

UNITED COMMUNITY BANKS INC
Form 10-K
February 27, 2019

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, 2018

Commission File Number 001-35095

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia 58-1807304
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

125 Highway 515 East, Blairsville, Georgia 30512
Address of Principal Executive Offices (Zip Code)
Registrant's telephone number, including area code: (706) 781-2265

Securities registered pursuant to Section 12(b) of the Act: Common Stock, \$1.00 par value

Name of exchange on which registered: Nasdaq Global Select

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

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 every Interactive Data File required to be submitted 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 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, 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.

Large accelerated filer Accelerated filer "
Non-accelerated filer " Smaller Reporting Company "
Emerging growth company "

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

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: \$2,411,814,691 (based on shares held by non-affiliates at \$30.67 per share, the closing stock price on the Nasdaq stock market on June 29, 2018).

As of January 31, 2019, 79,256,160 shares of common stock were issued and outstanding. Also outstanding were presently exercisable options to acquire 45,613 shares and 9,712,687 shares issuable under United Community Banks, Inc.'s deferred compensation plan.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated herein into Part III by reference.

INDEX

PART I

<u>Item 1.</u>	<u>Business</u>	<u>4</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>15</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>28</u>
<u>Item 2.</u>	<u>Properties</u>	<u>28</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>28</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>28</u>

PART II

<u>Item 5.</u>	<u>Market for United’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>29</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>31</u>
<u>Item 7.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>63</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>64</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>137</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>137</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>137</u>

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>138</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>138</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>138</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>138</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>138</u>

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>139</u>
<u>Item 16.</u>	<u>Form 10-K Summary</u>	<u>142</u>

<u>SIGNATURES</u>		<u>143</u>
-------------------	--	------------

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, 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”). Forward-looking statements are not statements of historical fact and generally can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “could”, “should”, “projects”, “plans”, “goal”, “targets”, “potential”, “forma”, “seeks”, “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 or events, and statements about the future performance, operations, products and services of United Community Banks, Inc. and its subsidiaries (“United”). We caution our shareholders and other readers not to place undue reliance on such statements. Forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence, which could cause actual results to differ materially from anticipated results. Such risks, uncertainties and assumptions include, but are not limited to:

- the condition of the general business and economic environment, banking system and financial markets;
- strategic, market, operational, liquidity and interest rate risks associated with our business;
- changes in the interest rate environment, including interest rate changes made by the Federal Reserve, as well as cash flow reassessments may reduce net interest margin and/or the volumes and values of loans made or held as well as the value of other financial assets;
- our lack of geographic diversification and the success of the local economies in which we operate;
- risks with respect to our ability to successfully expand and complete acquisitions and integrate businesses and operations that are acquired;
- our ability to attract and retain key employees;
- competition from financial institutions and other financial service providers including financial technology providers;
- losses due to fraudulent and negligent conduct of our customers, third party service providers or employees;
- cybersecurity risks that could adversely affect our business and financial performance or reputation;
- our reliance on third parties to provide key components of our business infrastructure and services required to operate our business;
- the risk that we may be required to make substantial expenditures to keep pace with regulatory initiatives and the rapid technological changes in the financial services market;
- legislative, regulatory or accounting changes that may adversely affect us;
- changes in the securities markets;
- changes in the allowance for loan losses resulting from the adoption and implementation of the new Current Expected Credit Loss (“CECL”) methodology;
- the costs and effects of litigation, examinations, investigations, or similar matters, or adverse facts and developments related thereto;
- the risk that Federal Tax Reform could have an adverse impact on our business or our customers, including with respect to demand and pricing for our loan products;
- possible regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed by regulators;
- the risk that our allowance for loan losses may not be sufficient to cover our actual loan losses; and
- limitations on our ability to receive dividends from our subsidiaries which would affect our liquidity, including our ability to pay dividends or take other capital actions.

A more detailed description of these and other risks is contained in “Item 1A. Risk Factors” below. Many of such factors are beyond our ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. We disclaim any obligation to update or revise any forward-looking statements contained

in this report, whether as a result of new information, future events or otherwise. 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. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

PART I

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “United Community Banks,” or “United” as used herein refer to United Community Banks, Inc. (the “Holding Company”) and its subsidiaries, including United Community Bank, which we sometimes refer to as “the Bank,” “our bank subsidiary” or “our bank” and its other subsidiaries. References herein to the fiscal years 2014, 2015, 2016, 2017 and 2018 mean our fiscal years ended December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

ITEM 1. BUSINESS.

Overview

We are a bank holding company with \$12.6 billion in assets as of December 31, 2018. We were incorporated in 1987 and began operations in 1988 in the state of Georgia by acquiring the capital stock of the Bank, a Georgia state-chartered bank that opened in 1950. We have since grown through a combination of acquisitions and strategic growth throughout the Georgia, South Carolina, North Carolina and Tennessee markets. As of December 31, 2018, we had 2,312 full-time equivalent employees.

