

UNITED COMMUNITY BANKS INC
Form 10-Q
August 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018
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 NO

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

YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

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

YES NO

Common stock, par value \$1 per share 79,141,038 shares outstanding as of July 31, 2018.

INDEX

PART I - Financial Information

Item 1. Financial Statements.

Consolidated Statements of Income (unaudited) for the Three and Six Months Ended June 30, 2018 and 2017 3

Consolidated Statements of Comprehensive Income (unaudited) for the Three and Six Months Ended June 30, 2018 and 2017 4

Consolidated Balance Sheets (unaudited) at June 30, 2018 and December 31, 2017 5

Consolidated Statements of Changes in Shareholders' Equity (unaudited) for the Six Months Ended June 30, 2018 and 2017 6

Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2018 and 2017 7

Notes to Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. 48

Item 3. Quantitative and Qualitative Disclosures About Market Risk. 71

Item 4. Controls and Procedures. 71

PART II - Other Information

Item 1. Legal Proceedings. 71

Item 1A. Risk Factors. 71

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. 72

Item 3. Defaults Upon Senior Securities. 72

Item 4. Mine Safety Disclosures. 72

Item 5. Other Information. 72

Item 6. Exhibits. 73

Part I – Financial Information

UNITED COMMUNITY BANKS, INC.

Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Interest revenue:				
Loans, including fees	\$103,492	\$74,825	\$199,961	\$147,552
Investment securities, including tax exempt of \$1,025 and \$357, and \$1,997 and \$636	18,254	17,778	36,549	35,490
Deposits in banks and short-term investments	469	563	995	1,082
Total interest revenue	122,215	93,166	237,505	184,124
Interest expense:				
Deposits:				
NOW	1,303	635	2,416	1,232
Money market	2,583	1,559	4,758	2,985
Savings	35	28	84	55
Time	4,198	1,379	7,154	2,387
Total deposit interest expense	8,119	3,601	14,412	6,659
Short-term borrowings	198	101	498	141
Federal Home Loan Bank advances	1,636	1,464	3,760	2,894
Long-term debt	3,786	2,852	7,074	5,728
Total interest expense	13,739	8,018	25,744	15,422
Net interest revenue	108,476	85,148	211,761	168,702
Provision for credit losses	1,800	800	5,600	1,600
Net interest revenue after provision for credit losses	106,676	84,348	206,161	167,102
Noninterest income:				
Service charges and fees	8,794	10,701	17,719	21,305
Mortgage loan and other related fees	5,307	4,811	10,666	9,235
Brokerage fees	1,201	1,146	2,073	2,556
Gains from sales of SBA/USDA loans	2,401	2,626	4,179	4,585
Securities (losses) gains, net	(364)) 4	(1,304)) 2
Other	6,001	4,397	12,403	8,076
Total noninterest income	23,340	23,685	45,736	45,759
Total revenue	130,016	108,033	251,897	212,861
Noninterest expenses:				
Salaries and employee benefits	45,363	37,338	88,238	74,029
Communications and equipment	4,849	4,978	9,481	9,896
Occupancy	5,547	4,908	11,160	9,857
Advertising and public relations	1,384	1,260	2,899	2,321
Postage, printing and supplies	1,685	1,346	3,322	2,716
Professional fees	3,464	2,371	7,508	5,415
FDIC assessments and other regulatory charges	1,973	1,348	4,449	2,631
Amortization of intangibles	1,847	900	3,745	1,873

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Merger-related and other charges	2,280	1,830	4,334	3,884
Other	8,458	6,950	15,189	13,433
Total noninterest expenses	76,850	63,229	150,325	126,055
Net income before income taxes	53,166	44,804	101,572	86,806
Income tax expense	13,532	16,537	24,280	35,015
Net income	\$39,634	\$28,267	\$77,292	\$51,791
Net income available to common shareholders	\$39,359	\$28,267	\$76,740	\$51,791
Earnings per common share:				
Basic	\$0.49	\$0.39	\$0.97	\$0.72
Diluted	0.49	0.39	0.97	0.72
Weighted average common shares outstanding:				
Basic	79,745	71,810	79,477	71,798
Diluted	79,755	71,820	79,487	71,809

