

UNITED COMMUNITY BANKS INC

Form 10-Q

May 07, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2012

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)

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**Georgia**  
(State of Incorporation)

**58-1807304**  
(I.R.S. Employer

Identification No.)

**125 Highway 515 East**

**Blairsville, Georgia**  
Address of Principal Executive Offices

**30512**  
(Zip Code)

**(706) 781-2265**

(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

Common stock, par value \$1 per share 57,613,842 shares outstanding as of April 30, 2012

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**Table of Contents****Part I Financial Information****Item 1 Financial Statements****UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Operations (Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<i>(in thousands, except per share data)</i>		
<b>Interest revenue:</b>		
Loans, including fees	\$ 55,759	\$ 61,107
Investment securities, including tax exempt of \$250 and \$259	13,004	13,604
Federal funds sold, reverse repurchase agreements, commercial paper and deposits in banks	1,012	819
<b>Total interest revenue</b>	<b>69,775</b>	<b>75,530</b>
<b>Interest expense:</b>		
Deposits:		
NOW	637	1,324
Money market	641	2,028
Savings	37	77
Time	6,159	11,732
<b>Total deposit interest expense</b>	<b>7,474</b>	<b>15,161</b>
Federal funds purchased, repurchase agreements and other short-term borrowings	1,045	1,042
Federal Home Loan Bank advances	466	590
Long-term debt	2,372	2,780
<b>Total interest expense</b>	<b>11,357</b>	<b>19,573</b>
<b>Net interest revenue</b>	<b>58,418</b>	<b>55,957</b>
Provision for loan losses	15,000	190,000
<b>Net interest revenue after provision for loan losses</b>	<b>43,418</b>	<b>(134,043)</b>
<b>Fee revenue:</b>		
Service charges and fees	7,783	6,720
Mortgage loan and other related fees	2,099	1,494
Brokerage fees	813	677
Securities gains, net	557	55
Loss from prepayment of debt	(482)	
Other	4,609	2,892
<b>Total fee revenue</b>	<b>15,379</b>	<b>11,838</b>
<b>Total revenue</b>	<b>58,797</b>	<b>(122,205)</b>
<b>Operating expenses:</b>		
Salaries and employee benefits	25,225	24,924
Communications and equipment	3,155	3,344
Occupancy	3,771	4,074

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Advertising and public relations	846	978
Postage, printing and supplies	979	1,118
Professional fees	1,975	3,330
Foreclosed property	3,825	64,899
FDIC assessments and other regulatory charges	2,510	5,413
Amortization of intangibles	732	762
Other	3,937	6,429
<b>Total operating expenses</b>	<b>46,955</b>	<b>115,271</b>
<b>Net income (loss) before income taxes</b>	<b>11,842</b>	<b>(237,476)</b>
Income tax expense (benefit)	314	(140)
<b>Net income (loss)</b>	<b>11,528</b>	<b>(237,336)</b>
Preferred stock dividends and discount accretion	3,030	2,778
<b>Net income (loss) available to common shareholders</b>	<b>\$ 8,498</b>	<b>\$ (240,114)</b>
Earnings (loss) per common share Basic / Diluted	\$ .15	\$ (13.00)
Weighted average common shares outstanding Basic / Diluted	57,764	18,466

See accompanying notes to consolidated financial statements.

**Table of Contents****UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Comprehensive Income (Loss) (Unaudited)**

<i>(in thousands)</i>	<b>Three Months Ended</b>	
	<b>2012</b>	<b>March 31, 2011</b>
Net income (loss)	\$ 11,528	\$ (237,336)
Other comprehensive loss:		
Unrealized losses on available for sale securities:		
Unrealized holding losses arising during period	(3,340)	(959)
Reclassification adjustment for gains included in net income	(557)	(55)
Amortization of gains included in net income (loss) on available for sale securities transferred to held to maturity	(413)	(663)
Amortization of gains included in net income (loss) on derivative financial instruments accounted for as cash flow hedges	(1,600)	(4,223)
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plans	154	
Total other comprehensive loss	(5,756)	(5,900)
Comprehensive income (loss)	\$ 5,772	\$ (243,236)

See accompanying notes to consolidated financial statements.