We provide a wide array of commercial and consumer banking services and investment advisory services to our customers. Our business model combines the commitment to exceptional customer service of a local bank with the products and expertise of a larger institution. This combination of service and expertise, in our view, sets us apart and is instrumental in our model to build long-term relationships. We operate as a locally-focused community bank, supplemented by experienced, centralized support to deliver products and services to our larger, more complex, customers. Our organizational structure reflects these strengths, with local leaders for each market and market advisory boards operating in partnership with the product experts of our Commercial Banking Solutions unit. Our United States Small Business Administration / United States Department of Agriculture (“SBA/USDA”) lending and equipment finance businesses operate both in our geographic footprint and nationally. We offer a full range of retail, commercial and corporate banking services, including checking, savings and time deposit accounts, secured and unsecured loans, mortgage loans, payment services, wire transfers, brokerage and advisory services and other related financial services.

Our revenue is primarily derived from interest on and fees received in connection with the loans we make and from interest and dividends from our investment securities and short-term investments. The principal sources of funds for our lending activities are customer deposits, repayment of loans, and the sale and maturity of investment securities. Our principal expenses are interest paid on deposits and operating and general administrative expenses.

Lending Activities

We offer a range of lending services, including real estate, consumer and commercial loans, to individuals, small businesses, mid-sized commercial businesses and non-profit organizations. We also originate loans partially guaranteed by the SBA and to a lesser extent by the USDA loan programs. Our consolidated loans at December 31, 2018 were \$8.38 billion, or 67%, of total consolidated assets. The interest rates charged on loans vary with the degree of risk, maturity and amount of the loan, and are further subject to competitive pressures, deposit costs, availability of funds and government regulations.

The most significant categories of our loans are those to finance owner occupied real estate, commercial income property, commercial and industrial equipment and operating loans, and consumer loans secured by personal residences. A majority of our loans are made on a secured basis.

Substantially all of our loans are to customers located in the immediate market areas of our banking locations in Georgia, South Carolina, North Carolina and Tennessee, including customers who have a seasonal residence in

United's market areas. A portion of our SBA/USDA, franchise and equipment finance businesses originate loans on a national basis, with a significant amount of those loans to customers outside of our immediate market areas.

Our 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 2018, the Bank originated \$891 million in residential mortgage loans for the purchase of homes and to refinance existing mortgage debt. The majority of these mortgages were sold into the secondary market without recourse to us, other than for breaches of warranties. We retain the servicing on most of our mortgage loans originated and sold since 2016. At December 31, 2018, our servicing portfolio included \$1.21 billion of loans that we no longer own but service for others.

Our credit organization provides each lending officer with written guidelines for lending activities, and limited lending authority is delegated to lending officers. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by our credit organization or by our Senior Credit Committee.

Our Regional Credit Officers and Senior Credit Officers provide credit approval and portfolio administration support for our commercial lending operations as needed. Our Regional Credit Officers have lending authority set by our Chief Credit Officer based on characteristics of the markets they serve. For commercial loans less than \$250,000, we use a centralized small business lending/underwriting department.

We have a centralized consumer credit center that provides underwriting, regulatory disclosure and document preparation for all consumer loan requests originated by our lenders. Applications are processed through an automated loan origination software platform and approved by credit center underwriters.

Our Loan Review Department reviews, or engages an independent third party to review, our loan portfolio on an ongoing basis to identify any weaknesses in the portfolio and to assess the general quality of credit underwriting. The results of such reviews are presented to our executive management and the Risk Committee of the Board of Directors. For additional information regarding our lending activity, see the section captioned “Loans” in the “Balance Sheet Review” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Deposit Activities

Deposits are the major source of our funds for lending and other investment activities. We offer our customers a variety of deposit products, including checking accounts, savings accounts, money market accounts and other deposit accounts, through multiple channels, including our network of full-service branches and our online, mobile and telephone banking platforms. We consider the majority of our regular savings, demand, negotiable order of withdrawal (“NOW”) and money market deposit accounts to be core deposits. Generally, we attempt to maintain the rates paid on our deposits at a competitive level. We generate the majority of our deposits from customers in our local markets. For additional information regarding our deposit accounts, see the section captioned “Deposits” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Investments

We use our investment portfolio to provide for the investment of excess funds at acceptable risks levels while providing liquidity to fund loan demand or to offset fluctuations in deposits. Our portfolio consists primarily of residential and commercial mortgage-backed securities and U.S. Department of the Treasury (“U. S. Treasury”) and agency and municipal obligations. Most of the securities are classified by us as available-for-sale and recorded on our balance sheet at market value at each balance sheet date. Any change in market value on available-for-sale securities is recorded directly in our shareholders’ equity account and is not recognized in our income statement unless the security is sold or unless it is impaired and the impairment is other than temporary.

Insurance, Merchant Services and Wealth Management

We own two captive insurance subsidiaries, United Community Risk Management Services, Inc., which provides risk management services for us and our subsidiaries, and NLFC Reinsurance Ltd., which provides reinsurance on a property insurance contract covering equipment financed by our equipment financing division.

