

UNITED COMMUNITY BANKS INC  
Form 10-Q  
May 09, 2014

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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 March 31, 2014

OR

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

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

Commission file number 001-35095

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia  
(State of Incorporation)

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

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

30512  
(Zip Code)

(706) 781-2265

(Telephone Number)

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

YES  NO

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

to submit and post such files).

YES  NO

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

Large accelerated filer

Accelerated filer

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

Smaller Reporting Company

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

YES  NO

Common stock, par value \$1 per share 50,012,974 shares voting and 10,080,787 shares non-voting outstanding as of April 30, 2014.

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Part I – Financial Information  
Item 1 – Financial Statements

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

<u>(in thousands, except per share data)</u>	Three Months Ended	
	March 31,	
	2014	2013
Interest revenue:		
Loans, including fees	\$47,688	\$50,935
Investment securities, including tax exempt of \$188 and \$212	11,607	9,944
Deposits in banks and short-term investments	843	870
Total interest revenue	60,138	61,749
Interest expense:		
Deposits:		
NOW	440	454
Money market	563	562
Savings	20	36
Time	1,771	3,291
Total deposit interest expense	2,794	4,343
Short-term borrowings	840	516
Federal Home Loan Bank advances	58	19
Long-term debt	2,634	2,662
Total interest expense	6,326	7,540
Net interest revenue	53,812	54,209
Provision for credit losses	2,500	11,000
Net interest revenue after provision for credit losses	51,312	43,209
Fee revenue:		
Service charges and fees	7,898	7,403
Mortgage loan and other related fees	1,354	2,655
Brokerage fees	1,177	767
Securities gains, net	217	116
Other	1,530	1,970
Total fee revenue	12,176	12,911
Total revenue	63,488	56,120
Operating expenses:		
Salaries and employee benefits	24,396	23,592
Communications and equipment	3,239	3,046
Occupancy	3,378	3,367
Advertising and public relations	626	938
Postage, printing and supplies	776	863
Professional fees	1,427	2,366
Foreclosed property	116	2,333
FDIC assessments and other regulatory charges	1,353	2,505
Amortization of intangibles	387	705

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Other	3,352	4,055
Total operating expenses	39,050	43,770
Net income before income taxes	24,438	12,350
Income tax expense	9,038	585
Net income	15,400	11,765
Preferred stock dividends and discount accretion	439	3,052
Net income available to common shareholders	\$14,961	\$8,713
Earnings per common share		
Basic	\$.25	\$.15
Diluted	.25	.15
Weighted average common shares outstanding		
Basic	60,059	58,081
Diluted	60,061	58,081

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY  
BANKS, INC.

Consolidated Statement of Comprehensive Income (Unaudited)

<u>(in thousands)</u>	Three Months Ended March 31, 2014			2013		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	24,438	(9,038 )	15,400	12,350	(585 )	11,765
Other comprehensive income:						
Unrealized gains on available-for-sale securities:						
Unrealized holding gains arising during period	3,869	(1,441 )	2,428	1,641	(621 )	1,020
Reclassification adjustment for gains included in net income	(217 )	92	(125 )	(116 )	45	(71 )
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses on available-for-sale securities	—	—	—	—	576	576
Net unrealized gains Amortization of losses (gains) included in net income	3,652	(1,349 )	2,303	1,525	—	1,525
on available-for-sale securities transferred to held-to- maturity	330	(123 )	207	(319 )	124	(195 )
Valuation allowance for the change in deferred taxes arising from the amortization of gains and losses included in net income on available-for-sale securities transferred to held-to-maturity	—	—	—	—	(124 )	(124 )
	330	(123 )	207	(319 )	—	(319 )

