	\$1,041
2016	3,875
2017	2,900
2018	2,310
2019	1,924
Thereafter	5,799
Total	\$17,849

### Note 17 – Long-term Debt

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

	September 30, 2015	December 31, 2014	September 30, 2014	Issue Date	Stated Maturity Date	Earliest Call Date	Interest Rate
2012 senior debentures	\$ 35,000	\$ 35,000	\$ 35,000	2012	2017	2017	9.000%
2013 senior debentures	40,000	40,000	40,000	2013	2018	2015	6.000
2022 senior debentures	50,000	-	-	2015	2022	2020	5.000% through August 13, 2020, 3-month LIBOR plus 3.814% thereafter
2027 senior debentures	35,000	-	-	2015	2027	2025	5.500% through August 13, 2025 3-month LIBOR plus 3.71% thereafter

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

Total senior debentures	160,000	75,000	75,000				
United Community Capital Trust	-	21,650	21,650	1998	2028	2008	8.125
United Community Statutory Trust I	-	5,155	5,155	2000	2030	2010	10.600
United Community Capital Trust II	-	10,309	10,309	2000	2030	2010	11.295
Southern Bancorp Capital Trust I	4,382	4,382	4,382	2004	2034	2009	Prime + 1.00
United Community Statutory Trust II	-	12,131	12,131	2008	2038	2013	9.000
United Community Statutory Trust III	1,238	1,238	1,238	2008	2038	2013	Prime + 3.00
Total trust preferred securities	5,620	54,865	54,865				
Total long-term debt	\$ 165,620	\$ 129,865	\$ 129,865				

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

### **Senior Debentures**

The 2012 senior debentures are not redeemable prior to maturity and will mature on October 15, 2017. The 2013 senior debentures are redeemable on or after August 13, 2015, at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest, and will mature on August 13, 2018 if not redeemed prior to that date. The 2022 senior debentures are redeemable, in whole or in part, on or after August 14, 2020 at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest, and will mature on February 14, 2022 if not redeemed prior to that date. The 2027 senior debentures are redeemable, in whole or in part, on or after August 14, 2025 at a redemption price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest, and will mature on February 14, 2027 if not redeemed prior to that date.

### **Trust Preferred Securities**

Trust preferred securities qualify as Tier 1 capital under risk based capital guidelines subject to certain limitations. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption at a premium as provided in the indentures.

**Note 18 – Subsequent Event**

In October 2015, United announced its decision to exit its corporate healthcare lending business based in Nashville, Tennessee. In conjunction with the exit, United agreed to sell \$190 million of corporate healthcare loans that were originated by United's Nashville-based healthcare team. United has also transferred the lease on its healthcare lending office in Nashville and the personnel there have become employees of the acquirer.

## 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, 2014 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 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;
- 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, including possible dilution;
- 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.

This statement has 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 United’s 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, 2015, United had total consolidated assets of \$9.41 billion, total loans of \$6.02 billion, total deposits of \$7.91 billion, and shareholders’ equity of \$1.01 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, 2015, operated at 133 locations throughout the Atlanta-Sandy Springs-Roswell, Georgia, and Gainesville, Georgia metropolitan statistical areas, upstate South Carolina, north and coastal Georgia, western North Carolina, and east Tennessee. Also, United has a commercial loan office in Charlotte, North Carolina.

On September 1, 2015, United completed the acquisition of Palmetto Bancshares, Inc. (“Palmetto”) and its wholly-owned bank subsidiary The Palmetto Bank. On May 1, 2015, United completed the acquisition of MoneyTree Corporation (“MoneyTree”) and its wholly-owned bank subsidiary First National Bank (“FNB”). The acquired entities’ results are included in United’s consolidated results beginning on the respective acquisition dates. Also included in management’s discussion and analysis are certain non-GAAP (accounting principles generally accepted in the United States of America (“GAAP”)) performance measures. United’s management believes that non-GAAP performance measures are useful in analyzing United’s financial performance trends and therefore this section will refer to non-GAAP performance measures. A reconciliation of these non-GAAP performance measures to GAAP performance measures is included in the table on page 48.

United reported net income of \$17.9 million for the third quarter of 2015. This compared to net income of \$17.6 million for the third quarter of 2014. Diluted earnings per common share were \$.27 for the third quarter of 2015, compared to diluted earnings per common share of \$.29 for the third quarter of 2014. The decrease in earnings per share results from \$5.74 million in merger-related charges reported in the third quarter of 2015.

For the nine months ended September 30, 2015, United reported net income of \$53.4 million. This compared to net income of \$49.4 million for the first nine months of 2014. Diluted earnings per common share were \$.84 for the nine months ended September 30, 2015, compared to diluted earnings per common share of \$.81 for the nine months ended September 30, 2014.

Taxable equivalent net interest revenue increased to \$65.7 million for the third quarter of 2015, compared to \$57.0 million for the same period of 2014, primarily due to loan growth. Net interest margin decreased to 3.26% for the three months ended September 30, 2015 from 3.32% for the same period in 2014. For the nine months ended September 30, 2015, taxable equivalent net interest revenue was \$185 million compared to \$166 million for the same period of 2014, primarily due to loan growth and an increase in the net interest margin. Net interest margin increased to 3.29% for the nine months ended September 30, 2015 from 3.25% for the same period in 2014. In the second quarter of 2014, United executed a number of balance sheet management activities, including restructuring interest rate swaps, selling investment securities and repaying high cost wholesale borrowings with the intent of improving the net interest margin and increasing net interest revenue. These balance sheet management activities, along with strong loan growth over the last five quarters, had the desired effect of increasing net interest revenue and net interest margin.

United's provision for credit losses was \$700,000 for the third quarter of 2015, compared to \$2.0 million for the same period in 2014. Net charge-offs for the third quarter of 2015 were \$1.42 million, compared to \$3.16 million for the third quarter of 2014. Strong recoveries of previously charged-off loans drove net charge-offs down in the third quarter of 2015. For the nine months ended September 30, 2015, United's provision for loan losses was \$3.40 million, compared to \$6.70 million for the same period of 2014. United's credit quality indicators have shown improvement over the last five quarters leading to lower net charge offs and provisions for credit losses.

As of September 30, 2015, United's allowance for loan losses was \$69.1 million, or 1.15% of loans, compared to \$71.6 million, or 1.53% of loans, at December 31, 2014 and \$71.9 million, or 1.57% of loans, at September 30, 2014. In accordance with the accounting guidance for business combinations, there was no allowance for loan losses brought forward on loans acquired from Palmetto or MoneyTree, as credit deterioration was included in the determination of fair value at acquisition date. At September 30, 2015, United recorded no allowance for loan losses on loans acquired from Palmetto or MoneyTree as there was no evidence of credit deterioration beyond that which was incorporated into the determination of fair value at acquisition date. Nonperforming assets of \$27.7 million were .29% of total assets at September 30, 2015, up from .26% at December 31, 2014 and the same level as September 30, 2014. The year-to-date increase was primarily due to foreclosed properties assumed in connection with the Palmetto acquisition. During the third quarter of 2015, \$8.92 million in loans were placed on nonaccrual compared with \$7.67 million in the third quarter of 2014.





Fee revenue of \$18.3 million for the third quarter of 2015 was up \$3.89 million, or 27%, from the third quarter of 2014. The increase was partly due to \$1.65 million in gains from the sales of government guaranteed loans in the third quarter of 2015, compared to \$945,000 in the third quarter of 2014. United began selling the guaranteed portion of Small Business Administration (“SBA”) / United States Department of Agriculture (“USDA”) loans in the second quarter of 2014 as part of its emphasis on growing its government guaranteed lending business. Mortgage fees of \$3.84 million for the third quarter of 2015 increased from \$2.18 million in the third quarter of 2014. The increase was due to United’s emphasis on growing its mortgage business by recruiting lenders in metropolitan markets and continued strong refinancing activity. For the first nine months of 2015, fee revenue of \$51.2 million increased \$10.5 million, or 26%, from the same period in 2014, primarily due to the same factors resulting in the quarterly increase.

For the third quarter of 2015, operating expenses of \$54.3 million were up \$12.9 million from the third quarter of 2014, partially due to the addition of Palmetto and FNB operating expenses since acquisition. Salaries and benefits expense increased \$3.68 million from a year ago mostly due to the investment in additional staff and new teams to expand the specialized lending area as well as higher incentive compensation in connection with increased lending activities and improvement in earnings performance. In addition, merger-related charges of \$5.74 million were expensed in third quarter 2015. For the nine months ended September 30, 2015, operating expenses of \$146 million were up \$24.8 million from the same period in 2014, mainly due to the same factors that caused the quarterly increase.

## **Recent Developments**

In October 2015, United announced its decision to exit its corporate healthcare lending business based in Nashville, Tennessee. In conjunction with the exit, United agreed to sell \$190 million of corporate healthcare loans that were originated by United's Nashville-based healthcare team. United has also transferred the lease on its healthcare lending office in Nashville and the personnel there have become employees of the acquirer.

## **Critical Accounting Policies**

The accounting and reporting policies of United are in accordance with 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 non-GAAP financial measures, which are performance measures determined by methods other than in accordance with GAAP. Such non-GAAP financial measures include, among others the following: taxable equivalent interest revenue, taxable equivalent net interest revenue, tangible book value per share, tangible equity to assets, tangible common equity to assets and tangible common equity to risk-weighted assets. Management uses these non-GAAP financial measures because it believes they are useful for evaluating our operations and performance over periods of time, as well as in managing and evaluating our business and in discussions about our operations and performance. Management believes these non-GAAP financial measures provide users of our financial information with a meaningful measure for assessing our financial results and credit trends, as well as comparison to financial results for prior periods. These non-GAAP financial measures should not be considered as a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled financial measures used by other companies. A reconciliation of these operating performance measures to GAAP performance measures is included in the table on page 48.