We provide payment processing services for our commercial and small business customers through United Community Payment Systems, LLC (“UCPS”). UCPS is a joint venture between the Bank and Security Card Services,

LLC, a merchant services provider headquartered in Oxford, Mississippi and owned by First Data Corporation.

We generate fee revenue through the sale of non-deposit investment products and insurance products, including life insurance, long-term care insurance and tax-deferred annuities, to our customers. Those products are sold by employees who are licensed financial advisors doing business as United Community Advisory Services. We have an affiliation with a third party broker/dealer, LPL Financial, to facilitate this line of business.

Competition

We compete in the highly competitive banking and financial services industry. Our profitability depends principally on our ability to effectively compete in the markets in which we conduct business.

We experience strong competition from both bank and non-bank competitors. Broadly speaking, we compete with national banks, super-regional banks, smaller community banks and non-traditional internet-based banks. In addition, we compete with other financial intermediaries and investment alternatives such as mortgage companies, credit card issuers, leasing companies, finance companies, money market mutual funds, brokerage firms, governmental and corporation bond issuers, and other securities firms. Many of these non-bank competitors are not subject to the same regulatory oversight, affording them a competitive advantage in some instances. In many cases, our competitors have substantially greater resources and offer certain services that we are unable to provide to our customers.

We encounter strong pricing competition in providing our services. Additionally, other banks offer different products or services from those that we provide. The larger national and super-regional banks may have significantly greater lending limits and may offer additional products than we are capable of providing. We attempt to compete successfully with our competitors, regardless of their size, by emphasizing customer service while continuing to provide a wide variety of services.

We expect competition in the industry to continue to increase mainly as a result of the improvement in financial technology used by both existing and new banking and financial services firms. Competition may further intensify as additional companies enter the markets where we conduct business, competitors combine to present more formidable challengers and we enter mature markets in accordance with our expansion strategy.

Acquisitions and Expansion

We look to expand into attractive markets where we believe our operating model will be successful. We have entered new markets and expanded our product offerings both by establishing new branches and service locations and selective acquisitions of existing market participants. We have developed a number of commercial lending businesses organically, which provide local commercial real estate, middle market, senior living, renewable energy, builder finance and asset-based lending services. We generally seek merger or acquisition partners that share a similar culture and commitment to customer service. Acquisitions typically involve the payment of a premium over book and market values and some dilution to our tangible book value may occur. Our goal is to maintain a reasonable earn-back period of any dilution, using realistic assumptions as to growth and expense reductions, as well as to achieve a return on investment superior to that achieved through de novo expansion. Our ability to engage in any merger or acquisition will depend upon approval from various bank regulatory authorities, which will be subject to a variety of factors and considerations.

Supervision and Regulation

The following is an explanation of the supervision and regulation of United and the Bank as financial institutions. This explanation does not purport to describe state, federal or Nasdaq Stock Market supervision and regulation of general business corporations or Nasdaq listed companies.

General

Like all bank and bank holding companies, we are regulated extensively under state and federal banking laws. The regulatory framework is intended primarily for the protection of the depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of the shareholders and creditors. Certain provisions of laws and regulations affecting financial services firms such as United are subject to further rulemaking, guidance and interpretation by the applicable federal regulators. United is subject to examination and reporting requirements of the Federal Reserve and the Georgia Department of Banking and Finance (the "DBF"). The Bank is subject to examination and reporting requirements of the Federal Deposit Insurance Corporation ("FDIC"), the DBF and the Consumer Financial Protection Bureau ("CFPB"). United will continue to evaluate the impact of any new regulations so

promulgated. The financial statements and information contained herein have not been reviewed, or confirmed for accuracy or relevance, by the FDIC or any other regulator.

Bank Holding Company Regulation

United is a registered bank holding company subject to regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (“BHC Act”). United is required to file annual and quarterly financial information with the Federal Reserve and is subject to periodic examination by the Federal Reserve. The BHC Act requires every bank holding company to obtain the Federal Reserve’s prior approval before (1) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking

activities. This prohibition does not apply to activities listed in the BHC Act or found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto.

Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are:

- making or servicing loans and certain types of leases;
- performing certain data processing services;
- acting as fiduciary or investment or financial advisor;
- providing brokerage services;
- underwriting bank eligible securities;
- underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and
- making investments in corporations or projects designed primarily to promote community welfare.

Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act (the “GLB Act”) relaxed the previous limitations and permitted bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies which may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature.

United must also register with the DBF and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationship of United and the Bank and related matters. The DBF may also require such other information as is necessary to keep itself informed concerning compliance with Georgia law and the regulations and orders issued thereunder by the DBF, and the DBF may examine United and the Bank. Although the Bank operates branches in North Carolina, Tennessee and South Carolina; neither the North Carolina Banking Commission, the Tennessee Department of Financial Institutions, nor the South Carolina Commissioner of Banking examines or directly regulates out-of-state holding companies.