Net unrealized gains (losses)						
Amortization of gains included in net income on terminated derivative financial instruments that were previously accounted for as cash flow hedges	97	(38 )	59	(538 )	209	(329 )
Unrealized (losses) gains on derivative financial instruments accounted for as cash flow hedges	(2,832 )	1,102	(1,730 )	430	(167 )	263
Valuation allowance for the change in deferred taxes arising from unrealized gains and losses and amortization of gains included in net income on cash flow hedges	—	—	—	—	(42 )	(42 )
Net unrealized losses	(2,735 )	1,064	(1,671 )	(108 )	—	(108 )
Net actuarial gain (loss) on defined benefit pension plan	296	(115 )	181	(415 )	161	(254 )
Amortization of prior service cost and actuarial losses included in net periodic pension cost for defined benefit pension plan	91	(35 )	56	132	(51 )	81
Valuation allowance for the change in deferred taxes arising from reclassification of unamortized prior service cost and actuarial losses and amortization of prior service cost and actuarial losses	—	—	—	—	(110 )	(110 )
Net defined benefit pension plan activity	387	(150 )	237	(283 )	—	(283 )
Total other comprehensive income	1,634	(558 )	1,076	815	—	815
Comprehensive income	26,072	(9,596 )	16,476	13,165	(585 )	12,580

See accompanying notes to consolidated financial statements.

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

<u>(in thousands, except share and per share data)</u>	March 31, 2014	December 31, 2013	March 31, 2013
<b>ASSETS</b>			
Cash and due from banks	\$52,813	\$71,230	\$57,638
Interest-bearing deposits in banks	110,529	119,669	107,390
Short-term investments	49,999	37,999	82,000
Cash and cash equivalents	213,341	228,898	247,028
Securities available for sale	1,837,676	1,832,217	1,909,426
Securities held to maturity (fair value \$473,136, \$485,585 and \$247,087)	464,697	479,742	231,087
Mortgage loans held for sale	10,933	10,319	18,290
Loans, net of unearned income	4,355,708	4,329,266	4,193,560
Less allowance for loan losses	(75,223 )	(76,762 )	(105,753 )
Loans, net	4,280,485	4,252,504	4,087,807
Assets covered by loss sharing agreements with the FDIC	21,353	22,882	42,096
Premises and equipment, net	161,540	163,589	168,036
Bank owned life insurance	80,790	80,670	82,114
Accrued interest receivable	18,572	19,598	18,302
Intangible assets	3,093	3,480	4,805
Foreclosed property	5,594	4,221	16,734
Net deferred tax asset	243,683	258,518	—
Derivative financial instruments	21,563	23,833	601
Other assets	34,917	44,948	23,042
Total assets	\$7,398,237	\$7,425,419	\$6,849,368
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
<b>Deposits:</b>			
Demand	\$1,471,781	\$1,388,512	\$1,298,425
NOW	1,392,863	1,427,939	1,281,454
Money market	1,235,429	1,227,575	1,165,836
Savings	270,910	251,125	243,347
<b>Time:</b>			
Less than \$100,000	833,188	892,961	1,019,396
Greater than \$100,000	572,889	588,689	685,174
Brokered	470,481	424,704	332,220
Total deposits	6,247,541	6,201,505	6,025,852
Short-term borrowings	123,075	53,241	51,999
Federal Home Loan Bank advances	50,125	120,125	125
Long-term debt	129,865	129,865	124,825
Derivative financial instruments	42,309	46,232	14,556
Unsettled securities purchases	63,999	29,562	—
Accrued expenses and other liabilities	37,593	49,174	39,793
Total liabilities	6,694,507	6,629,704	6,257,150



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Shareholders' equity:

Preferred stock, \$1 par value; 10,000,000 shares authorized; Series A; \$10 stated value; 0, 0 and 21,700 shares issued and outstanding	—	—	217
Series B; \$1,000 stated value; 0, 105,000 and 180,000 shares issued and outstanding	—	105,000	178,937
Series D; \$1,000 stated value; 0, 16,613 and 16,613 shares issued and outstanding	—	16,613	16,613
Common stock, \$1 par value; 100,000,000 shares authorized; 50,011,094, 46,243,345 and 43,063,761 shares issued and outstanding	50,011	46,243	43,064
Common stock, non-voting, \$1 par value; 26,000,000 shares authorized; 10,080,787, 13,188,206 and 14,703,636 shares issued and outstanding	10,081	13,188	14,704
Common stock issuable; 237,763, 241,832 and 133,469 shares	3,840	3,930	2,726
Capital surplus	1,091,696	1,078,676	1,059,222
Accumulated deficit	(433,130 )	(448,091 )	(700,440 )
Accumulated other comprehensive loss	(18,768 )	(19,844 )	(22,825 )
Total shareholders' equity	703,730	795,715	592,218
Total liabilities and shareholders' equity	\$7,398,237	\$7,425,419	\$6,849,368

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)	Preferred Stock			Non-Voting Common			Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive		Total
	Series A	Series B	Series D	Common Stock	Common Stock	Common Stock Issuable			Loss		
Balance, December 31, 2012	\$217	\$178,557	\$16,613	\$42,424	\$15,317	\$3,119	\$1,057,951	\$(709,153)	\$(23,640)		\$581,405
Net income								11,765			11,765
Other comprehensive income									815		815
Common stock issued to dividend reinvestment plan and to employee benefit plans (18,170 shares)				18			171				189
Conversion of non-voting common stock to voting (613,158 shares)				613	(613 )						—
Amortization of stock options and restricted stock awards							626				626
Vesting of restricted stock (4,042 shares issued, 259 shares deferred)				4			40				44
Deferred compensation plan,											

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net, including dividend equivalents											46	46
Shares issued from deferred compensation plan (4,521 shares)			5				(439 )	434				—
Preferred stock dividends:												
Series A									(3 )			(3 )
Series B	380								(2,630 )			(2,250 )
Series D									(419 )			(419 )
Balance, March 31, 2013	\$217	\$178,937	\$16,613	\$43,064	\$14,704	\$2,726	\$1,059,222		\$(700,440)	\$(22,825)		\$592,218
Balance, December 31, 2013	\$—	\$105,000	\$16,613	\$46,243	\$13,188	\$3,930	\$1,078,676		\$(448,091)	\$(19,844)		\$795,715
Net income									15,400			15,400
Other comprehensive income										1,076		1,076
Redemption of Series B preferred stock (105,000 shares)		(105,000)										(105,000)
Redemption of Series D preferred stock (16,613 shares)			(16,613)									(16,613 )
Common stock issued at market (640,000 shares)				640				11,566				12,206
Common stock issued to dividend reinvestment plan and to employee benefit plans (11,837 shares)				12				197				209
Conversion of non-voting common stock to voting				3,107	(3,107 )							—

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(3,107,419 shares)											
Amortization of stock options and restricted stock awards										1,120	1,120
Vesting of restricted stock, net of shares surrendered to cover payroll taxes											
(1,096 shares issued, 0 shares deferred)	1									(2 )	(1 )
Deferred compensation plan, net, including dividend equivalents										57	57
Shares issued from deferred compensation plan											
(7,397 shares)	8									(147 )	139
Preferred stock dividends:											
Series B										(159 )	(159 )
Series D										(280 )	(280 )
Balance, March 31, 2014	\$—	\$—	\$—	\$50,011	\$10,081	\$3,840	\$1,091,696	\$(433,130)	\$(18,768)	\$703,730	