**Table of Contents****UNITED COMMUNITY BANKS, INC.****Consolidated Balance Sheet**

<i>(in thousands, except share and per share data)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>March 31, 2011</b>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
<b>ASSETS</b>			
Cash and due from banks	\$ 53,147	\$ 53,807	\$ 153,891
Interest-bearing deposits in banks	139,439	139,609	465,656
Federal funds sold, reverse repurchase agreements, commercial paper and short-term investments	235,000	185,000	470,087
Cash and cash equivalents	427,586	378,416	1,089,634
Securities available for sale	1,898,815	1,790,047	1,638,494
Securities held to maturity (fair value \$318,490, \$343,531 and \$248,361)	303,636	330,203	245,430
Loans held for sale			80,629
Mortgage loans held for sale	24,809	23,881	25,364
Loans, net of unearned income	4,127,566	4,109,614	4,194,372
Less allowance for loan losses	113,601	114,468	133,121
Loans, net	4,013,965	3,995,146	4,061,251
Assets covered by loss sharing agreements with the FDIC	72,854	78,145	125,789
Premises and equipment, net	174,419	175,088	179,143
Bank owned life insurance	80,956	80,599	79,777
Accrued interest receivable	20,292	20,693	21,687
Intangible assets	7,695	8,428	10,684
Foreclosed property	31,887	32,859	54,378
Unsettled securities sales	43,527		
Other assets	73,252	69,915	97,228
<b>Total assets</b>	<b>\$ 7,173,693</b>	<b>\$ 6,983,420</b>	<b>\$ 7,709,488</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Liabilities:			
Deposits:			
Demand	\$ 1,101,757	\$ 992,109	\$ 864,708
NOW	1,389,016	1,509,896	1,320,136
Money market	1,123,734	1,038,778	967,938
Savings	214,150	199,007	193,591
Time:			
Less than \$100,000	1,207,479	1,332,394	1,576,505
Greater than \$100,000	796,882	847,152	990,289
Brokered	167,521	178,647	684,581
Total deposits	6,000,539	6,097,983	6,597,748
Federal funds purchased, repurchase agreements, and other short-term borrowings	101,925	102,577	102,107
Federal Home Loan Bank advances	215,125	40,625	55,125
Long-term debt	120,245	120,225	150,166
Unsettled securities purchases	119,565	10,325	177,532
Accrued expenses and other liabilities	36,755	36,199	40,766
<b>Total liabilities</b>	<b>6,594,154</b>	<b>6,407,934</b>	<b>7,123,444</b>

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Shareholders' equity:

Preferred stock, \$1 par value; 10,000,000 shares authorized;			
Series A; \$10 stated value; 21,700 shares issued and outstanding	217	217	217
Series B; \$1,000 stated value; 180,000 shares issued and outstanding	177,451	177,092	176,049
Series D; \$1,000 stated value; 16,613 shares issued and outstanding	16,613	16,613	16,613
Series F; \$1,000 stated value; 195,872 shares issued and outstanding			195,872
Series G; \$1,000 stated value; 151,185 shares issued and outstanding			151,185
Common stock, \$1 par value; 100,000,000 shares authorized; 41,688,647, 41,647,100 and 20,903,111 shares issued and outstanding	41,689	41,647	20,903
Common stock, non-voting, \$1 par value; 30,000,000 shares authorized; 15,914,209 shares issued and outstanding	15,914	15,914	
Common stock issuable; 90,126, 93,681 and 79,428 shares	2,948	3,233	3,681
Capital surplus	1,056,135	1,054,940	738,963
Accumulated deficit	(722,363)	(730,861)	(732,390)
Accumulated other comprehensive (loss) income	(9,065)	(3,309)	14,951
<b>Total shareholders' equity</b>	<b>579,539</b>	<b>575,486</b>	<b>586,044</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,173,693</b>	<b>\$ 6,983,420</b>	<b>\$ 7,709,488</b>

See accompanying notes to consolidated financial statements.