### **Results of Operations**

United reported net income of \$17.9 million for the third quarter of 2015. This compared to net income of \$17.6 million for the same period in 2014. For the third quarter of 2015, diluted earnings per common share were \$.27 compared to \$.29 for the third quarter of 2014. For the nine months ended September 30, 2015, United reported net income of \$53.4 million compared to net income of \$49.4 million for the same period in 2014.

United reported net operating income of \$21.7 million and \$59.4 million, respectively, for the third quarter and the first nine months of 2015, compared to \$17.6 million and \$49.4 million, respectively, for the same periods in 2014. Operating earnings exclude the effects of merger-related charges, which, net of tax, totaled \$3.84 million and \$6.02 million, respectively, for the three and nine months ended September 30, 2015.

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

(in thousands, except per share data; taxable equivalent)	2015			2014		Third	For the Nine		Y
	Third	Second	First	Fourth	Third	Quarter	Months Ended	20	
	Quarter	Quarter	Quarter	Quarter	Quarter	2015-2014	September 30,	2014	C
<b>INCOME SUMMARY</b>									
Interest revenue	\$71,120	\$66,134	\$62,909	\$64,353	\$63,338		\$200,163	\$185,616	
Interest expense	5,402	4,817	5,292	6,021	6,371		15,511	19,530	
Net interest revenue	65,718	61,317	57,617	58,332	56,967	15 %	184,652	166,086	1
Provision for credit losses	700	900	1,800	1,800	2,000		3,400	6,700	
Fee revenue	18,297	17,266	15,682	14,823	14,412	27	51,245	40,731	2
Total revenue	83,315	77,683	71,499	71,355	69,379	20	232,497	200,117	1
Expenses - operating <sup>(1)</sup>	48,525	45,247	43,061	41,919	41,364	17	136,833	120,946	1
Income before income tax expense - operating <sup>(1)</sup>	34,790	32,436	28,438	29,436	28,015	24	95,664	79,171	2
Income tax expense - operating <sup>(1)</sup>	13,064	12,447	10,768	11,189	10,399	26	36,279	29,798	2
<b>Net income - operating <sup>(1)</sup></b>	<b>21,726</b>	<b>19,989</b>	<b>17,670</b>	<b>18,247</b>	<b>17,616</b>	<b>23</b>	<b>59,385</b>	<b>49,373</b>	<b>2</b>
Preferred dividends and discount accretion	25	17	-	-	-		42	439	
<b>Net income available to common shareholders - operating <sup>(1)</sup></b>	<b>21,701</b>	<b>19,972</b>	<b>17,670</b>	<b>18,247</b>	<b>17,616</b>	<b>23</b>	<b>59,343</b>	<b>48,934</b>	<b>2</b>
Merger-related charges, net of income tax benefit	3,839	2,176	-	-	-		6,015	-	
Net income available to common shareholders - GAAP	\$17,862	\$17,796	\$17,670	\$18,247	\$17,616	1	\$53,328	\$48,934	9
<b>PERFORMANCE MEASURES</b>									
Per common share:									
Diluted income - operating <sup>(1)</sup>	\$.33	\$.32	\$.29	\$.30	\$.29	14	\$.94	\$.81	1
Diluted income - GAAP	.27	.28	.29	.30	.29	(7 )	.84	.81	4
Cash dividends declared	.06	.05	.05	.05	.03		.16	.06	
Book value	13.95	12.95	12.58	12.20	12.15	15	13.95	12.15	1
Tangible book value <sup>(3)</sup>	12.08	12.66	12.53	12.15	12.10	-	12.08	12.10	-
Key performance ratios:									
Return on tangible common equity - operating <sup>(1)(2)(3)(4)</sup>	10.29 %	10.20 %	9.46 %	9.74 %	9.55 %		10.00 %	9.18 %	%
Return on common equity - operating <sup>(1)(2)(4)</sup>	9.54	9.90	9.34	9.60	9.41		9.60	9.02	

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

Return on common equity - GAAP <sup>(2)(4)</sup>	7.85	8.83	9.34	9.60	9.41		8.63	9.02
Return on assets - operating <sup>(1)(4)</sup>	1.00	1.00	.94	.96	.95		.98	.89
Return on assets - GAAP <sup>(4)</sup>	.82	.89	.94	.96	.95		.88	.89
Dividend payout ratio - operating <sup>(1)</sup>	18.18	15.63	17.24	16.67	10.34		17.02	7.41
Dividend payout ratio - GAAP	22.22	17.86	17.24	16.67	10.34		19.05	7.41
Net interest margin <sup>(4)</sup>	3.26	3.30	3.31	3.31	3.32		3.29	3.25
Efficiency ratio - operating <sup>(1)</sup>	57.81	57.59	59.15	57.47	57.96		58.15	58.54
Efficiency ratio - GAAP	64.65	61.63	59.15	57.47	57.96		61.94	58.54
Average equity to average assets	10.39	10.05	9.86	9.76	9.85		10.11	9.66
Average tangible equity to average assets <sup>(3)</sup>	9.88	9.91	9.82	9.72	9.83		9.88	9.64
Average tangible common equity to average assets <sup>(3)</sup>	9.77	9.83	9.82	9.72	9.83		9.81	9.55
Tangible common equity to risk-weighted assets <sup>(3)(5)</sup>	12.68	13.24	13.53	13.82	14.10		12.68	14.10

**ASSET QUALITY**

Nonperforming loans	\$20,064	\$18,805	\$19,015	\$17,881	\$18,745	7	\$20,064	\$18,745
Foreclosed properties	7,669	2,356	1,158	1,726	3,146	144	7,669	3,146
Total nonperforming assets (NPAs)	27,733	21,161	20,173	19,607	21,891	27	27,733	21,891
Allowance for loan losses	69,062	70,129	70,007	71,619	71,928		69,062	71,928
Net charge-offs	1,417	978	2,562	2,509	3,155	(55)	4,957	11,369
Allowance for loan losses to loans	1.15 %	1.36 %	1.46 %	1.53 %	1.57 %		1.15 %	1.57 %
Allowance for loan losses to loans, excl. acquired loans	1.37	1.42	1.46	1.53	1.57		1.37	1.57
Net charge-offs to average loans <sup>(4)</sup>	.10	.08	.22	.22	.28		.13	.35
NPAs to loans and foreclosed properties	.46	.41	.42	.42	.48		.46	.48
NPAs to total assets	.29	.26	.26	.26	.29		.29	.29

**AVERAGE BALANCES** (\$ in millions)

Loans	\$5,457	\$5,017	\$4,725	\$4,621	\$4,446	23	\$5,069	\$4,393
Investment securities	2,396	2,261	2,203	2,222	2,231	7	2,288	2,292
Earning assets	8,009	7,444	7,070	7,013	6,820	17	7,511	6,836
Total assets	8,634	8,017	7,617	7,565	7,374	17	8,093	7,392
Deposits	7,135	6,669	6,369	6,383	6,143	16	6,727	6,176
Shareholders' equity	897	806	751	738	726	24	818	714
Common shares - basic (thousands)	66,294	62,549	60,905	60,830	60,776	9	63,297	60,511
Common shares - diluted (thousands)	66,300	62,553	60,909	60,833	60,779	9	63,302	60,513

**AT PERIOD END** (*\$ in millions*)

Loans	\$6,022	\$5,174	\$4,788	\$4,672	\$4,569	32	\$6,022	\$4,569	3
Investment securities	2,457	2,322	2,201	2,198	2,222	11	2,457	2,222	1
Total assets	9,414	8,246	7,664	7,567	7,526	25	9,414	7,526	2
Deposits	7,905	6,808	6,438	6,327	6,241	27	7,905	6,241	2
Shareholders' equity	1,013	827	764	740	736	38	1,013	736	3
Common shares outstanding ( <i>thousands</i> )	71,472	62,700	60,309	60,259	60,248	19	71,472	60,248	1

(1) Excludes merger-related charges. (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. (5) September 30, June 30 and March 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.

**Table 1 - Non-GAAP Performance Measures Reconciliation****Selected Financial Information**

(in thousands, except per share data; taxable equivalent)	2015			2014		For the Nine Months Ended	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	September 30, 2015	2014
<b>Interest revenue reconciliation</b>							
Interest revenue - taxable equivalent	\$71,120	\$66,134	\$62,909	\$64,353	\$63,338	\$200,163	\$185,616
Taxable equivalent adjustment	(292 )	(326 )	(375 )	(398 )	(405 )	(993 )	(1,139 )
Interest revenue (GAAP)	\$70,828	\$65,808	\$62,534	\$63,955	\$62,933	\$199,170	\$184,477
<b>Net interest revenue reconciliation</b>							
Net interest revenue - taxable equivalent	\$65,718	\$61,317	\$57,617	\$58,332	\$56,967	\$184,652	\$166,086
Taxable equivalent adjustment	(292 )	(326 )	(375 )	(398 )	(405 )	(993 )	(1,139 )
Net interest revenue (GAAP)	\$65,426	\$60,991	\$57,242	\$57,934	\$56,562	\$183,659	\$164,947
<b>Total revenue reconciliation</b>							
Total operating revenue	\$83,315	\$77,683	\$71,499	\$71,355	\$69,379	\$232,497	\$200,117
Taxable equivalent adjustment	(292 )	(326 )	(375 )	(398 )	(405 )	(993 )	(1,139 )
Total revenue (GAAP)	\$83,023	\$77,357	\$71,124	\$70,957	\$68,974	\$231,504	\$198,978
<b>Expense reconciliation</b>							
Expenses - operating	\$48,525	\$45,247	\$43,061	\$41,919	\$41,364	\$136,833	\$120,946
Merger-related charges	5,744	3,173	-	-	-	8,917	-
Expenses (GAAP)	\$54,269	\$48,420	\$43,061	\$41,919	\$41,364	\$145,750	\$120,946
<b>Income before taxes reconciliation</b>							
Income before taxes - operating	\$34,790	\$32,436	\$28,438	\$29,436	\$28,015	\$95,664	\$79,171
Taxable equivalent adjustment	(292 )	(326 )	(375 )	(398 )	(405 )	(993 )	(1,139 )
Merger-related charges	(5,744 )	(3,173 )	-	-	-	(8,917 )	-
Income before taxes (GAAP)	\$28,754	\$28,937	\$28,063	\$29,038	\$27,610	\$85,754	\$78,032
<b>Income tax expense reconciliation</b>							
Income tax expense - operating	\$13,064	\$12,447	\$10,768	\$11,189	\$10,399	\$36,279	\$29,798
Taxable equivalent adjustment	(292 )	(326 )	(375 )	(398 )	(405 )	(993 )	(1,139 )
Merger-related charges, tax benefit	(1,905 )	(997 )	-	-	-	(2,902 )	-
Income tax expense (GAAP)	\$10,867	\$11,124	\$10,393	\$10,791	\$9,994	\$32,384	\$28,659