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
<u>(in thousands)</u>	2014	2013
Operating activities:		
Net income	\$15,400	\$11,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	4,927	7,505
Provision for credit losses	2,500	11,000
Stock based compensation	1,120	626
Deferred income tax expense	9,776	—
Securities gains, net	(217 )	(116 )
Net (gains) losses on sales of foreclosed property	(244 )	1,146
Changes in assets and liabilities:		
Other assets and accrued interest receivable	6,607	7,915
Accrued expenses and other liabilities	(12,230 )	3,225
Mortgage loans held for sale	(614 )	10,531
Net cash provided by operating activities	27,025	53,597
Investing activities:		
Investment securities held-to-maturity:		
Proceeds from maturities and calls	15,007	17,501
Purchases	—	(4,993 )
Investment securities available-for-sale:		
Proceeds from sales	153,316	15,751
Proceeds from maturities and calls	56,757	132,211
Purchases	(173,024 )	(219,349 )
Net increase in loans	(34,027 )	(36,224 )
Funds collected from FDIC under loss sharing agreements	1,623	2,452
Proceeds from sales of premises and equipment	509	550
Purchases of premises and equipment	(618 )	(2,001 )
Proceeds from sale of other real estate	2,417	5,726
Net cash provided by (used in) investing activities	21,960	(88,376 )
Financing activities:		
Net change in deposits	46,036	73,712
Net change in short-term borrowings	69,834	(575 )
Proceeds from Federal Home Loan Bank advances	355,000	185,000
Repayment of Federal Home Loan Bank advances	(425,000 )	(225,000 )
Proceeds from issuance of common stock for dividend reinvestment and employee benefit plans	209	189
Retirement of preferred stock	(121,613 )	—
Issuance of common stock	12,206	—
Cash dividends on preferred stock	(1,214 )	(2,668 )
Net cash (used in) provided by financing activities	(64,542 )	30,658
Net change in cash and cash equivalents	(15,557 )	(4,121 )
Cash and cash equivalents at beginning of period	228,898	251,149

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Cash and cash equivalents at end of period	\$213,341	\$247,028
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$7,449	\$8,025
Income taxes	1,321	1,659
Unsettled securities purchases	34,437	—
Transfers of loans to foreclosed property	4,367	6,288

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, 2013.

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.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. During the fourth quarter of 2013, United reclassified hedge ineffectiveness gains and losses from other fee revenue to net interest revenue. The impact of the reclassification has been reflected in all periods and was not material to any period.

Note 2 – Accounting Standards Updates and Recently Adopted Standards

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU limits the definition of discontinued operations to disposals of components of an entity that represent strategic shifts that have a major effect on an entity’s operations and financial results. It also requires expanded disclosures for discontinued operations. The standard is effective for disposals that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. This guidance is not expected to have a material impact on United’s financial position or results of operations.

Note 3 – 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 March 31, 2014, December 31, 2013 and March 31, 2013 (in thousands).

Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance	Net Asset	Gross Amounts not Offset in the Balance Sheet Financial	Collateral
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March 31, 2014		Sheet	Balance	Instruments	Received	Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 397,000	\$ (350,000)	\$ 47,000	\$ —	—\$ (51,243)	\$ —
Derivatives	21,563	—	21,563	(3,896)	(704)	16,963
Total	\$ 418,563	\$ (350,000)	\$ 68,563	\$ (3,896)	\$ (51,947)	\$ 16,963
Weighted average interest rate of reverse repurchase agreements	1.09%					

	Gross Amounts Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 350,000	\$ (350,000)	\$ —	—\$ —	—\$ —	\$ —
Derivatives	42,309	—	42,309	(3,896)	(35,754)	2,659
Total	\$ 392,309	\$ (350,000)	\$ 42,309	\$ (3,896)	\$ (35,754)	\$ 2,659
Weighted average interest rate of repurchase agreements	.28%					



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

December 31, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 385,000	\$ (350,000)	\$ 35,000	\$ —	\$ (38,982)	\$ —
Derivatives	23,833	—	23,833	(4,378)	(2,912)	16,543
Total	\$ 408,833	\$ (350,000)	\$ 58,833	\$ (4,378)	\$ (41,894)	\$ 16,543
Weighted average interest rate of reverse repurchase agreements	1.09%					