The Holding Company is an “affiliate” of the Bank under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Bank to the Holding Company, (2) investments in the stock or securities of the Holding Company by the Bank, (3) the Bank taking the stock or securities of an “affiliate” as collateral for loans by the Bank to a borrower and (4) the purchase of assets from the Holding Company by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Bank and each of its subsidiaries are regularly examined by the FDIC. The Bank, as a state banking corporation organized under Georgia law, is subject to the supervision of, and is regularly examined by, the DBF. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving the Bank.

Payment of Dividends

The Holding Company is a legal entity separate and distinct from the Bank. Most of the revenue of the Holding Company results from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank, as well as by the Holding Company to its shareholders.

Under the regulations of the DBF, a state bank with an accumulated deficit (negative retained earnings) may declare dividends (reduction in capital) by first obtaining the written permission of the DBF and FDIC. If a state bank has

positive retained earnings, it may declare a dividend without DBF approval if it meets all the following requirements:

- (a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);
- (b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and
- (c) the ratio of equity capital to adjusted assets is not less than 6%.

The payment of dividends by the Holding Company and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities

consider the adequacy of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank.

Under the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") Rules, bank holding companies with \$50 billion or more of total assets are required to submit annual capital plans to the Federal Reserve and generally may pay dividends and repurchase stock only under a capital plan as to which the Federal Reserve has not objected. The CCAR rules will not apply to United for so long as our total consolidated assets remain below \$50 billion. However, it is anticipated that United's capital ratios will be important factors considered by the Federal Reserve in evaluating whether proposed payments of dividends or stock repurchases may be an unsafe or unsound practice.

Due to its accumulated deficit in recent years, the Bank was required to receive pre-approval from the DBF and FDIC to pay cash dividends (reduction in capital) to the Holding Company. In 2018, 2017 and 2016, the Bank paid a cash dividend of \$162 million, \$103 million and \$41.5 million, respectively, to the Holding Company after the approval of the DBF and FDIC. The dividends were paid out of capital surplus rather than the accumulated deficit. At December 31, 2018, the Bank no longer had an accumulated deficit. The Holding Company declared cash dividends on its common stock in 2018, 2017 and 2016 of 58 cents, 38 cents and 30 cents per share, respectively.

Capital Adequacy

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. "Total capital" is composed of Tier 1 capital and Tier 2 capital. "Tier 1 capital" includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets. "Tier 2 capital" includes, among other things, perpetual stock and related surplus not meeting the Tier 1 capital definition, qualifying mandatorily convertible debt securities, qualifying subordinated debt and allowances for possible loan and lease losses, subject to limitations. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The Federal Reserve will require a bank holding company to maintain a leverage ratio well above minimum levels if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The FDIC and the Federal Reserve also require banks to maintain capital well above minimum levels.

In July 2013, the Federal Reserve published 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 (collectively, "banking organizations"). The rules implement the December 2010 framework proposed by the Basel Committee on Banking Supervision (the "Basel Committee"), known as "Basel III", for strengthening international capital standards as well as certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").

The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including United and the Bank, compared to the prior U.S. risk-based capital

rules. The Basel III Capital Rules:

- defined the components of capital and addressed other issues affecting the numerator in banking institutions' regulatory capital ratios;
- addressed risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replaced the prior risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords;
- introduced a new capital measure called "common equity Tier 1" ("CET1");
- specified that Tier 1 capital consists of CET1 and "additional Tier 1 capital" instruments meeting specified requirements; and
- implemented the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules.

The Basel III Capital Rules became effective for United and the Bank on January 1, 2015, subject to a phase in period.

The Basel III Capital Rules require United and the Bank to maintain:

a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in over four years to 2.5%, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation);

a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6%, plus the capital conservation buffer (which is added to the 6% Tier 1 capital ratio as that buffer is phased in over four years to 2.5%, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);

a minimum ratio of total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8%, plus the capital conservation buffer (which is added to the 8% total capital ratio as that buffer is phased in over four years to 2.5%, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and

a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The phase in of the capital conservation buffer was completed as of January 1, 2019, resulting in a target minimum ratio of CET1 to risk-weighted assets of at least 7%, a target minimum ratio of Tier 1 capital to risk-weighted assets of at least 8.5% and a target minimum ratio of total capital to risk-weighted assets of at least 10.5% for United and the Bank beginning as of that date.

