

UNITED COMMUNITY BANKS INC
Form 10-K
February 26, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2015

Commission File Number 001-35095

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia

(State or other jurisdiction of incorporation or organization)

125 Highway 515 East, Blairsville, Georgia

(Address of principal executive offices)

58-1807304

(I.R.S. Employer Identification No.)

30512

(Zip Code)

Registrant's telephone number, including area code: (706) 781-2265

Securities registered pursuant to Section 12(b) of the Act: None

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Name of exchange on which registered: Nasdaq Global Select

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$1.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Sections 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (check one):

Large accelerated filer Accelerated filer
Non-accelerated filer 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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,076,328,754 (based on shares held by non-affiliates at \$20.87 per share, the closing stock price on the Nasdaq stock market on June 30, 2015).

As of January 31, 2016, 71,501,103 shares of common stock were issued and outstanding including 66,215,587 voting shares and 5,285,516 non-voting shares. Also outstanding were presently exercisable options to acquire 235,771 shares, presently exercisable warrants to acquire 219,909 shares and 521,630 shares issuable under United Community Banks, Inc.'s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated herein into Part III by reference.

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PART I

ITEM 1. BUSINESS.

United Community Banks, Inc. (“United”), a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, Blairsville, Georgia, now known as United Community Bank, Blairsville, Georgia (the “Bank”).

Since the early 1990’s, United has actively expanded its market coverage through organic growth complemented by selective acquisitions, primarily of banks whose managements share United’s community banking and customer service philosophies. Although those acquisitions have directly contributed to United’s growth, their contribution has primarily been to provide United access to new markets with attractive organic growth potential. Organic growth in assets includes growth through existing offices as well as growth at de novo locations and post-acquisition growth at acquired banking offices.

To emphasize its commitment to community banking, United conducts substantially all of its operations through a community-focused operating model of separate “community banks”, which as of December 31, 2015, operated at 134 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 commercial loan offices in Charlotte, North Carolina and Charleston, South Carolina. The community banks offer a full range of retail and corporate banking services, including checking, savings and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services and other financial services, and are led by local bank presidents (referred to herein as the “Community Bank Presidents”) and management with significant experience in, and ties to, their communities. Each of the Community Bank Presidents has authority, alone or with other local officers, to make most credit decisions. In recent years, United has developed a number of specialized lending areas focusing on asset-based lending, commercial real estate, middle market businesses, United States Small Business Administration (“SBA”) and United States Department of Agriculture (“USDA”) guaranteed loans and builder finance. Although the specialized lending areas have their own customers, they also work with the community banks to provide their specialized lending expertise to help the community banks better serve their customers. This partnership helps United to position itself as a community bank with large bank resources. Management believes that this operating model provides a competitive advantage.

The Bank, through its full-service retail mortgage lending division, United Community Mortgage Services (“UCMS”), is approved as a seller/servicer for the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and provides fixed and adjustable-rate home mortgages. During 2015, the Bank originated \$494 million of residential mortgage loans throughout its footprint in Georgia, North Carolina, Tennessee and South Carolina for the purchase of homes and to refinance existing mortgage debt. Substantially all of these

mortgages were sold into the secondary market without recourse to the Bank, other than for breaches of warranties. With the acquisition of The Palmetto Bank in late 2015, United began retaining the servicing on some of its mortgage production. United's residential mortgage servicing portfolio included \$377 million in loans at December 31, 2015.

The Bank owns an insurance agency, United Community Insurance Services, Inc. ("UCIS"), known as United Community Advisory Services, which is a subsidiary of the Bank. United also owns a captive insurance subsidiary, United Community Risk Management Services, Inc. ("UCRMSI") that provides risk management services for United's subsidiaries. Another Bank subsidiary, United Community Payment Systems, LLC ("UCPS"), provides payment processing services for the Bank's commercial and small business customers. UCPS is a joint venture with Security Card Services, LLC, a merchant services provider headquartered in Oxford, Mississippi.