December 31, 2013	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 350,000	\$ (350,000)	\$ —	\$ —	\$ —	\$ —
Derivatives	46,232	—	46,232	(4,378)	(38,145)	3,709
Total	\$ 396,232	\$ (350,000)	\$ 46,232	\$ (4,378)	\$ (38,145)	\$ 3,709
Weighted average interest rate of repurchase agreements	.27%					

March 31, 2013	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Asset Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Received	Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 332,000	\$ (250,000)	\$ 82,000	\$ —	\$ (87,470)	\$ —
Derivatives	602	—	602	(57)	—	545
Total	\$ 332,602	\$ (250,000)	\$ 82,602	\$ (57)	\$ (87,470)	\$ 545
Weighted average interest rate of reverse repurchase	1.28%					

agreements

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset on the Balance Sheet	Net Liability Balance	Gross Amounts not Offset in the Balance Sheet Financial Instruments	Collateral Pledged	Net Amount
Repurchase agreements / reverse repurchase agreements	\$ 250,000	\$ (250,000)	\$ —	\$ —	\$ —	—
Derivatives	14,556	—	14,556	(57)	(14,585)	—
Total	\$ 264,556	\$ (250,000)	\$ 14,556	\$ (57)	\$ (14,585)	—
Weighted average interest rate of repurchase agreements	.37%					

## Note 4 – 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, 2014 and 2013 (in thousands).

	Three Months Ended March 31,	
	2014	2013
Proceeds from sales	\$ 153,316	\$ 15,751
Gross gains on sales	\$ 410	\$ 116
Gross losses on sales	(193 )	—
Net gains on sales of securities	\$ 217	\$ 116
Income tax expense attributable to sales	\$ 92	\$ 45

Securities with a carrying value of \$1.48 billion, \$1.53 billion and \$1.25 billion were pledged to secure public deposits and other secured borrowings at March 31, 2014, December 31, 2013 and March 31, 2013, respectively. Substantial borrowing capacity remains available under borrowing arrangements with the Federal Home Loan Bank of Atlanta (“FHLB”) with currently pledged securities.

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

In the fourth quarter of 2013, securities available-for-sale with a fair value of \$301 million were transferred to held-to-maturity. The securities were transferred at their fair value on the date of transfer. The unrealized loss of \$8.31 million on the transferred securities is being amortized into interest revenue as an adjustment to the yield on those securities over the remaining life of the transferred securities.

The cost basis, gross unrealized gains and losses and fair value of securities held-to-maturity at March 31, 2014, December 31, 2013 and March 31, 2013 are as follows (in thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of March 31, 2014				
State and political subdivisions	\$ 51,257	\$ 3,430	\$ 13	\$ 54,674
Mortgage-backed securities (1)	413,440	6,877	1,855	418,462
Total	\$ 464,697	\$ 10,307	\$ 1,868	\$ 473,136
As of December 31, 2013				
State and political subdivisions	\$ 51,733	\$ 2,718	\$ 42	\$ 54,409
Mortgage-backed securities (1)	428,009	6,690	3,523	431,176
Total	\$ 479,742	\$ 9,408	\$ 3,565	\$ 485,585
As of March 31, 2013				
State and political subdivisions	\$ 51,768	\$ 5,663	\$ —	\$ 57,431
Mortgage-backed securities (1)	179,319	10,388	51	189,656
Total	\$ 231,087	\$ 16,051	\$ 51	\$ 247,087

(1) All are residential type mortgage-backed securities

The following table summarizes held-to-maturity securities in an unrealized loss position as of March 31, 2014, December 31, 2013 and March 31, 2013 (in thousands).