**Table of Contents****UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Changes in Shareholders' Equity (Unaudited)****For the Three Months Ended March 31,**

<i>(in thousands, except share and per share data)</i>	Preferred Stock					Non-Voting Common				Accumulated Other Comprehensive Income		Total
	Series A	Series B	Series D	Series F	Series G	Common Stock	Common Stock	Stock Issuable	Capital Surplus	Accumulated Deficit	(Loss)	
<b>Balance, December 31, 2010</b>	\$ 217	\$ 175,711	\$	\$	\$	\$ 18,937	\$	\$ 3,894	\$ 741,244	\$ (492,276)	\$ 20,851	\$ 468,578
Net loss										(237,336)		(237,336)
Other comprehensive loss											(5,900)	(5,900)
Preferred for common equity exchange related to tax benefits preservation plan (1,551,126 common shares)			16,613			(1,551)			(15,062)			
Common stock issued to dividend reinvestment plan and employee benefit plans (46,019 shares)						46			329			375
Common and preferred stock issued (3,467,699 common shares)				195,872	151,185	3,468			12,004			362,529
Amortization of stock options and restricted stock awards									549			549
Vesting of restricted stock (1,419 shares issued, 6,382 shares deferred)						1		54	(55)			
Deferred compensation plan, net, including dividend equivalents								65				65
Shares issued from deferred compensation plan (2,098 shares)						2		(332)	330			
Tax on option exercise and restricted stock vesting									(376)			(376)
Preferred stock dividends:												
Series A										(3)		(3)
Series B		338								(2,602)		(2,264)
Series D										(173)		(173)
<b>Balance, March 31, 2011</b>	\$ 217	\$ 176,049	\$ 16,613	\$ 195,872	\$ 151,185	\$ 20,903	\$	\$ 3,681	\$ 738,963	\$ (732,390)	\$ 14,951	\$ 586,044
<b>Balance, December 31, 2011</b>	\$ 217	\$ 177,092	\$ 16,613	\$	\$	\$ 41,647	\$ 15,914	\$ 3,233	\$ 1,054,940	\$ (730,861)	\$ (3,309)	\$ 575,486
Net income										11,528		11,528
Other comprehensive loss											(5,756)	(5,756)
Common stock issued to dividend reinvestment plan and to employee benefit plans (35,648 shares)						36			242			278
Amortization of stock options and restricted stock awards									585			585
Vesting of restricted stock (4,397 shares issued, 8,399 shares deferred)						4		(151)	187			40
Deferred compensation plan, net, including dividend equivalents								49				49

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Shares issued from deferred compensation plan (1,502 shares)						2	(183)	181				
Preferred stock dividends:												
Series A									(3)	(3)		
Series B		359							(2,608)	(2,249)		
Series D									(419)	(419)		
<b>Balance, March 31, 2012</b>	\$ 217	\$ 177,451	\$ 16,613	\$	\$	\$ 41,689	\$ 15,914	\$ 2,948	\$ 1,056,135	\$ (722,363)	\$ (9,065)	\$ 579,539

See accompanying notes to consolidated financial statements.

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

<i>(in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>		
Net income (loss)	\$ 11,528	\$ (237,336)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion	6,803	4,743
Provision for loan losses	15,000	190,000
Stock based compensation	585	549
Securities gains, net	(557)	(55)
Losses and write downs on sales of other real estate owned	2,204	60,605
Loss on prepayment of borrowings	482	
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(2,612)	(4,770)
Accrued expenses and other liabilities	646	6,518
Mortgage loans held for sale	(928)	10,544
<b>Net cash provided by operating activities</b>	<b>33,151</b>	<b>30,798</b>
<b>Investing activities:</b>		
Investment securities held to maturity:		
Proceeds from maturities and calls	25,653	21,116
Purchases		(1,500)
Investment securities available for sale:		
Proceeds from sales	61,585	51,240
Proceeds from maturities and calls	142,236	116,175
Purchases	(253,229)	(405,979)
Net (increase) decrease in loans	(41,418)	93,949
Funds collected from FDIC under loss sharing agreements	2,568	9,299
Proceeds from sales of premises and equipment	14	160
Purchases of premises and equipment	(1,614)	(3,604)
Proceeds from sale of other real estate	6,696	36,003
<b>Net cash used in investing activities</b>	<b>(57,509)</b>	<b>(83,141)</b>
<b>Financing activities:</b>		
Net change in deposits	(97,444)	128,576
Net change in federal funds purchased, repurchase agreements, and other short-term borrowings	(652)	1,040
Proceeds from Federal Home Loan Bank advances	499,000	
Settlement of Federal Home Loan Bank advances	(324,982)	
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	278	375
Proceeds from issuance of common and preferred stock, net of offering costs		362,529
Cash dividends on preferred stock	(2,672)	
<b>Net cash provided by financing activities</b>	<b>73,528</b>	<b>492,520</b>
<b>Net change in cash and cash equivalents</b>	<b>49,170</b>	<b>440,177</b>
Cash and cash equivalents at beginning of period	378,416	649,457
<b>Cash and cash equivalents at end of period</b>	<b>\$ 427,586</b>	<b>\$ 1,089,634</b>