United produces fee revenue through its sale of non-deposit investment products. Those products are sold by employees of United that are licensed financial advisors doing business as United Community Advisory Services. United has an affiliation with a third party broker/dealer, Invest Financial, to facilitate this line of business.

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, (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” or 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, 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 experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, 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;
- 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-K.

The financial statements and information contained herein have not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Monetary Policy and Economic Conditions

United's profitability depends to a substantial extent on the difference between interest revenue received from loans, investments, and other earning assets, and the interest paid on deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of United, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits.

Competition

The market for banking and bank-related services is highly competitive. United actively competes in its market areas, which include north Georgia, the Atlanta-Sandy Springs-Roswell, Georgia metropolitan statistical area, the Gainesville, Georgia metropolitan statistical area, coastal Georgia, western North Carolina, east Tennessee and upstate South Carolina, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies, and brokerage firms.

The table below and on the following page displays the respective percentage of total bank and thrift deposits for the last five years in each county where the Bank has deposit operations. The table also indicates the Bank's ranking by deposit size in each county. All information in the table was obtained from the Federal Deposit Insurance Corporation Summary of Deposits as of June 30 of each year. The following information only shows market share in deposit gathering, which may not be indicative of market presence in other areas.

Share of Local Deposit Markets by County - Banks and Savings Institutions

	Market Share					Rank in Market				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Atlanta, Georgia MSA										
Bartow	9 %	11 %	11 %	9 %	12 %	5	3	3	4	3
Carroll	10	7	7	6	6	4	5	5	6	6
Cherokee	4	5	4	5	4	9	9	9	9	9
Cobb	2	3	3	3	3	13	12	11	10	10
Coweta	2	2	2	2	2	10	10	11	10	10
Dawson	33	34	36	36	36	1	1	1	1	1
DeKalb	1	1	1	1	1	16	16	18	18	21
Douglas	1	2	2	2	2	11	11	12	12	11
Fayette	7	7	7	7	8	7	6	5	6	5

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Forsyth	7	8	7	6	3	5	4	6	7	11
Fulton	1	1	1	1	1	21	21	20	20	20
Gwinnett	3	3	3	3	3	7	7	7	8	7
Henry	7	7	6	5	4	6	6	6	7	7
Newton	3	3	3	3	3	8	8	8	8	8
Paulding	4	4	4	5	5	9	9	9	6	7
Pickens	7	7	6	4	3	5	4	5	6	7
Rockdale	9	9	12	12	12	5	6	4	4	4
Walton	2	1	2	1	2	10	10	10	10	10
Gainesville, Georgia MSA										
Hall	12	12	12	12	14	4	4	4	5	3
North Georgia										
Chattooga	43	44	43	40	40	1	1	1	1	1
Fannin	57	55	50	49	52	1	1	1	1	1
Floyd	15	15	15	16	16	3	3	4	2	1
Gilmer	27	27	26	25	25	2	2	2	2	2
Habersham	22	22	23	22	20	2	2	2	2	2
Jackson	8	8	7	6	6	5	6	7	6	7
Lumpkin	30	29	29	29	29	1	2	2	2	2
Rabun	16	15	14	13	12	3	3	3	3	5
Towns	50	53	50	48	41	1	1	1	2	2
Union	87	84	84	83	84	1	1	1	1	1
White	47	47	48	44	46	1	1	1	1	1

Share of Local Deposit Markets by County - Banks and Savings Institutions, Continued

	Market Share					Rank in Market				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Tennessee										
Blount	2	1	1	1	2	12	14	12	11	11
Bradley	7	5	5	5	5	7	8	7	7	7
Knox	1	1	1	1	1	11	27	30	26	23
Loudon	51	15	15	13	14	1	3	3	3	3
McMinn	-	-	-	3	2	-	-	-	9	9
Monroe	3	3	3	4	4	7	8	8	7	7
Roane	9	9	9	8	8	6	6	5	6	6
Coastal Georgia										
Chatham	2	2	2	1	1	9	9	9	10	10
Glynn	7	14	12	12	18	7	2	2	3	2
Ware	3	4	3	3	4	9	9	9	9	9
North Carolina										
Avery	15	15	16	16						