As of	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2014						
State and political subdivisions	\$1,628	\$13	\$—	\$—	\$1,628	\$13
Mortgage-backed securities	200,284	1,721	1,644	134	201,928	1,855
Total unrealized loss position	\$201,912	\$1,734	\$1,644	\$134	\$203,556	\$1,868

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As of December 31, 2013

State and political subdivisions	\$1,595	\$42	\$—	\$—	\$1,595	\$42
Mortgage-backed securities	259,870	3,523	—	—	259,870	3,523
Total unrealized loss position	\$261,465	\$3,565	\$—	\$—	\$261,465	\$3,565

As of March 31, 2013

Mortgage-backed securities	\$4,929	\$51	\$—	\$—	4,929	51
Total unrealized loss position	\$4,929	\$51	\$—	\$—	\$4,929	\$51

Management evaluates securities for other-than-temporary impairment at least 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 months ended March 31, 2014 or 2013.

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The cost basis, unrealized gains and losses, and fair value of securities available-for-sale at March 31, 2014, December 31, 2013 and March 31, 2013 are presented below (in thousands).

As of March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 22,244	\$ 842	\$ 80	\$ 23,006
Mortgage-backed securities (1)	1,126,227	13,213	11,328	1,128,112
Corporate bonds	255,238	1,616	4,930	251,924
Asset-backed securities	429,492	3,003	433	432,062
Other	2,572	—	—	2,572
Total	\$ 1,835,773	\$ 18,674	\$ 16,771	\$ 1,837,676
 As of December 31, 2013				
State and political subdivisions	\$ 22,558	\$ 823	\$ 139	\$ 23,242
Mortgage-backed securities (1)	1,145,800	13,296	13,749	1,145,347
Corporate bonds	255,316	1,304	6,324	250,296
Asset-backed securities	409,086	2,535	988	410,633
Other	2,699	—	—	2,699
Total	\$ 1,835,459	\$ 17,958	\$ 21,200	\$ 1,832,217
 As of March 31, 2013				
State and political subdivisions	\$ 22,711	\$ 1,330	\$ 4	\$ 24,037
Mortgage-backed securities (1)	1,450,645	21,210	3,544	1,468,311
Corporate bonds	190,843	2,035	4,084	188,794
Asset-backed securities	223,827	2,420	377	225,870
Other	2,414	—	—	2,414
Total	\$ 1,890,440	\$ 26,995	\$ 8,009	\$ 1,909,426

(1) All are residential type mortgage-backed securities

The following table summarizes available-for-sale securities in an unrealized loss position as of March 31, 2014, December 31, 2013 and March 31, 2013 (in thousands).

As of March 31, 2014	Less than 12 Months Unrealized		12 Months or More Unrealized		Total Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss

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State and political subdivisions	\$3,595	\$80	\$—	\$—	\$3,595	\$80
Mortgage-backed securities	342,886	3,817	186,290	7,511	529,176	11,328
Corporate bonds	82,337	2,393	75,320	2,537	157,657	4,930
Asset-backed securities	136,076	433	—	—	136,076	433
Total unrealized loss position	\$564,894	\$6,723	\$261,610	\$10,048	\$826,504	\$16,771

As of December 31, 2013

State and political subdivisions	\$4,539	\$139	\$—	\$—	\$4,539	\$139
Mortgage-backed securities	334,996	6,480	175,865	7,269	510,861	13,749
Corporate bonds	137,318	4,494	54,130	1,830	191,448	6,324
Asset-backed securities	164,933	722	22,370	266	187,303	988
Total unrealized loss position	\$641,786	\$11,835	\$252,365	\$9,365	\$894,151	\$21,200

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As of March 31, 2013	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	\$1,185	\$2	\$10	\$2	\$1,195	\$4
Mortgage-backed securities	399,263	3,544	—	—	399,263	3,544
Corporate bonds	21,323	145	77,007	3,939	98,330	4,084
Asset-backed securities	72,064	377	—	—	72,064	377
Total unrealized loss position	\$493,835	\$4,068	\$77,017	\$3,941	\$570,852	\$8,009

At March 31, 2014, there were 113 available-for-sale securities and 35 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 March 31, 2014 and December 31, 2013 were primarily attributable to changes in interest rates. Unrealized losses at March 31, 2013 were primarily related to changes in interest rates; however, the unrealized losses in corporate bonds also reflect downgrades in the underlying securities ratings since the time of acquisition. The bonds remain above investment grade and have recovered much of their initial market value loss. Therefore, United does not consider them to be impaired.