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

Net income reconciliation											
Net income - operating	\$21,726	\$19,989	\$17,670	\$18,247	\$17,616	\$59,385	\$49,373				
Merger-related charges, net of income tax benefit	(3,839 )	(2,176 )	-	-	-	(6,015 )	-				
Net income (GAAP)	\$17,887	\$17,813	\$17,670	\$18,247	\$17,616	\$53,370	\$49,373				
Net income available to common shareholders reconciliation											
Net income available to common shareholders - operating	\$21,701	\$19,972	\$17,670	\$18,247	\$17,616	\$59,343	\$48,934				
Merger-related charges, net of income tax benefit	(3,839 )	(2,176 )	-	-	-	(6,015 )	-				
Net income available to common shareholders (GAAP)	\$17,862	\$17,796	\$17,670	\$18,247	\$17,616	\$53,328	\$48,934				
Diluted income per common share reconciliation											
Diluted income per common share - operating	\$ .33	\$ .32	\$ .29	\$ .30	\$ .29	\$ .94	\$ .81				
Merger-related charges	(.06 )	(.04 )	-	-	-	(.10 )	-				
Diluted income per common share (GAAP)	\$ .27	\$ .28	\$ .29	\$ .30	\$ .29	\$ .84	\$ .81				
Book value per common share reconciliation											
Tangible book value per common share	\$12.08	\$12.66	\$12.53	\$12.15	\$12.10	\$12.08	\$12.10				
Effect of goodwill and other intangibles	1.87	.29	.05	.05	.05	1.87	.05				
Book value per common share (GAAP)	\$13.95	\$12.95	\$12.58	\$12.20	\$12.15	\$13.95	\$12.15				
Return on tangible common equity reconciliation											
Return on tangible common equity - operating	10.29 %	10.20 %	9.46 %	9.74 %	9.55 %	10.00 %	9.18 %				
Effect of goodwill and other intangibles	(.75 )	(.30 )	(.12 )	(.14 )	(.14 )	(.40 )	(.16 )				
Return on common equity - operating	9.54	9.90	9.34	9.60	9.41	9.60	9.02				
Merger-related charges	(1.69 )	(1.07 )	-	-	-	(.97 )	-				
Return on common equity (GAAP)	7.85 %	8.83 %	9.34 %	9.60 %	9.41 %	8.63 %	9.02 %				
Return on assets reconciliation											
Return on assets - operating	1.00 %	1.00 %	.94 %	.96 %	.95 %	.98 %	.89 %				
Merger-related charges	(.18 )	(.11 )	-	-	-	(.10 )	-				
Return on assets (GAAP)	.82 %	.89 %	.94 %	.96 %	.95 %	.88 %	.89 %				

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

Allowance for loan losses to loans reconciliation														
Allowance for loan losses to loans , excl. acquired loans	1.37	%	1.42	%	1.46	%	1.53	%	1.57	%	1.37	%	1.57	%
Effect of removing acquired loans from ratio	(.22	)	(.06	)	-		-		-		(.22	)	-	
Allowance for loan losses to loans (GAAP)	1.15	%	1.36	%	1.46	%	1.53	%	1.57	%	1.15	%	1.57	%
Dividend payout ratio reconciliation														
Dividend payout ratio - operating	18.18	%	15.63	%	17.24	%	16.67	%	10.34	%	17.02	%	7.41	%
Merger-related charges	4.04		2.23		-		-		-		2.03		-	
Dividend payout ratio (GAAP)	22.22	%	17.86	%	17.24	%	16.67	%	10.34	%	19.05	%	7.41	%
Efficiency ratio reconciliation														
Efficiency ratio - operating	57.81	%	57.59	%	59.15	%	57.47	%	57.96	%	58.15	%	58.54	%
Merger-related charges	6.84		4.04		-		-		-		3.79		-	
Efficiency ratio (GAAP)	64.65	%	61.63	%	59.15	%	57.47	%	57.96	%	61.94	%	58.54	%
Average equity to assets reconciliation														
Tangible common equity to assets	9.77	%	9.83	%	9.82	%	9.72	%	9.83	%	9.81	%	9.55	%
Effect of preferred equity	.11		.08		-		-		-		.07		.09	
Tangible equity to assets	9.88		9.91		9.82		9.72		9.83		9.88		9.64	
Effect of goodwill and other intangibles	.51		.14		.04		.04		.02		.23		.02	
Equity to assets (GAAP)	10.39	%	10.05	%	9.86	%	9.76	%	9.85	%	10.11	%	9.66	%
<b>Tangible common equity to risk-weighted assets reconciliation</b> <sup>(1)</sup>														
Tangible common equity to risk-weighted assets	12.68	%	13.24	%	13.53	%	13.82	%	14.10	%	12.68	%	14.10	%
Effect of other comprehensive income	.22		.28		.19		.35		.34		.22		.34	
Effect of deferred tax limitation	.08		(2.49	)	(2.86	)	(3.11	)	(3.39	)	.08		(3.39	)
Effect of trust preferred	.15		.63		.67		1.00		1.02		.15		1.02	
Effect of preferred equity	(2.20	)	.17		-		-		-		(2.20	)	-	
Basel III intangibles transition adjustment	.12		.06		.04		-		-		.12		-	
Basel III disallowed investments	(.02	)	(.03	)	(.04	)	-		-		(.02	)	-	
Tier I capital ratio (Regulatory)	11.03	%	11.86	%	11.53	%	12.06	%	12.07	%	11.03	%	12.07	%

(1) September 30, June 30 and March 31, 2015 calculated under Basel III rules, which became effective January 1, 2015.



### **Net Interest Revenue (Taxable Equivalent)**

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. United actively manages its balance sheet to provide optimal levels of revenue while balancing interest rate, credit and liquidity risks. Taxable equivalent net interest revenue for the third quarter of 2015 was \$65.7 million, up \$8.75 million from the third quarter of 2014. The combination of growth in the loan portfolio and lower interest costs on deposits and borrowed funds were responsible for the increase in net interest revenue. United continues to focus on loan and deposit pricing in an effort to maintain a steady level of net interest revenue. The acquisition of Palmetto on September 1, 2015 and MoneyTree on May 1, 2015 also contributed to the increase as the acquired entities' results are included in consolidated results beginning on the acquisition date.

While average loans increased \$1.01 billion, or 23%, from the third quarter of last year, the yield on loans decreased 29 basis points, reflecting the continuing effect of the low interest rate environment and pricing competition for a limited number of quality lending opportunities. The lower loan yield also reflects a shift in new production toward more floating rate loans.

Average interest-earning assets for the third quarter of 2015 increased \$1.19 billion, or 17%, from the third quarter of 2014, which was due primarily to the increase in loans, including the acquisition of Palmetto and MoneyTree loans. Average investment securities for the third quarter of 2015 increased \$165 million from a year ago, partially due to the Palmetto acquisition. The average yield on the investment portfolio decreased 7 basis points from a year ago, partially due to lower yields on acquired securities.

Average interest-bearing liabilities of \$5.67 billion for the third quarter of 2015 increased \$645 million from the third quarter of 2014. Average noninterest bearing deposits increased \$442 million from the third quarter of 2014 to \$1.97 billion for the third quarter of 2015. The average cost of interest-bearing liabilities for the third quarter of 2015 was .38% compared to .50% for the same period of 2014, reflecting United's concerted efforts to reduce its cost of funds. In the first nine months of 2015, United redeemed \$49.2 million in higher-rate trust preferred securities, with rates ranging from 8.125% to 11.295%. In third quarter 2015, United issued \$50 million of seven-year senior notes at 5% and \$35 million of twelve-year senior notes at 5.5%. Also contributing to the overall lower rate on interest-bearing liabilities was a shift in the mix of deposits away from more expensive time deposits toward lower-rate transaction 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 interest rate 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 customers' non-interest-bearing deposits and stockholders' equity.

For the third quarters of 2015 and 2014, the net interest spread was 3.15% and 3.19%, respectively, while the net interest margin was 3.26% and 3.32%, respectively. The decrease in both ratios reflects the impact of the continuing effect of the low interest rate environment and pricing competition for a limited number of quality lending opportunities.