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended June 30,			Six Months Ended June 30,		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
2018						
Net income	\$53,166	\$(13,532)	\$39,634	\$101,572	\$(24,280)	\$77,292
Other comprehensive loss:						
Unrealized losses on available-for-sale securities:						
Unrealized holding losses arising during period	(9,574)	2,310	(7,264)	(38,838)	9,464	(29,374)
Reclassification adjustment for losses included in net income	364	(97)	267	1,304	(317)	987
Net unrealized losses	(9,210)	2,213	(6,997)	(37,534)	9,147	(28,387)
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	218	(55)	163	439	(109)	330
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	143	(38)	105	290	(76)	214
Net actuarial loss on defined benefit pension plan	—	—	—	(5)	1	(4)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	227	(73)	154	454	(131)	323
Net defined benefit pension plan activity	227	(73)	154	449	(130)	319
Total other comprehensive loss	(8,622)	2,047	(6,575)	(36,356)	8,832	(27,524)
Comprehensive income	\$44,544	\$(11,485)	\$33,059	\$65,216	\$(15,448)	\$49,768
2017						
Net income	\$44,804	\$(16,537)	\$28,267	\$86,806	\$(35,015)	\$51,791
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	11,120	(4,217)	6,903	17,628	(6,681)	10,947
Reclassification adjustment for gains included in net income	(4)	—	(4)	(2)	(1)	(3)
Net unrealized gains	11,116	(4,217)	6,899	17,626	(6,682)	10,944
Amortization of losses included in net income on available-for-sale securities transferred to held-to-maturity	261	(98)	163	571	(214)	357
Amortization of losses included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	177	(69)	108	590	(230)	360
Reclassification of disproportionate tax effect related to terminated cash flow hedges	—	—	—	—	3,400	3,400
Net cash flow hedge activity	177	(69)	108	590	3,170	3,760
Net actuarial gain (loss) on defined benefit pension plan	82	(32)	50	(718)	280	(438)

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Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	200	(78)	122	400	(157)	243
Net defined benefit pension plan activity	282	(110)	172	(318)	123	(195)
Total other comprehensive income	11,836	(4,494)	7,342	18,469	(3,603)	14,866
Comprehensive income	\$56,640	\$(21,031)	\$35,609	\$105,275	\$(38,618)	\$66,657

See accompanying notes to consolidated financial statements.

4

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

(in thousands, except share data)	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$125,013	\$129,108
Interest-bearing deposits in banks	191,355	185,167
Cash and cash equivalents	316,368	314,275
Securities available for sale	2,536,294	2,615,850
Securities held to maturity (fair value \$291,463 and \$321,276)	297,569	321,094
Loans held for sale (includes \$34,813 and \$26,252 at fair value)	34,813	32,734
Loans and leases, net of unearned income	8,220,271	7,735,572
Less allowance for loan and lease losses	(61,071)	(58,914)
Loans and leases, net	8,159,200	7,676,658
Premises and equipment, net	202,098	208,852
Bank owned life insurance	190,649	188,970
Accrued interest receivable	33,114	32,459
Net deferred tax asset	77,274	88,049
Derivative financial instruments	29,896	22,721
Goodwill and other intangible assets	327,174	244,397
Other assets	181,091	169,401
Total assets	\$12,385,540	\$11,915,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	\$3,245,701	\$3,087,797
NOW	2,031,396	2,131,939
Money market	2,036,588	2,016,748
Savings	683,689	651,742
Time	1,524,635	1,548,460
Brokered	444,079	371,011
Total deposits	9,966,088	9,807,697
Short-term borrowings	9,325	50,000
Federal Home Loan Bank advances	560,000	504,651
Long-term debt	308,434	120,545
Derivative financial instruments	37,261	25,376
Accrued expenses and other liabilities	125,323	103,857
Total liabilities	11,006,431	10,612,126
Shareholders' equity:		
Common stock, \$1 par value; 150,000,000 shares authorized; 79,137,810 and 77,579,561 shares issued and outstanding	79,138	77,580
Common stock issuable; 616,549 and 607,869 shares	9,509	9,083
Capital surplus	1,497,517	1,451,814
Accumulated deficit	(154,290)	(209,902)
Accumulated other comprehensive loss	(52,765)	(25,241)
Total shareholders' equity	1,379,109	1,303,334
Total liabilities and shareholders' equity	\$12,385,540	\$11,915,460

See accompanying notes to consolidated financial statements.

5

UNITED COMMUNITY BANKS, INC.

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

For the Six Months Ended June 30,

(in thousands, except share and per share data)	Common Stock	Common Stock Issuable	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	\$ 70,899	\$ 7,327	\$ 1,275,849	\$ (251,857)	\$ (26,483)	\$ 1,075,735
Net income				51,791		51,791
Other comprehensive income					14,866	14,866
Common stock issued to dividend reinvestment plan and employee benefit plans (8,569 shares)	9		207			216
Amortization of stock option and restricted stock awards			3,149			3,149
Vesting of restricted stock, net of shares surrendered to cover payroll taxes (40,954 shares issued, 58,784 shares deferred)	41	887	(1,612)			(684)
Deferred compensation plan, net, including dividend equivalents		216				216
Shares issued from deferred compensation plan, net of shares surrendered to cover payroll taxes (32,279 shares)	32	(368)	229			(107)
Common stock dividends (\$0.18 per share)				(12,978)		(12,978)
Cumulative effect of change in accounting principle				437		437
Balance, June 30, 2017	\$ 70,981	\$ 8,062	\$ 1,277,822	\$ (212,607)	\$ (11,617)	\$ 1,132,641
Balance, December 31, 2017	\$ 77,580	\$ 9,083	\$ 1,451,814	\$ (209,902)	\$ (25,241)	\$ 1,303,334
Net income				77,292		77,292