In addition, Section 38 of the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the “1991 Act”). The “prompt corrective action” provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank’s financial condition declines. The FDIC is required to resolve a bank when its ratio of tangible equity to total assets reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, as revised by the Basel III Capital Rules effective January 1, 2015, which place financial institutions in the following five categories based upon capitalization ratios: (1) a “well-capitalized” institution has a Total risk-based capital ratio of at least 10%, a Tier 1 risk-based ratio of at least 8%, a CET1 risk-based ratio of 6.5% and a leverage ratio of at least 5%; (2) an “adequately capitalized” institution has a Total risk-based capital ratio of at least 8%, a Tier 1 risk-based ratio of at least 6%, a CET1 risk-based ratio of 4.5% and a leverage ratio of at least 4%; (3) an “undercapitalized” institution has a Total risk-based capital ratio of under 8%, a Tier 1 risk-based ratio of under 6%, a CET1 risk-based ratio of under 4.5% or a leverage ratio of under 4%; (4) a “significantly undercapitalized” institution has a Total risk-based capital ratio of under 6%, a Tier 1 risk-based ratio of under 4%, a CET1 risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a “critically undercapitalized” institution has a ratio of tangible equity to total assets of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also allow it to “downgrade” an institution to a lower capital category based on supervisory factors other than capital.

As of December 31, 2018, the FDIC categorized the Bank as “well-capitalized” under current regulations.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under prior capital standards, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however,

certain banking organizations, including United and the Bank, may make a one-time permanent election to continue to exclude these items. United and the Bank made this election in first quarter 2015 in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of United's available-for-sale securities portfolio. The Basel III Capital Rules also eliminate the inclusion of certain instruments, such as trust preferred securities, from Tier 1 capital of bank holding companies. Instruments issued prior to May 19, 2010 are grandfathered for bank holding companies with consolidated assets of \$15 billion or less (subject to the 25% of Tier 1 capital limit).

The "capital conservation buffer" is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and discretionary bonus compensation based on the amount of the shortfall.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and were phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation

buffer began on January 1, 2016 at the 0.625% level and was phased in over a four-year period increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019.

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Consistent with the Dodd-Frank Act, the Basel III Capital Rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250% risk weight. In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

In November 2017, the federal banking agencies adopted a final rule to extend the regulatory capital treatment applicable during 2017 under the capital rules for certain items, including regulatory capital deductions, risk weights and certain minority interest limitations. The relief provided under the final rule applies to banking organizations that are not subject to the capital rules' advanced approaches, such as United. Specifically, the final rule extends the current regulatory capital treatment of mortgage servicing assets, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, significant investments in the capital of unconsolidated financial institutions in the form of common stock, non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock, and common equity tier 1 minority interest, tier 1 minority interest and total capital minority interest exceeding the capital rules' minority interest limitations.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets ("RWA"), which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the federal banking agencies who are tasked with implementing Basel IV supported the revisions. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the capital requirements framework applicable to United.

Consumer Protection Laws

In connection with its lending activities, the Bank is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedure Act and their respective state law counterparts.

CFPB

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the CFPB, and giving it the power to promulgate and enforce federal consumer protection laws. Depository institutions are subject to the CFPB's rule writing authority, and existing federal bank regulatory agencies retain examination and enforcement authority for such institutions. The CFPB and United's existing federal regulator, the FDIC, are focused

on the following:

- risks to consumers and compliance with the federal consumer financial laws;
- the markets in which firms operate and risks to consumers posed by activities in those markets;
- depository institutions that offer a wide variety of consumer financial products and services;
- depository institutions with a more specialized focus; and
- non-depository companies that offer one or more consumer financial products or services.

The CFPB and FDIC have authority to prevent unfair, deceptive or abusive practices in connection with offering consumer financial products. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits states' attorneys general to enforce compliance with both state and federal laws and regulations.

FDIC Insurance Assessments

The Bank's deposits are insured by the FDIC through the Deposit Insurance Fund and therefore the Bank is subject to deposit insurance assessments as determined by the FDIC. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 and further amended by the Dodd-Frank Act. Under the risk-based deposit premium assessment system, the assessment rates for an insured depository institution are calculated based on a number of factors to measure the risk each institution poses to the Deposit Insurance Fund. The assessment rate is applied to total average assets less tangible equity. Under the current system, premiums are assessed quarterly and could increase if, for example, criticized loans and/or other higher risk assets increase or balance sheet liquidity decreases.

Effective July 2016, the FDIC published final rules to increase the Deposit Insurance Fund to the statutorily required minimum level of 1.35% by imposing on financial institutions with at least \$10 billion in assets a surcharge of 4.5 cents per \$100 of their assessment base (after making certain adjustments), to be assessed over a period of eight quarters. As of December 31, 2016, United's total assets exceeded \$10 billion and, accordingly, the Bank became subject to this surcharge in the third quarter of 2017. If this surcharge is insufficient to increase the Deposit Insurance Fund reserve ratio to 1.35% by December 31, 2018, a one-time shortfall assessment will be imposed on financial institutions with total consolidated assets of \$10 billion or more on March 31, 2019. The Deposit Insurance Fund reserve ratio exceeded the 1.35% target in 2018 and the surcharge was discontinued effective October 1, 2018.