For the first nine months of 2015, net interest revenue was \$185 million, an increase of \$18.6 million, or 11%, from the first nine months of 2014. Average earning assets increased \$675 million, or 10%, during the first nine months of 2015, compared to the same period a year ago. The yield on earning assets decreased 7 basis points from 3.63% for the nine months ended September 30, 2014, to 3.56% for the nine months ended September 30, 2015, due to declining loan yields. The lower loan portfolio yield reflects competitive pricing pressure on new and renewed loans and a shift in loan mix to more floating rate loans. Investment yields increased 5 basis points for the first nine months of 2015 compared to the first nine months of 2014, which helped offset some of the decrease on loan yields. The rate on interest bearing liabilities over the same period decreased 13 basis points. The lower yield on interest earning assets was more than offset by the reduction in rates paid on interest bearing liabilities, resulting in the net interest margin increasing 4 basis points from the nine months ended September 30, 2014 to the nine months ended September 30, 2015.

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2015 and 2014.

**Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis**

For the Three Months Ended September 30,

(dollars in thousands, taxable equivalent)	2015			2014		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
<b>Assets:</b>						
<b>Interest-earning assets:</b>						
Loans, net of unearned income <sup>(1)(2)</sup>	\$5,457,158	\$57,258	4.16%	\$4,445,947	\$49,853	4.45%
Taxable securities <sup>(3)</sup>	2,367,417	12,624	2.13	2,212,116	12,169	2.20
Tax-exempt securities <sup>(1)(3)</sup>	28,889	290	4.02	18,794	290	6.17
Federal funds sold and other interest-earning assets	155,957	948	2.43	143,169	1,026	2.87
Total interest-earning assets	8,009,421	71,120	3.53	6,820,026	63,338	3.69
<b>Non-interest-earning assets:</b>						
Allowance for loan losses	(71,090 )			(74,146 )		
Cash and due from banks	80,678			71,224		
Premises and equipment	179,463			161,315		
Other assets <sup>(3)</sup>	435,060			395,184		
Total assets	\$8,633,532			\$7,373,603		
<b>Liabilities and Shareholders' Equity:</b>						
<b>Interest-bearing liabilities:</b>						
<b>Interest-bearing deposits:</b>						
NOW	\$1,491,801	337	.09	\$1,331,806	365	.11
Money market	1,737,740	981	.22	1,387,042	872	.25
Savings	386,254	25	.03	282,746	20	.03
Time less than \$100,000	793,755	708	.35	791,289	876	.44
Time greater than \$100,000	484,074	447	.37	542,216	827	.61
Brokered time deposits	268,716	(325 )	(.48)	278,330	18	.03
Total interest-bearing deposits	5,162,340	2,173	.17	4,613,429	2,978	.26
Federal funds purchased and other borrowings	72,909	99	.54	53,713	316	2.33
Federal Home Loan Bank advances	281,429	461	.65	227,190	435	.76
Long-term debt	152,105	2,669	6.96	129,865	2,642	8.07
Total borrowed funds	506,443	3,229	2.53	410,768	3,393	3.28
Total interest-bearing liabilities	5,668,783	5,402	.38	5,024,197	6,371	.50
<b>Non-interest-bearing liabilities:</b>						
Non-interest-bearing deposits	1,972,291			1,530,011		
Other liabilities	95,342			92,986		
Total liabilities	7,736,416			6,647,194		
Shareholders' equity	897,116			726,409		
Total liabilities and shareholders' equity	\$8,633,532			\$7,373,603		

Net interest revenue	\$65,718	\$56,967
Net interest-rate spread	3.15%	3.19%
<b>Net interest margin</b> <sup>(4)</sup>	3.26%	3.32%

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 \$8.56 million in 2015 and pretax unrealized gains of \$7.42 million in 2014 are included in other assets for purposes of this presentation.

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

The following table shows the relationship between interest revenue and expense, and the average amounts of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2015 and 2014.

**Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis**

For the Nine Months Ended September 30,

(dollars in thousands, taxable equivalent)	2015			2014		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
<b>Assets:</b>						
<b>Interest-earning assets:</b>						
Loans, net of unearned income <sup>(1)(2)</sup>	\$5,069,270	\$160,204	4.23 %	\$4,392,895	\$146,156	4.45 %
Taxable securities <sup>(3)</sup>	2,263,907	36,380	2.14	2,272,639	35,560	2.09
Tax-exempt securities <sup>(1)(3)</sup>	23,649	845	4.76	19,515	914	6.24
Federal funds sold and other interest-earning assets	154,392	2,734	2.36	150,782	2,986	2.64
Total interest-earning assets	7,511,218	200,163	3.56	6,835,831	185,616	3.63
<b>Non-interest-earning assets:</b>						
Allowance for loan losses	(71,425 )			(76,148 )		
Cash and due from banks	78,948			65,744		
Premises and equipment	169,037			161,843		
Other assets <sup>(3)</sup>	405,101			404,654		
Total assets	\$8,092,879			\$7,391,924		
<b>Liabilities and Shareholders' Equity:</b>						
<b>Interest-bearing liabilities:</b>						
<b>Interest-bearing deposits:</b>						
NOW	\$1,462,344	1,079	.10	\$1,367,713	1,216	.12
Money market	1,605,098	2,460	.20	1,375,064	2,192	.21
Savings	340,878	71	.03	272,696	61	.03
Time less than \$100,000	768,608	2,223	.39	828,694	2,822	.46
Time greater than \$100,000	484,439	1,593	.44	561,167	2,610	.62
Brokered time deposits	272,688	(982 )	(.48 )	300,374	78	.03
Total interest-bearing deposits	4,934,055	6,444	.17	4,705,708	8,979	.26
Federal funds purchased and other borrowings	52,385	279	.71	91,320	2,064	3.02
Federal Home Loan Bank advances	270,260	1,307	.65	169,392	573	.45
Long-term debt	131,338	7,481	7.62	129,865	7,914	8.15
Total borrowed funds	453,983	9,067	2.67	390,577	10,551	3.61
Total interest-bearing liabilities	5,388,038	15,511	.38	5,096,285	19,530	.51
<b>Non-interest-bearing liabilities:</b>						
Non-interest-bearing deposits	1,793,181			1,469,967		
Other liabilities	93,218			111,522		
Total liabilities	7,274,437			6,677,774		
Shareholders' equity	818,442			714,150		



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

Total liabilities and shareholders' equity	\$8,092,879	\$7,391,924	
Net interest revenue	\$184,652		\$166,086
Net interest-rate spread		3.18%	3.12%
<b>Net interest margin</b> <sup>(4)</sup>		3.29%	3.25%

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 \$12.7 million in 2015 and pretax unrealized gains of \$1.59 million in 2014 are included in other assets for purposes of this presentation.

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

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

**Table 4 - Change in Interest Revenue and Expense on a Taxable Equivalent Basis**

(in thousands)

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Compared to 2014 Increase (decrease) Due to Changes in			Compared to 2014 Increase (decrease) Due to Changes in		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest-earning assets:</b>						
Loans	\$ 10,771	\$ (3,366 )	\$ 7,405	\$ 21,653	\$ (7,605 )	\$ 14,048
Taxable securities	836	(381 )	455	(137 )	957	820
Tax-exempt securities	123	(123 )	-	172	(241 )	(69 )
Federal funds sold and other interest-earning assets	86	(164 )	(78 )	70	(322 )	(252 )
Total interest-earning assets	11,816	(4,034 )	7,782	21,758	(7,211 )	14,547
<b>Interest-bearing liabilities:</b>						
NOW accounts	41	(69 )	(28 )	80	(217 )	(137 )
Money market accounts	204	(95 )	109	355	(87 )	268
Savings deposits	7	(2 )	5	14	(4 )	10
Time deposits less than \$100,000	3	(171 )	(168 )	(195 )	(404 )	(599 )
Time deposits greater than \$100,000	(81 )	(299 )	(380 )	(324 )	(693 )	(1,017 )
Brokered deposits	(1 )	(342 )	(343 )	(7 )	(1,053 )	(1,060 )
Total interest-bearing deposits	173	(978 )	(805 )	(77 )	(2,458 )	(2,535 )
Federal funds purchased & other borrowings	85	(302 )	(217 )	(639 )	(1,146 )	(1,785 )
Federal Home Loan Bank advances	95	(69 )	26	426	308	734
Long-term debt	418	(391 )	27	89	(522 )	(433 )
Total borrowed funds	598	(762 )	(164 )	(124 )	(1,360 )	(1,484 )
Total interest-bearing liabilities	771	(1,740 )	(969 )	(201 )	(3,818 )	(4,019 )
Increase in net interest revenue	\$ 11,045	\$ (2,294 )	\$ 8,751	\$ 21,959	\$ (3,393 )	\$ 18,566

***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. The provision for credit losses was \$700,000 and \$3.40 million, respectively, for the third quarter and first nine months of 2015, compared to \$2.00 million and \$6.70 million, respectively, for the same periods in 2014. 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. The third quarter and first nine months of 2015 loan loss provisions were lower than those for the comparable periods in 2014 due to overall improvement in portfolio credit quality. For the three and nine months ended September 30, 2015, net loan charge-offs as an annualized percentage of average outstanding loans were .10% and .13%, respectively, compared to .28% and .35%, respectively, for the same periods in 2014.

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 56.

**Fee Revenue**

Fee revenue for the three and nine months ended September 30, 2015 was \$18.3 million and \$51.2 million, respectively, an increase of \$3.89 million, or 27%, compared to the third quarter of 2014, and an increase of \$10.5 million, or 26%, from the year-to-date period of 2014. The following table presents the components of fee revenue for the third quarters and first nine months of 2015 and 2014.