The amortized cost and fair value of held-to-maturity and available-for-sale securities at March 31, 2014, 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
State and political subdivisions:				
Within 1 year	\$6,290	\$6,404	\$763	\$759
1 to 5 years	12,496	13,043	15,850	16,992
5 to 10 years	2,610	2,667	22,698	24,262
More than 10 years	848	892	11,946	12,661
	22,244	23,006	51,257	54,674
Corporate bonds:				
1 to 5 years	38,316	38,592	—	—
5 to 10 years	206,144	203,053	—	—
More than 10 years	10,778	10,279	—	—
	255,238	251,924	—	—
Asset-backed securities:				
Within 1 year	9,980	9,975	—	—
1 to 5 years	71,360	72,443	—	—
5 to 10 years	317,888	319,417	—	—

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More than 10 years	30,264	30,227	—	—
	429,492	432,062	—	—
Other:				
More than 10 years	2,572	2,572	—	—
	2,572	2,572	—	—
Total securities other than mortgage-backed securities:				
Within 1 year	16,270	16,379	763	759
1 to 5 years	122,172	124,078	15,850	16,992
5 to 10 years	526,642	525,137	22,698	24,262
More than 10 years	44,462	43,970	11,946	12,661
Mortgage-backed securities	1,126,227	1,128,112	413,440	418,462
	\$1,835,773	\$1,837,676	\$464,697	\$473,136

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.



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## Note 5 – Loans and Allowance for Loan Losses

Major classifications of loans as of March 31, 2014, December 31, 2013 and March 31, 2013, are summarized as follows (in thousands).

	March 31, 2014	December 31, 2013	March 31, 2013
Commercial (secured by real estate)	\$ 1,765,621	\$ 1,756,710	\$ 1,804,030
Commercial & industrial	495,178	471,961	453,764
Commercial construction	148,454	148,903	152,410
Total commercial	2,409,253	2,377,574	2,410,204
Residential mortgage	866,615	875,077	849,802
Home equity lines of credit	446,705	440,887	396,173
Residential construction	317,749	328,579	371,733
Consumer installment	106,991	111,045	110,796
Indirect auto	208,395	196,104	54,852
Total loans	4,355,708	4,329,266	4,193,560
Less allowance for loan losses	(75,223 )	(76,762 )	(105,753 )
Loans, net	\$ 4,280,485	\$ 4,252,504	\$ 4,087,807

At March 31, 2014, December 31, 2013 and March 31, 2013, loans with a carrying value of \$2.07 billion, \$1.77 billion and \$1.94 billion, respectively, were pledged as collateral to secure FHLB advances and other contingent funding sources.

During the second quarter of 2013, United executed a plan to accelerate the disposition of classified assets including performing classified loans, nonperforming loans and foreclosed properties. The purpose of the accelerated classified asset disposition plan was to resolve legacy credit problems remaining from the recent financial crisis and to accelerate the improvement of United's credit measures toward pre-crisis levels. The classified asset sales included individual note and foreclosed property sales and a large bulk sale of classified assets to a single investor. The bulk sale included performing and nonperforming classified loans and foreclosed properties. The assets were divided into four separate pools that were bid separately by potential buyers. A single purchaser was the high bidder for each of the four pools. The table below shows the allocation among impaired loans, loans that were not considered impaired and foreclosed properties, including United's recorded investment in those assets, the sales proceeds and the resulting net charge-offs of assets sold in the bulk sale transaction (in thousands).

	Recorded Investment	Net Sales Proceeds	Net Charge-Off
Loans considered impaired	\$ 96,829	\$ 56,298	\$ (40,531 )
Loans not considered impaired	25,687	15,227	(10,460 )
Foreclosed properties	8,398	5,933	(2,465 )