In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances. The FDIC may also terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Volcker Rule

The Dodd-Frank Act amended the BHC Act to require the federal bank regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the "Volcker Rule". The Federal Reserve adopted final rules implementing the Volcker Rule on December 10, 2013. United became subject to the Volcker Rule in 2017 without a material effect on its operations and the operations of its subsidiaries, including the Bank, as United does not engage in businesses prohibited by the Volcker Rule. United may incur costs to adopt additional policies and systems to demonstrate compliance with the Volcker Rule.

Durbin Amendment

The Dodd-Frank Act included provisions which restrict interchange fees, which are fees charged by banks to cover the cost of handling and exposure to credit and fraud-related risks inherent in bank credit or debit card transactions, to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. This statutory provision is known as the "Durbin Amendment". In the Federal Reserve's final rules implementing the Durbin Amendment, interchange fees for debit card transactions were capped at \$0.21 plus five basis points in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. Another related rule also permits an additional \$0.01 per transaction "fraud prevention adjustment" to the interchange fee if certain Federal Reserve standards are implemented, including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, apply to debit card issuers

with \$10 billion or more in total consolidated assets. United became subject to the interchange fee restrictions and other requirements contained in the Durbin Amendment on July 1, 2017.

Incentive Compensation

In addition to the potential restrictions on discretionary bonus compensation under the Basel III Capital rules, the federal bank regulatory agencies have issued guidance on incentive compensation policies (the “Incentive Compensation Guidance”) intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution’s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution’s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management and (iii) be supported by strong corporate governance, including active and effective oversight by the institution’s board of directors.

The Federal Reserve reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of financial institutions, such as United, that are not “large, complex banking organizations.” These reviews are tailored to each financial institution based on the scope and complexity of the institution’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives are included in reports of examination. Deficiencies are incorporated into the financial institution’s supervisory ratings, which can affect the institution’s ability to make acquisitions and take other actions. Enforcement actions may be taken against a financial institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the institution’s safety and soundness and the institution is not taking prompt and effective measures to correct the deficiencies.

The scope and content of federal bank regulatory agencies’ policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect United’s ability to hire, retain and motivate its key employees.

Cybersecurity

Recent cyber-attacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal bank regulatory agencies to issue extensive guidance on cybersecurity. These agencies are likely to devote more resources to this part of their safety and soundness examination than they may have in the past.

Source of Strength Doctrine

Federal Reserve regulations and policy requires bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this policy, the Holding Company is expected to commit resources to support the Bank.

Real Estate Lending

Inter-agency guidelines adopted by federal bank regulatory agencies mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. In addition, the federal bank regulatory agencies, including the FDIC, restrict concentrations in commercial real estate lending and have noted that increases in banks’ commercial real estate concentrations can create safety and soundness concerns. The regulatory guidance mandates certain minimal risk management practices and categorizes banks with defined levels of such concentrations as banks requiring elevated examiner scrutiny.

Transactions with Affiliates

Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder. Generally, these requirements limit these transactions to a percentage of the bank’s capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

Financial Privacy

In accordance with the GLB Act, federal banking regulatory agencies adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives, the USA Patriot Act and the Office of Foreign Asset Control

A major focus of governmental policy on financial institutions in recent years has been aimed at combating terrorist financing, money laundering and other criminal acts. This has generally been accomplished by amending existing anti-money laundering laws and regulations. The USA Patriot Act of 2001 (the "Patriot Act") amended the Currency Consumer Financial Protection and Foreign Transactions Reporting Act of 1970, commonly referred to as the "Bank Secrecy Act", or "BSA", to strengthen regulation of money laundering and financing of terrorism. The U.S. Department of the Treasury, in cooperation with the FDIC and the Financial Crimes Enforcement Network ("FinCEN"), has issued a number of implementing regulations which apply various requirements of the Patriot

Act to the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering, terrorist financing and other criminal acts and to verify the identity of their customers. In addition, the Office of Foreign Asset Control (“OFAC”), a division of the U.S. Treasury Department charged with administering and enforcing economic and trade sanctions by the U.S. government, publishes lists of persons with which the Bank is prohibited from engaging in business. Over the past several years, federal banking regulators, FinCEN and OFAC have increased supervisory and enforcement attention on U.S. anti-money laundering and sanctions laws, as evidenced by a significant increase in enforcement activity, including several high profile enforcement actions. Several of these actions have addressed violations of the BSA, U.S. sanctions or both, resulting in the imposition of substantial civil monetary penalties. Enforcement actions have increasingly focused on publicly identifying individuals and holding those individuals, including compliance officers, accountable for deficiencies in compliance programs. State attorneys general and the U. S. Department of Justice (“DOJ”) have also pursued enforcement actions against banking entities alleged to have willfully violated the BSA and U.S. sanctions laws. Failure of a financial institution to maintain and implement adequate programs to combat terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Future Legislation

Various legislation affecting financial institutions and the financial industry is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of United and its subsidiaries in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations would have on the financial condition or results of operations of United or any of its subsidiaries. The nature and extent of future legislative and regulatory changes affecting financial institutions is not known at this time.