**Table 5 - Fee Revenue***(in thousands)*

	Three Months Ended				Nine Months Ended			
	September 30, 2015	2014	Change Amount	Percent	September 30, 2015	2014	Change Amount	Percent
Overdraft fees	\$ 3,303	\$ 3,071	\$232	8	\$ 8,631	\$ 8,935	\$(304)	(3)
ATM and debit card fees	4,364	3,811	553	15	12,222	11,318	904	8
Other service charges and fees	1,668	1,320	348	26	4,472	4,374	98	2
Service charges and fees	9,335	8,202	1,133	14	25,325	24,627	698	3
Mortgage loan and related fees	3,840	2,178	1,662	76	10,302	5,409	4,893	90
Brokerage fees	1,200	1,209	(9)	(1)	3,983	3,631	352	10
Gains on sales of government guaranteed loans	1,646	945	701	74	4,281	1,689	2,592	153
Customer derivatives	418	179	239	134	1,314	650	664	102
Securities gains, net	325	11	314		1,877	4,663	(2,786)	
Losses from prepayment of debt	(256)	-	(256)		(1,294)	(4,446)	3,152	
Other	1,789	1,688	101	6	5,457	4,508	949	21
Total fee revenue	\$ 18,297	\$ 14,412	\$ 3,885	27	\$ 51,245	\$ 40,731	\$ 10,514	26

Overdraft fees of \$3.3 million for the third quarter of 2015 were up \$232,000, or 8%, from the third quarter of 2014. For the first nine months of 2015, overdraft fees of \$8.63 million were down \$304,000, or 3%, from the same period in 2014. Despite a slight increase in third quarter 2015 mostly due to the acquisitions, overdraft fees declined year over year as customer utilization of our courtesy overdraft services has decreased. ATM and debit card fees of \$4.36 million in third quarter of 2015 and \$12.2 million in the first nine months of 2015 increased from the comparable periods in 2014 due to growth in transaction volume.

Mortgage loans and related fees for the third quarter and first nine months of 2015 were up \$1.66 million, or 76%, and \$4.89 million, or 90%, respectively, from the same periods in 2014. The increase reflects United's focus on growing the mortgage business by recruiting new mortgage lenders in key metropolitan markets and an increase in refinancing

activity. In the third quarter of 2015, United closed 711 loans totaling \$141 million compared with 492 loans totaling \$84.2 million in the third quarter of 2014. Year-to-date mortgage production in 2015 amounted to 1,849 loans totaling \$357 million, compared to 1,202 loans totaling \$199 million for the same period in 2014. United had \$80.1 million and \$191 million, respectively, in home purchase mortgage originations in the third quarter and first nine months of 2015, compared with \$53.0 million and \$129 million, respectively, for the same periods a year ago. The volume of new purchase money mortgages in the third quarter was 62% compared with 63% in the third quarter of 2014.

Brokerage fees were approximately equal to the third quarter of 2014 and increased \$352,000, or 10%, compared to the first nine months of 2014. The year-to-date increase reflects United's continuing efforts to grow this line of business.

In the third quarter and first nine months of 2015, United realized \$1.65 million and \$4.28 million, respectively, in gains from the sales of the guaranteed portion of SBA and USDA loans. United has been actively growing its government guaranteed lending business with the hiring of new leadership and lenders who specialize in government guaranteed loan programs such as SBA and USDA loans. United's SBA/USDA lending strategy includes selling a portion of the loan production each quarter. United began selling the guaranteed portion of loans in the second quarter of 2014. 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 2015, United sold the guaranteed portion of loans in the amount of \$17.8 million and \$45.6 million, respectively, at prices ranging from 105% to 119% of par.

Customer derivative fees were up \$239,000 from the third quarter of 2014 and \$664,000 from the first nine months of 2014 due to an increase in customer demand for this product as commercial customers sought to lock in low fixed rates on their loans.

United realized net securities gains of \$325,000 in the third quarter of 2015 compared with securities gains of \$11,000 in the third quarter of 2014. For the first nine months of 2015 and 2014, net securities gains totaled \$1.88 million and \$4.66 million, respectively. In third quarter 2015, United incurred \$256,000 in debt prepayment charges due to the redemption of \$33.8 million in trust preferred securities. The securities had an average rate of approximately 8.5%. In the first nine months of 2015, United incurred \$1.29 million in charges from the third quarter trust preferred redemption and the first quarter prepayment of \$6 million in structured repurchase agreements that paid interest at a rate of 4% and \$15 million in trust preferred securities that paid interest at an average rate in excess of 11%. The securities gains and prepayment charges in 2015 were mostly offsetting and were part of the same overall balance sheet management activities that were intended to lower the overall cost of wholesale borrowings going forward.

Other fee revenue of \$1.79 million for the third quarter of 2015 was up \$101,000, or 6%, from the third quarter of 2014, mostly due to gains from sales of closed branch facilities. For the first nine months of 2015, other fee revenue of \$5.46 million was up \$949,000, or 21%, from the same period in 2014, primarily due to volume driven increases in income from bank owned life insurance policies and an incentive payment from United's merchant services vendor, combined with the same factors mentioned for the quarterly increase.

### *Operating Expenses*

The following table presents the components of operating expenses for the three and nine months ended September 30, 2015 and 2014.

**Table 6 - Operating Expenses**

*(in thousands)*

	Three Months Ended				Nine Months Ended			
	September 30, 2015	2014	Change Amount	Percent	September 30, 2015	2014	Change Amount	Percent
Salaries and employee benefits	\$ 29,342	\$ 25,666	\$ 3,676	14	\$ 83,749	\$ 74,349	\$ 9,400	13
Communications and equipment	3,963	3,094	869	28	10,538	9,370	1,168	12
Occupancy	4,013	3,425	588	17	10,706	10,065	641	6
Advertising and public relations	812	894	(82 )	(9 )	2,689	2,659	30	1
Postage, printing and supplies	1,049	876	173	20	2,980	2,456	524	21
Professional fees	2,668	2,274	394	17	6,844	5,873	971	17
FDIC assessments and other regulatory charges	1,136	1,131	5	-	3,643	3,909	(266 )	(7 )
Amortization of intangibles	714	313	401	128	1,403	1,061	342	32
Merger-related changes	5,744	-	5,744	100	8,917	-	8,917	100
Other	4,828	3,691	1,137	31	14,281	11,204	3,077	27
Total operating expenses	\$ 54,269	\$ 41,364	\$ 12,905	31	\$ 145,750	\$ 120,946	\$ 24,804	21

Operating expenses for the third quarter of 2015 totaled \$54.3 million, up \$12.9 million, or 31%, from the third quarter of 2014. The increase mostly reflects the inclusion of the operating expenses of the two acquired banks from their respective acquisition dates, higher salaries and employee benefits expense resulting from investing in specialized lending areas and other strategic hiring and merger-related charges related to the acquisition of Palmetto. For the nine months ended September 30, 2015, operating expenses totaled \$146 million, an increase of \$24.8 million, or 21%, from the same period in 2014, primarily due to the inclusion of the operating expenses of the two acquired

banks from their respective acquisition dates, higher salaries and employee benefits expense resulting from investing in specialized lending areas and other strategic hiring, merger-related charges, charges to terminate and settle the loss sharing agreements with the FDIC related to United's 2009 acquisition of Southern Community Bank and a loss on a fraudulent home equity line of credit transaction.

Salaries and employee benefits for the third quarter of 2015 were \$29.3 million, up \$3.68 million, or 14%, from the third quarter of 2014. The increase was due to a number of factors including investments in additional staff and new teams to expand specialized lending and new talent in other key areas, additional staff resulting from the Palmetto and MoneyTree acquisitions, higher incentives due to increased loan production and obtaining higher earnings performance targets. For the first nine months of 2015, salaries and employee benefits of \$83.7 million were up \$9.4 million, or 13%, from the first nine months of 2014. Headcount totaled 1,927 at September 30, 2015, up 412 from 1,515 at September 30, 2014, with 336 coming from the Palmetto and MoneyTree acquisitions.

Professional fees for the third quarter of 2015 of \$2.67 million were up \$394,000, or 17%, from the third quarter of 2014. For the nine months ended September 30, 2015, professional fees of \$6.84 million were up \$971,000, or 17%. The increase was due primarily to higher legal and consulting fees relating to projects that are in process.

Merger-related charges in third quarter 2015 of \$5.74 million mostly related to the Palmetto acquisition and consisted primarily of severance, conversion costs, and legal and professional fees. Merger-related charges for the first nine months of 2015 also included costs related to the MoneyTree acquisition.

Other expense of \$4.83 million for the third quarter of 2015 increased \$1.14 million, or 31%, from the third quarter of 2014. Year-to-date, other expense of \$14.3 million increased \$3.08 million, or 27%, from the first nine months of 2014. The increase from the third quarter of 2014 is due to higher lending support costs due to increased lending activity, higher ATM and internet banking costs due to higher volume, and higher servicing costs on United's indirect auto loan portfolio due to growth in that portfolio. The increase from the first nine months of 2014 is mostly due to a \$690,000 charge to terminate and settle the loss sharing agreements with the FDIC related to United's 2009 acquisition of Southern Community Bank and a \$420,000 loss on a fraudulent home equity line of credit transaction in addition to the reasons given for the third quarter increase. Other expense in the first nine months of 2015 was also elevated due to higher travel and entertainment costs associated with the increase in lending activity.