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

Interest	\$ 12,252	\$ 17,936
Income taxes	1,026	1,287
Unsettled securities sales	43,527	
Unsettled securities purchases	119,565	177,532

See accompanying notes to consolidated financial statements.

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

**Notes to Consolidated Financial Statements**

**Note 1 Accounting Policies**

The accounting and financial reporting policies of United Community Banks, Inc. ( United ) and its subsidiaries conform to accounting principles generally accepted in the United States 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, 2011.

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.

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 fair value, less cost to sell, of the foreclosed property decreases during the holding period, a valuation allowance is established with a charge to operating expenses. 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 the Financial Accounting Standards Board s Accounting Standards Codification ( ASC ) 360-20, *Real Estate Sales*.

**Note 2 Accounting Standards Updates**

In April 2012, the Financial Accounting Standards Board issued a proposed Accounting Standards Update to address the subsequent measurement of indemnification assets recognized as a result of a government assisted acquisition of a financial institution. The proposal requires an indemnification asset recognized as a result of a government assisted acquisition to be subsequently measured on the same basis as the indemnified item subject to the contractual limitations and amounts of the underlying contract. Comment letters on this proposed guidance are due by July 16, 2012. Because this standard is still in the proposal stage, the impact on United s financial position, results of operations and disclosures has not been assessed.

**Note 3 Mergers and Acquisitions**

On June 19, 2009, United Community Bank ( UCB or the Bank ) purchased substantially all the assets and assumed substantially all the liabilities of Southern Community Bank ( SCB ) from the Federal Deposit Insurance Corporation ( FDIC ), as Receiver of SCB. UCB and the FDIC entered loss sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at June 19, 2009. Under the terms of the loss sharing agreements, the FDIC will absorb 80 percent of losses and share 80 percent of loss recoveries on the first \$109 million of losses and, absorb 95 percent of losses and share in 95 percent of loss recoveries on losses exceeding \$109 million. The term for loss sharing on 1-4 Family loans is ten years, while the term for loss sharing on all other loans is five years.

Under the loss sharing agreement, the portion of the losses expected to be indemnified by FDIC is considered an indemnification asset in accordance with ASC 805, *Business Combinations*. The indemnification asset, referred to as estimated loss reimbursement from the FDIC is included in the balance of Assets covered by loss sharing agreements with the FDIC on the Consolidated Balance Sheet. The indemnification asset was recognized at fair value, which was estimated at the acquisition date based on the terms of the loss sharing agreement. The indemnification asset is expected to be collected over a four-year average life. No valuation allowance was required.

Loans, foreclosed property and the estimated FDIC reimbursement resulting from the loss sharing agreements with the FDIC are reported as assets covered by loss sharing agreements with the FDIC in the consolidated balance sheet.

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

The table below shows the components of covered assets at March 31, 2012 (*in thousands*).