The Tax Cuts and Jobs Act of 2017

On December 22, 2017, The Tax Cuts and Jobs Act of 2017 (“the Tax Act”) was signed into law. The Tax Act includes a number of provisions that affect United, including the following:

Tax Rate. The Tax Act replaces the graduated corporate tax rates applicable under prior law, which imposed a maximum tax rate of 35%, with a reduced 21% flat tax rate. Although the reduced tax rate generally should be favorable to us by resulting in increased earnings and capital, it decreased the value of our existing deferred tax assets. Accounting principles generally accepted in the United States of America (“GAAP”) requires that the impact of the provisions of the Tax Act be accounted for in the period of enactment. Accordingly, the incremental income tax expense recorded by United in the fourth quarter of 2017 related to the Tax Act was \$38.2 million, resulting primarily from a remeasurement of United’s deferred tax assets which at December 31, 2017 following remeasurement totaled \$88.0 million.

FDIC Insurance Premiums. The Tax Act prohibits taxpayers with consolidated assets over \$50 billion from deducting any FDIC insurance premiums and prohibits taxpayers with consolidated assets between \$10 and \$50 billion, such as the Bank, from deducting the portion of their FDIC premiums equal to the ratio, expressed as a percentage, that (i) the taxpayer’s total consolidated assets over \$10 billion, as of the close of the taxable year, bears to (ii) \$40 billion. As a result, the Bank’s ability to deduct its FDIC premiums will now be limited.

Employee Compensation. A “publicly held corporation” is not permitted to deduct compensation in excess of \$1 million per year paid to certain employees. The Tax Act eliminates certain exceptions to the \$1 million limit applicable under prior to law related to performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals. As a result, our ability to deduct certain compensation paid to our most highly compensated employees will now be limited.

Business Asset Expensing. The Tax Act allows taxpayers immediately to expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% “bonus” depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).

Interest Expense. The Tax Act limits a taxpayer’s annual deduction of business interest expense to the sum of (i) business interest income and (ii) 30% of “adjusted taxable income,” defined as a business’s taxable income without taking into account business interest income or expense, net operating losses and, for 2018 through 2021, depreciation, amortization and depletion. Because we generate significant amounts of net interest income, we do not expect to be impacted by this limitation.

The foregoing description of the impact of the Tax Act on us should be read in conjunction with Note 16 to United’s consolidated financial statements.

Available Information

We file reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, all of which are available to the public on the Internet site maintained by the SEC at <http://www.sec.gov>. Our website address is www.ucbi.com. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

We have also posted our Corporate Code of Ethics, Shareholder Nomination and Communication Procedures, and the charters of our Audit Committee, Compensation Committee, Executive Committee, Risk Committee and Nominating and Corporate Governance Committee of our board of directors on the Corporate Governance section of our website at www.ucbi.com. We will make any legally required disclosures regarding amendments to, or waivers of, provisions of our Code of Ethics or current committee charters on our website. Our corporate governance materials also are available free of charge upon request to our Corporate Secretary, United Community Banks, Inc., 125 Highway 515 East, Blairsville, Georgia 30512.

Executive Officers of United

Senior executives of United are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors.

The senior executive officers of United, and their ages, positions with United, past five year employment history and terms of office as of February 1, 2019, are as follows:

Name (age)	Position with United and Employment History	Officer of United Since
Jimmy C. Tallent (66)	Executive Chairman (2018 - present); Chairman and Chief Executive Officer (2015 - 2018); President, Chief Executive Officer and Director (1988 - 2015)	1988
H. Lynn Harton (57)	President and Chief Executive Officer (2018 - present); President and Chief Operating Officer and Director (2015 - 2018); Executive Vice President and Chief Operating Officer (2012 - 2015)	2012
Jefferson L. Harralson (53)	Executive Vice President and Chief Financial Officer (2017 - present); prior to joining United was Managing Director at Keefe, Bruyette and Woods (2002 - 2017)	2017
Bradley J. Miller (48)	Executive Vice President, Chief Risk Officer and General Counsel (2015 - present); Senior Vice President and General Counsel (2007 - 2015)	2007
Robert A. Edwards (54)	Executive Vice President and Chief Credit Officer (2015 - present); prior to joining United was Senior Vice President and Executive Credit Officer of Toronto-Dominion Bank (2010 - 2015)	2015

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

Richard W. Bradshaw (57)	Chief Banking Officer (2019 - present); President, Commercial Banking Solutions (2014 - 2018); prior to joining United was Senior Vice President, Head of United States SBA Programs of Toronto-Dominion Bank (2010 - 2014)	2014
-----------------------------	---	------

None of the above officers are related and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with directors or officers of United acting solely in their capacities as such.

ITEM 1A. RISK FACTORS.