### *Income Taxes*

The income tax provision for the third quarter and first nine months of 2015 was \$10.9 million and \$32.4 million, respectively, as compared with \$9.99 million and \$28.7 million, respectively, for the same periods in 2014. The income tax provision represents an effective tax rate of 37.8% for each period of 2015 and 36.2% and 36.7%, respectively, for each period of 2014. At September 30, 2015, December 31, 2014 and September 30, 2014, United maintained a valuation allowance on its net deferred tax asset of \$4.58 million, \$4.12 million and \$4.45 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, 2015. 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 \$4.58 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, 2015 that it was more likely than not that United's net deferred tax asset of \$197 million will be realized is based upon management's estimate of future taxable income. Management's estimate of future taxable income is based on 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 2012. Although United is unable to determine the ultimate outcome of future examinations, United 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 16 to the consolidated financial statements filed with United's Annual Report on Form 10-K for the year ended December 31, 2014.



**Balance Sheet Review**

Total assets at September 30, 2015, December 31, 2014 and September 30, 2014 were \$9.41 billion, \$7.57 billion and \$7.53 billion, respectively. Average total assets for the third quarter of 2015 were \$8.63 billion, up from \$7.37 billion in the third quarter of 2014.

The following table presents a summary of the loan portfolio.

**Table 7 - Loans Outstanding**

(in thousands)

	September 30, 2015	December 31, 2014	September 30, 2014	
<b>By Loan Type</b>				
Owner occupied commercial real estate	\$ 1,479,246	\$ 1,163,480	\$ 1,153,933	
Income producing commercial real estate	817,833	598,537	604,727	
Commercial & industrial	890,233	710,256	649,853	
Commercial construction	318,345	196,030	180,794	
Total commercial	3,505,657	2,668,303	2,589,307	
Residential mortgage	1,061,610	865,789	865,568	
Home equity lines of credit	584,934	465,872	458,819	
Residential construction	334,084	298,627	307,178	
Consumer installment	116,603	104,899	105,345	
Indirect auto	420,697	268,629	242,669	
Total loans	\$ 6,023,585	\$ 4,672,119	\$ 4,568,886	
<b>As a percentage of total loans:</b>				
Owner occupied commercial real estate	24	% 25	% 25	%
Income producing commercial real estate	14	13	13	
Commercial & industrial	15	15	14	
Commercial construction	5	4	4	
Total commercial	58	57	56	
Residential mortgage	18	19	19	
Home equity lines of credit	10	10	10	
Residential construction	5	6	7	
Consumer installment	2	2	3	
Indirect auto	7	6	5	
Total	100	% 100	% 100	%
<b>By Geographic Location</b>				
North Georgia	\$ 1,129,474	\$ 1,163,479	\$ 1,168,307	
Atlanta MSA	1,266,224	1,243,535	1,246,240	
North Carolina	545,895	552,527	553,028	
Coastal Georgia	506,394	455,709	443,803	
Gainesville MSA	252,089	257,449	253,878	
East Tennessee	510,511	280,312	280,534	
South Carolina	783,552	29,786	20,765	
Specialized Lending	608,749	420,693	359,662	
Other (Indirect Auto)	420,697	268,629	242,669	
Total loans	\$ 6,023,585	\$ 4,672,119	\$ 4,568,886	

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. More than 76% of the loans are secured by real estate. In 2014, loan growth began to return to pre-crisis levels reflecting United's specialized lending initiatives which resulted in increases in commercial lending. Consumer installment loans also increased due to purchases of indirect auto loans. Total loans averaged \$5.46 billion in the third quarter of 2015, compared with \$4.45 billion in the third quarter of 2014, an increase of 23%. At September 30, 2015, total loans were \$6.02 billion, an increase of \$1.45 billion, or 32%, from September 30, 2014.

### *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 of the community banks. 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, 2014.

United classifies 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’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, 2015, December 31, 2014 and September 30, 2014, the funded portion of home equity lines totaled \$585 million, \$466 million and \$459 million, respectively. Approximately 3% of the home equity lines at September 30, 2015 were amortizing. Of the \$585 million in balances outstanding at September 30, 2015, \$402 million, or 69%, were secured by first liens. At September 30, 2015, 58% 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, United obtains valuations to determine if any additional charge-offs or reserves are warranted.

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

### Table 8 - Performing Substandard Loans

(in thousands)

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
By Category					
Owner occupied commercial real estate	\$ 42,409	\$39,618	\$43,887	\$ 46,401	\$ 49,857
Income producing commercial real estate	29,856	18,775	19,881	20,560	22,215
Commercial & industrial	6,200	6,394	6,704	7,863	7,498
Commercial construction	2,877	3,255	3,528	3,566	3,847
Total commercial	81,342	68,042	74,000	78,390	83,417
Residential mortgage	35,849	30,579	30,382	31,831	42,981
Home equity	6,615	5,591	5,734	5,296	8,073
Residential construction	10,180	9,686	9,504	10,920	11,755
Consumer installment	787	842	1,301	1,382	2,062
Indirect auto	1,265	961	796	574	684
Total	\$ 136,038	\$115,701	\$ 121,717	\$ 128,393	\$ 148,972

By Market

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

North Georgia	\$ 50,695	\$51,938	\$ 52,652	\$ 55,821	\$ 66,780
Atlanta MSA	28,390	31,681	31,884	31,201	34,340
North Carolina	13,914	15,514	13,871	16,479	18,465
Coastal Georgia	6,977	5,886	14,355	15,642	17,368
Gainesville MSA	597	897	1,009	1,109	2,016
East Tennessee	7,369	7,688	5,936	5,933	7,643
South Carolina	25,873	-	-	-	-
Specialized lending	958	1,136	1,214	1,634	1,676
Indirect auto	1,265	961	796	574	684
Total loans	\$ 136,038	\$115,701	\$ 121,717	\$ 128,393	\$ 148,972

At September 30, 2015, performing substandard loans totaled \$136 million and increased \$20.3 million from the prior quarter-end, and decreased \$12.9 million from a year ago. Performing substandard loans have been on a downward trend as credit conditions continue to improve and problem credits are resolved. The increase in the third quarter of 2015 was due to the acquisition of Palmetto.

Reviews of substandard performing and non-performing loans, troubled debt restructurings (“TDRs”), 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 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 United’s internal loan review, United also uses external loan review to ensure the independence of the loan review process.

The following table presents a summary of the changes in the allowance for credit losses for the three and nine months ended September 30, 2015 and 2014.

**Table 9 - Allowance for Credit Losses**

*(in thousands)*

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2015	2014	2015	2014
Allowance for loan losses at beginning of period	\$ 70,129	\$ 73,248	\$ 71,619	\$ 76,762
Charge-offs:				
Owner occupied commercial real estate	463	832	1,194	2,116
Income producing commercial real estate	126	598	448	1,435
Commercial & industrial	508	30	1,139	2,005
Commercial construction	80	104	249	236
Residential mortgage	848	1,357	2,535	5,738
Home equity lines of credit	413	405	834	2,032
Residential construction	50	753	1,689	3,004
Consumer installment	496	449	1,171	1,580
Indirect auto	175	178	433	344
Total loans charged-off	3,159	4,706	9,692	18,490
Recoveries:				
Owner occupied commercial real estate	228	86	317	2,929
Income producing commercial real estate	231	494	588	691
Commercial & industrial	319	372	1,236	1,263
Commercial construction	21	1	72	1
Residential mortgage	415	240	899	597
Home equity lines of credit	120	50	160	218
Residential construction	174	41	645	410
Consumer installment	221	256	784	974
Indirect auto	13	11	34	38
Total recoveries	1,742	1,551	4,735	7,121
Net charge-offs	1,417	3,155	4,957	11,369
Provision for loan losses	350	1,835	2,400	6,535
Allowance for loan losses at end of period	\$ 69,062	\$ 71,928	\$ 69,062	\$ 71,928
Allowance for unfunded commitments at beginning of period	\$ 2,580	\$ 2,165	\$ 1,930	\$ 2,165
Provision for losses on unfunded commitments	350	165	1,000	165
Allowance for unfunded commitments at end of period	2,930	2,330	2,930	2,330
Allowance for credit losses	\$ 71,992	\$ 74,258	\$ 71,992	\$ 74,258

Total loans:								
At period-end	\$ 6,023,585		\$ 4,568,886		\$ 6,022,394		\$ 4,568,886	
Average	5,457,158		4,445,947		5,069,270		4,380,327	(1)
Allowance for loan losses as a percentage of period-end loans	1.15	%	1.57	%	1.15	%	1.57	%
As a percentage of average loans (annualized):								
Net charge-offs	.10		.28		.13		.35	
Provision for loan losses	.03		.16		.06		.20	

(1) Excludes loans covered by loss sharing agreements with the FDIC

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 decreases in the provision and the declining level of the allowance for loan losses compared to the previous periods reflects stabilizing trends in substandard and nonperforming loans as well as charge-off levels. Further, the declining balance of the allowance for loan losses over the last several quarters reflects an overall improving trend in the credit quality of the loan portfolio. A general improvement in economic conditions in United's market also contributed to the lower level of provision and allowance for loan losses.

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled \$72.0 million at September 30, 2015, compared with \$73.5 million at December 31, 2014, and \$74.3 million at September 30, 2014. At September 30, 2015, the allowance for loan losses was \$69.1 million, or 1.15% of loans, compared with \$71.6 million, or 1.53% of total loans, at December 31, 2014 and \$71.9 million, or 1.57% of loans, at September 30, 2014. Excluding acquired loans, the allowance for loan losses as a percentage of loans at September 30, 2015 was 1.37%.

In accordance with the accounting guidance for business combinations, there was no allowance for loan losses brought forward on loans acquired from Palmetto or MoneyTree, as credit deterioration was included in the determination of fair value at acquisition date. At September 30, 2015, United recorded no allowance for loan losses on loans acquired from Palmetto or FNB as there was no evidence of credit deterioration beyond that which was incorporated into the determination of fair value at acquisition date. At September 30, 2015, for acquired loans that had no evidence of credit deterioration at the time of acquisition, the remaining unaccreted fair value discount was \$7.71 million.