<i>(in thousands)</i>	<b>Purchased Impaired Loans</b>	<b>Other Purchased Loans</b>	<b>Other</b>	<b>Total</b>
Commercial (secured by real estate)	\$	\$ 29,888	\$	\$ 29,888
Commercial & industrial		1,751		1,751
Construction and land development	546	7,896		8,442
Residential mortgage	145	6,797		6,942
Consumer installment		143		143
Total covered loans	691	46,475		47,166
Covered foreclosed property			13,983	13,983
Estimated loss reimbursement from the FDIC			11,705	11,705
<b>Total covered assets</b>	<b>\$ 691</b>	<b>\$ 46,475</b>	<b>\$ 25,688</b>	<b>\$ 72,854</b>

**Note 4 Reverse Repurchase Agreements**

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 counter party in transactions that are subject to master netting agreements under which the balances are netted in the balance sheet in accordance with ASC 210-20. The following table presents a summary of amounts outstanding under reverse repurchase agreements including those entered into in connection with repurchase agreements with the same counterparty under master netting agreements (*in thousands*).

	<b>Reverse Repurchase Agreements (Assets)</b>	<b>March 31, 2012 Repurchase Agreements (Liabilities)</b>	<b>Net Reported Balance (Asset)</b>
Amounts subject to master netting agreements	\$ 171,000	\$ 171,000	\$
Other reverse repurchase agreements	235,000		235,000
<b>Total</b>	<b>\$ 406,000</b>	<b>\$ 171,000</b>	<b>\$ 235,000</b>

Weighted average interest rate 1.17% .32%

United did not have any outstanding reverse repurchase agreements at March 31, 2011.

**Note 5 Securities**

Realized gains and losses are derived using the specific identification method for determining the cost of securities sold. The following table summarizes securities sales activity for the three months ended March 31, 2012 and 2011 (*in thousands*).

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	Three Months Ended	
	March 31,	
	2012	2011
Proceeds from sales	\$ 105,111	\$ 51,240
Gross gains on sales	\$ 557	\$ 331
Gross losses on sales		(276)
Net gains on sales of securities	\$ 557	\$ 55

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Substantially all securities with a carrying value of \$1.38 billion, \$1.72 billion, and \$1.83 billion were pledged to secure public deposits, FHLB advances and other secured borrowings at March 31, 2012, December 31, 2011 and March 31, 2011, respectively.

Securities are classified as held to maturity when management has the positive intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost. The amortized cost, gross unrealized gains and losses and fair value of securities held to maturity at March 31, 2012, December 31, 2011, and March 31, 2011 are as follows (*in thousands*).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>As of March 31, 2012</b>				
State and political subdivisions	\$ 51,893	4,413		\$ 56,306
Mortgage-backed securities <sup>(1)</sup>	251,743	10,441		262,184
<b>Total</b>	<b>\$ 303,636</b>	<b>\$ 14,854</b>	<b>\$</b>	<b>\$ 318,490</b>
<b>As of December 31, 2011</b>				
U.S. Government agencies	\$ 5,000	\$ 6	\$	\$ 5,006
State and political subdivisions	51,903	4,058	13	55,948
Mortgage-backed securities <sup>(1)</sup>	273,300	9,619	342	282,577
<b>Total</b>	<b>\$ 330,203</b>	<b>\$ 13,683</b>	<b>\$ 355</b>	<b>\$ 343,531</b>
<b>As of March 31, 2011</b>				
U.S. Government agencies	\$ 4,989	\$ 12	\$	\$ 5,001
State and political subdivisions	48,497	616	731	48,382
Mortgage-backed securities <sup>(1)</sup>	191,944	3,041	7	194,978
<b>Total</b>	<b>\$ 245,430</b>	<b>\$ 3,669</b>	<b>\$ 738</b>	<b>\$ 248,361</b>

<sup>(1)</sup> All are residential type mortgage-backed securities

The cost basis, unrealized gains and losses, and fair value of securities available for sale at March 31, 2012, December 31, 2011 and March 31, 2011 are presented below (*in thousands*).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>As of March 31, 2012</b>				
U.S. Government agencies	\$ 43,593	\$ 286	\$ 90	\$ 43,789
State and political subdivisions	21,490	1,321	3	22,808
Mortgage-backed securities <sup>(1)</sup>	1,692,446	33,212	590	1,725,068
Corporate bonds	119,154		14,568	104,586
Other	2,564			2,564



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Total	\$ 1,879,247	\$ 34,819	\$ 15,251	\$ 1,898,815
<u>As of December 31, 2011</u>				
U.S. Government agencies	\$ 43,592	\$ 158	\$	\$ 43,750
State and political subdivisions	24,997			