Management believes that the allowance for credit losses at September 30, 2015 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for credit losses cannot be determined with certainty and may be 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, 2015	December 31, 2014	September 30, 2014
Nonperforming loans	\$ 20,064	\$ 17,881	\$ 18,745
Foreclosed properties (OREO)	7,669	1,726	3,146
Total nonperforming assets	\$ 27,733	\$ 19,607	\$ 21,891
Nonperforming loans as a percentage of total loans	.33	% .38	% .41
Nonperforming assets as a percentage of total loans and OREO	.46	.42	.48
Nonperforming assets as a percentage of total assets	.29	.26	.29

At September 30, 2015, nonperforming loans were \$20.1 million compared to \$17.9 million at December 31, 2014 and \$18.7 million at September 30, 2014. Nonperforming assets, which include nonperforming loans and foreclosed



real estate, totaled \$27.7 million at September 30, 2015 compared with \$19.6 million at December 31, 2014 and \$21.9 million at September 30, 2014. United sold \$1.92 million of foreclosed properties and added \$1.90 million in new foreclosures during the third quarter of 2015.

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 accordance with the loan terms 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 outstanding principal.

The following table summarizes nonperforming assets by category and market.

**Table 11 - Nonperforming Assets by Quarter**

(in thousands)

	September 30, 2015			December 31, 2014			September 30, 2014		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
<b>BY CATEGORY</b>									
Owner occupied commercial real estate	\$5,918	\$882	\$6,800	\$4,133	\$355	\$4,488	\$2,156	\$1,024	\$3,180
Income producing commercial real estate	1,238	4,084	5,322	717	-	717	1,742	42	1,784
Commercial & industrial	1,068	-	1,068	1,571	-	1,571	1,593	-	1,593
Commercial construction	256	657	913	83	15	98	148	-	148
Total commercial	8,480	5,623	14,103	6,504	370	6,874	5,639	1,066	6,705
Residential mortgage	8,847	1,454	10,301	8,196	1,183	9,379	8,350	1,769	10,119
Home equity	890	87	977	695	40	735	720	90	810
Residential construction	929	505	1,434	2,006	133	2,139	3,543	221	3,764
Consumer installment	196	-	196	134	-	134	139	-	139
Indirect auto	722	-	722	346	-	346	354	-	354
Total NPAs	\$20,064	\$7,669	\$27,733	\$17,881	\$1,726	\$19,607	\$18,745	\$3,146	\$21,891
Balance as a % of Unpaid Principal	70.3 %	45.8 %	61.2 %	69.9 %	54.1 %	68.1 %	68.6 %	54.5 %	66.1 %
<b>BY MARKET</b>									
North Georgia	\$6,403	\$1,263	\$7,666	\$5,669	\$711	\$6,380	\$7,392	\$1,717	\$9,109
Atlanta MSA	1,750	1,122	2,872	1,837	372	2,209	1,724	364	2,088
North Carolina	4,564	9	4,573	5,221	234	5,455	4,919	398	5,317
Coastal Georgia	338	66	404	799	105	904	781	160	941
Gainesville MSA	325	3	328	1,310	81	1,391	1,403	85	1,488
East Tennessee	2,886	231	3,117	1,414	201	1,615	1,227	245	1,472
South Carolina	267	4,975	5,242	-	-	-	-	-	-
Specialized Lending	2,809	-	2,809	1,285	22	1,307	945	177	1,122

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

Indirect auto	722	-	722	346	-	346	354	-	354
Total NPAs	\$20,064	\$7,669	\$27,733	\$17,881	\$1,726	\$19,607	\$18,745	\$3,146	\$21,891

At September 30, 2015, December 31, 2014, and September 30, 2014, United had \$88.7 million, \$85.1 million and \$88.6 million, respectively, in loans with terms that have been modified in TDRs. Included therein were \$4.15 million, \$3.78 million and \$6.4 million, respectively, of TDRs that were not performing in accordance with their modified terms and were included in nonperforming loans. The remaining TDRs with an aggregate balance of \$84.5 million, \$81.3 million and \$82.2 million, respectively, were performing according to their modified terms and are therefore not considered to be nonperforming assets.

At September 30, 2015, December 31, 2014 and September 30, 2014, there were \$108 million, \$106 million and \$109 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, 2015, December 31, 2014 and September 30, 2014 was \$30.7 million, \$25.5 million and \$26.9 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, 2015, December 31, 2014 and September 30, 2014 of \$76.9 million, \$81.0 million and \$82.1 million, respectively, had specific reserves that totaled \$6.18 million, \$9.88 million and \$10.3 million, respectively. The average recorded investment in impaired loans for the third quarters of 2015 and 2014 was \$108 million and \$110 million, respectively. For the nine months ended September 30, 2015 and 2014, the average recorded investment in impaired loans was \$108 million and \$109 million, respectively. For the three and nine months ended September 30, 2015, United recognized \$1.28 million and \$3.76 million, respectively, in interest revenue on impaired loans compared to \$1.27 million and \$3.77 million, respectively, for the same periods of the prior year. United's policy is to discontinue the recognition of interest revenue for loans classified as impaired under ASC 310-10-35, *Receivables*, when a loan meets the criteria for nonaccrual status.

The table below summarizes activity in nonperforming assets.

**Table 12 - Activity in Nonperforming Assets**

(in thousands)

	Third Quarter 2015			Third Quarter 2014		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 18,805	\$ 2,356	\$ 21,161	\$ 20,724	\$ 2,969	\$ 23,693
Acquisitions	-	4,848	4,848	-	-	-
Loans placed on non-accrual	8,923	-	8,923	7,665	-	7,665
Payments received	(4,233 )	-	(4,233 )	(3,129 )	-	(3,129 )
Loan charge-offs	(1,531 )	-	(1,531 )	(4,353 )	-	(4,353 )
Foreclosures	(1,900 )	1,900	-	(2,162 )	2,162	-
Capitalized costs	-	256	256	-	209	209
Property sales	-	(1,916 )	(1,916 )	-	(2,350 )	(2,350 )
Write downs	-	(79 )	(79 )	-	(108 )	(108 )
Net gains on sales	-	304	304	-	264	264
Ending Balance	\$ 20,064	\$ 7,669	\$ 27,733	\$ 18,745	\$ 3,146	\$ 21,891
	First Nine Months 2015			First Nine Months 2014		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$ 17,881	\$ 1,726	\$ 19,607	\$ 26,819	\$ 4,221	\$ 31,040
Acquisitions	-	5,810	5,810	-	-	-
Loans placed on non-accrual	21,419	-	21,419	26,497	-	26,497
Payments received	(9,585 )	-	(9,585 )	(8,822 )	-	(8,822 )
Loan charge-offs	(6,223 )	-	(6,223 )	(17,533 )	-	(17,533 )
Foreclosures	(3,428 )	3,428	-	(8,216 )	8,216	-
Capitalized costs	-	256	256	-	209	209
Note / property sales	-	(3,919 )	(3,919 )	-	(10,018 )	(10,018 )
Write downs	-	(254 )	(254 )	-	(690 )	(690 )
Net gains on sales	-	622	622	-	1,208	1,208
Ending Balance	\$ 20,064	\$ 7,669	\$ 27,733	\$ 18,745	\$ 3,146	\$ 21,891

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*. For the third quarter of 2015, United transferred \$1.90 million of loans into foreclosed property through foreclosures. During the same period, proceeds from sales of foreclosed property were \$1.92 million, which includes \$166,000 in sales that were financed by United.

### ***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. Total investment securities at September 30, 2015 increased \$235 million from a year ago.

At September 30, 2015, December 31, 2014 and September 30, 2014, United had securities held-to-maturity with a carrying amount of \$358 million, \$415 million, and \$432 million, respectively, and securities available-for-sale totaling \$2.10 billion, \$1.78 billion, and \$1.79 billion, respectively. At September 30, 2015, December 31, 2014 and September 30, 2014, the securities portfolio represented approximately 26%, 29% and 30%, respectively, of total assets.

The investment securities portfolio primarily consists of U.S. 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 securities that are backed by student loans and collateralized loan obligations.

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, 2015 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 or first nine months of 2015 or 2014.

At September 30, 2015, December 31, 2014 and September 30, 2014, 27%, 31% and 31%, 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.

United's core deposit intangibles, representing the value of United's 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 United's goodwill or other intangible assets.

### ***Deposits***

United has initiated several programs to improve core earnings by growing customer transaction deposit accounts and lowering overall pricing on deposit accounts. The programs were successful in increasing core transaction deposit accounts and allowing for the reduction of more costly time deposit balances. United's high level of service, as evidenced by its strong customer satisfaction scores, has been instrumental in attracting and retaining deposits.

Total customer deposits, excluding brokered deposits, as of September 30, 2015 were \$7.39 billion, an increase of \$1.55 billion from September 30, 2014, of which \$1.34 billion was attributable to the Palmetto and MoneyTree acquisitions. Total core deposits (demand, NOW, money market and savings deposits, excluding public funds deposits) of \$5.25 billion at September 30, 2015 increased \$1.53 billion, or 41%, from a year ago, due to the acquisition of Palmetto and MoneyTree, as well as the success of core deposit programs and general industry trends.

Total time deposits, excluding brokered deposits, as of September 30, 2015 were \$1.35 billion, up \$42.3 million from September 30, 2014. Time deposits less than \$100,000 totaled \$865 million at September 30, 2015, an increase of \$91.2 million, or 12%, from a year ago. Time deposits of \$100,000 and greater totaled \$483 million as of September 30, 2015, a decrease of \$48.9 million, or 9%, from September 30, 2014. The overall increase in time deposits, excluding brokered deposits, was primarily due the Palmetto acquisition, offset by United's continued efforts to offer low rates on certificates of deposit, allowing balances to decline as United's funding needs were met by growth in lower cost transaction account deposits and other sources.

Brokered deposits totaled \$517 million as of September 30, 2015, an increase of \$111 million from a year ago. United has actively added long-term deposits to diversify our funding base. These are typically swapped to LIBOR minus a spread, which achieves low cost funding within our interest rate risk parameters.

### ***Wholesale Funding***

The Bank is a shareholder in the Federal Home Loan Bank of Atlanta ("FHLB"). Through this affiliation, FHLB secured advances totaled \$200 million, \$270 million and \$330 million, respectively, as of September 30, 2015, December 31, 2014 and September 30, 2014. United anticipates continued use of this short and long-term source of funds. Additional information regarding FHLB advances is provided in Note 12 to the consolidated financial statements included in United's Annual Report on Form 10-K for the year ended December 31, 2014.

At December 31, 2014 and September 30, 2014, United had \$6.0 million in structured repurchase agreements outstanding. United repaid the remaining \$6.0 million outstanding balance in the first quarter of 2015, incurring a charge of \$540,000. United takes advantage of these additional sources of liquidity when rates are favorable compared to other forms of short-term borrowings, such as FHLB advances and brokered deposits.

### ***Contractual Obligations***

There have not been any material changes to United's contractual obligations since December 31, 2014.



### ***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. United 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 15 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 United's profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve 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 United's 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 accuracy 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 or decrease from 100 to 400 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, 2015 and 2014 made use of the down scenarios irrelevant. The following table presents United's interest sensitivity position at September 30, 2015 and 2014.

**Table 13 - Interest Sensitivity**

Change in Rates	Increase (Decrease) in Net Interest Revenue from Base Scenario at							
	September 30,							
	2015		2014		2014			
	Shock	Ramp		Shock	Ramp			
200 basis point increase	2.7	%	1.6	%	2.0	%	2.1	%

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 during the life of the instruments. 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 adverse effect of interest rate changes on net interest revenue.

United may have 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.

In order to manage interest rate sensitivity, United periodically enters into off-balance sheet contracts that are considered derivative financial instruments. 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).

United's 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 an effective economic hedge. Derivative financial instruments that are not accounted for as an accounting hedge are recorded at fair value, with subsequent changes in value recorded through earnings.

In addition to derivative instruments, United uses a variety of balance sheet instruments to manage interest rate risk such as Investment Portfolio holdings, wholesale funding, and bank-issued deposits.

From time to time, United will terminate derivative positions when conditions change and the position is no longer necessary to manage United's 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 \$1.93 million 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 minimal and should not have any material effect on our 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 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 ensure its ability to meet its obligations. The size of the reserve is determined through severe liquidity stress testing and covers a 30 day period.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities, as well as the ability to use these as collateral for borrowings on a secured basis. We also maintain excess funds in short-term interest-bearing assets that provide additional liquidity. Mortgage loans held for sale totaled \$23.1 million at September 30, 2015, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market.

The liability section of the balance sheet provides liquidity through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, Federal Reserve short-term borrowings, FHLB advances and securities sold under agreements to repurchase are additional sources of liquidity and represent United's incremental borrowing capacity. 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.

At September 30, 2015, United had cash and cash equivalent balances of \$207 million and had sufficient qualifying collateral to increase FHLB advances by \$1.20 billion and Federal Reserve discount window borrowing capacity of \$866 million. 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 United's consolidated statement of cash flows, net cash provided by operating activities was \$103 million for the nine months ended September 30, 2015. The net income of \$53.4 million for the nine month period included the deferred income tax expense of \$28.5 million, and non-cash expenses for the following: provision for credit losses of \$3.40 million, depreciation, amortization and accretion of \$16.8 million and stock-based compensation expense of \$3.34 million. Additional sources of cash included a decrease in other assets and accrued interest receivable of \$4.23 million and an increase in accrued expenses and other liabilities of \$4.19 million. These sources of cash from operating activities were offset by an increase in mortgage loans held for sale of \$5.56 million. Net cash used in investing activities of \$225 million consisted primarily of a \$325 million net increase in loans and purchases of investment securities totaling \$477 million. These uses of cash were partially offset by \$57.7 million in proceeds from maturities and calls of investment securities held-to-maturity, \$275 million in proceeds from the sale of investment securities available-for-sale, \$212 million in proceeds from maturities and calls of investment securities available-for-sale and \$35.5 million in net cash received in the acquisitions. Net cash provided by financing activities of \$136 million consisted primarily of a net increase in deposits of \$219 million and proceeds from issuance of senior debt of \$84.1 million partially offset by a net decrease in FHLB advances of \$92.1 million, \$48.5 million in payments to redeem trust preferred securities and \$10.5 million in dividends to common shareholders. In the opinion of management, United's liquidity position at September 30, 2015, was sufficient to meet its expected cash flow requirements.

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 and preferred 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.

### **Capital Resources and Dividends**

Shareholders' equity at September 30, 2015 was \$1.01 billion, an increase of \$274 million from December 31, 2014 due to the issuance of stock for the acquisitions of Palmetto and MoneyTree, year-to-date earnings less dividends declared, and an increase in the value of available-for-sale securities. 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 Board of Governors of the Federal Reserve System and the FDIC have approved final rules implementing the Basel III Capital Rules establishing a new comprehensive capital framework applicable to all depository institutions, bank holding companies with total consolidated assets of \$500 million or more and all savings and loan holding companies except for those that are substantially engaged in insurance underwriting or commercial activities. Under the Basel III Capital Rules, minimum requirements have increased for both the quantity and quality of capital held by United. The Basel III Capital Rules include a new common equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5% and, for prompt corrective action purposes, a "well capitalized" ratio of 6.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. A new capital conservation buffer, comprised of common equity Tier 1 capital, is also established above the regulatory minimum capital requirements. This capital conservation buffer will be phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increase each subsequent year by an additional 0.625% until reaching its final level of 2.5% on January 1, 2019. Strict eligibility criteria for regulatory capital instruments were also implemented under the Basel III Capital Rules. The Basel III Capital Rules also revise the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets.

The Basel III Capital Rules became effective for United on January 1, 2015 subject to a phase in period. The following table shows United's capital ratios, as calculated under applicable regulatory guidelines, at September 30, 2015, December 31, 2014 and September 30, 2014. As of September 30, 2015, United's capital levels remained characterized as "well-capitalized" under the Basel III Capital Rules based on the rules in effect at the time.

**Table 14 - Capital Ratios**

(dollars in thousands)

	September 30, 2015					
	Basel III Guidelines		United Community Banks, Inc.	United Community Bank		
	Well Capitalized	Minimum				
Risk-based ratios:						
Common equity tier 1 capital	4.5 %	6.5 %	11.03 %	12.63 %		
Tier I capital	6.0	8.0	11.03	12.63		
Total capital	8.0	10.0	12.09	13.70		
Tier 1 leverage ratio	4.0	5.0	9.00	10.31		
Common equity tier 1 capital			\$ 744,462	\$ 851,513		
Tier I capital			744,462	851,513		
Total capital			816,454	923,505		
Risk-weighted assets			6,752,253	6,741,340		
Average total assets			8,270,703	8,255,553		
	Basel I Guidelines		United Community Banks, Inc. (Consolidated)		United Community Bank	
	Well Capitalized		December 31, 2014	September 30, 2014	December 31, 2014	September 30, 2014
Risk-based ratios:						
Tier I capital	4.0 %	6.0 %	12.05 %	12.07 %	12.84 %	12.58 %
Total capital	8.0	10.0	13.30	13.32	14.09	13.83
Leverage ratio	3.0	5.0	8.69	8.72	9.25	9.08
Tier I capital			\$ 642,663	\$ 627,523	\$ 683,332	\$ 652,748
Total capital			709,408	692,641	749,927	717,730
Risk-weighted assets			5,332,822	5,200,260	5,320,615	5,189,322

Average total assets	7,396,450	7,193,763	7,385,048	7,185,923
----------------------	-----------	-----------	-----------	-----------

The Basel III guidelines for risk-based capital became effective January 1, 2015. The capital ratios shown above as of September 30, 2015 were calculated under the Basel III guidelines. Capital ratios for all other periods were calculated using the existing Basel I guidelines that were in effect at the time.

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 2015 and 2014.

**Table 15 - Stock Price Information**

	2015				2014			
	High	Low	Close	Avg Daily Volume	High	Low	Close	Avg Daily Volume
First quarter	\$19.53	\$16.48	\$18.88	234,966	\$20.28	\$15.74	\$19.41	494,205
Second quarter	21.23	17.91	20.87	328,887	19.87	14.86	16.37	308,486
Third quarter	22.23	18.58	20.44	319,884	18.42	15.42	16.46	331,109
Fourth quarter					19.50	15.16	18.94	262,598



### **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.

United's 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 quantitative and qualitative disclosures about market risk as of September 30, 2015 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2014. The interest rate sensitivity position at September 30, 2015 is included in management's discussion and analysis on page 64 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, 2015. 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, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None**

**Item 3. Defaults upon Senior Securities – None**

**Item 4. Mine Safety Disclosures – None**

**Item 5. Other Information – None**

68

**Item 6. Exhibits**

Exhibit No.	Description
31.1	Certification by Jimmy C. Tallent, Chairman and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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/ Rex S. Schuette*

Rex S. Schuette  
Executive Vice President and

Chief Financial Officer  
(Principal Financial Officer)

*/s/ Alan H. Kumler*  
Alan H. Kumler  
Senior Vice President and

Chief Accounting Officer  
(Principal Accounting Officer)

Date: November 6, 2015