An investment in United's common stock involves risk. Investors should carefully consider the risks described below and all other information contained in this Form 10-K and the documents incorporated by reference before deciding to purchase common stock. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Risks Related To Our Business

As a financial services company, adverse conditions in the business or economic environment where we operate, as well as broader conditions in the United States, could have a material adverse effect on our financial condition and results of operations.

Our success depends significantly upon local, national and global economic and political conditions, as well as governmental monetary policies and trade relations. Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. Adverse changes in business and economic conditions generally or specifically in the markets in which we operate could adversely impact our business, including causing one or more of the following negative developments:

- a decrease in the demand for loans and other products and services offered by us;
- a decrease in the value of the collateral securing our residential or commercial real estate loans;
- a permanent impairment of our assets; or
- an increase in the number of customers or other counterparties who default on their loans or other obligations to us, which could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

Our success is influenced heavily by the growth in population, income levels, loans and deposits and on stability in real estate values in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally weaken significantly, our business may be adversely affected. If market and economic conditions deteriorate, this may lead to valuation adjustments on our loan portfolio and losses on defaulted loans and on the sale of other real estate owned. Additionally, such adverse economic conditions in our market areas, specifically decreases in real estate property values due to the nature of our loan portfolio, approximately 74% of which is secured by real estate at December 31, 2018, could reduce our growth rate, affect the ability of our customers to repay their loans and generally affect our financial condition and results of operations. We are less able than larger institutions to spread the risks of unfavorable local economic conditions across a larger number of more diverse economies.

We are subject to credit risk and concentration risks from our lending and investing activities.

There are inherent risks associated with our lending activities. These risks include, among other things, the quality of our underwriting, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well across the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. We are also subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment of significant penalties against us.

As of December 31, 2018, approximately 73% of our loan portfolio consisted of commercial loans, including commercial and industrial, equipment financing, commercial construction and commercial real estate mortgage loans. Our borrowers under these loans tend to be small to medium-sized businesses. These types of loans are typically larger than residential real estate loans or consumer loans. During periods of lower economic growth or challenging economic periods, small to medium-sized businesses may be impacted more severely and more quickly than larger businesses. Consequently, the ability of such businesses to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Because our loan portfolio contains a significant number of commercial loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on our business, financial condition and results of operations.

Our loans are also heavily concentrated in our primary markets of Georgia, South Carolina, North Carolina and Tennessee. These markets may have different or weaker performance than other areas of the country and our portfolio may be more negatively impacted than a financial services company with wider geographic diversity.

See the section captioned “Loans” in the “Balance Sheet Review” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” located elsewhere in this report for further discussion related to commercial and industrial, energy, construction and commercial real estate loans.

Environmental liability associated with commercial lending could result in losses.

In the course of business, we may acquire, through foreclosure, or deed in lieu of foreclosure, properties securing loans we have originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on our business, results of operations and financial condition.

If our allowance for loan losses is not sufficient to cover losses inherent in our loan portfolio, our results of operations and financial condition will be negatively impacted.

If loan customers with significant loan balances fail to repay their loans, our results of operations, financial condition and capital levels will suffer. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents management’s best estimate of inherent losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management’s continuing evaluation of factors including the volume and types of loans; industry concentrations; specific credit risks; internal loan classifications; trends in classifications; volume and trends in delinquencies, non-accruals and charge-offs; present economic, political and regulatory conditions; industry and peer bank loan quality indications; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes or vary from our historical experience. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Furthermore, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition and results of operations.

We expect to implement CECL for our fiscal year beginning January 1, 2020. The implementation of CECL may require additional reserves and may result in increased reserves during or in advance of an economic downturn. However, the magnitude of the increase of our allowance for loan losses at the adoption date will depend upon the nature and characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date. It is possible that CECL implementation may increase the cost of lending in the industry and result in slower loan growth and lower levels of net income.

See the section captioned “Allowance for Credit Losses” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” located elsewhere in this report for further discussion related to our process for determining the appropriate level of the allowance for loan losses.

Our net interest margin, and consequently our net earnings, are significantly affected by interest rate levels.

Our profitability is dependent to a large extent on net interest income, which is the difference between interest income earned on loans, leases and investment securities and interest expense paid on deposits, other borrowings, senior debt and subordinated notes. The absolute level of interest rates as well as changes in interest rates, including changes to the shape of the yield curve, may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense. In a period of changing interest rates, interest expense may increase at different rates than the interest earned on assets, impacting our net interest income. Interest rate fluctuations are caused by many factors which, for the most part, are not under our control. For example, national monetary policy implemented by the Federal Reserve plays a significant role in the determination of interest rates. Additionally, competitor pricing and the resulting negotiations that occur with our customers also impact the rates we collect on loans and the rates we pay on deposits. In addition, changes in the method of determining the London Interbank Offered Rate (“LIBOR”) or other reference rates, or uncertainty related to such potential changes, may adversely affect the value of reference rate-linked debt securities that we hold or issue, which could further impact our interest rate spread.

Changes in the level of interest rates also may negatively affect demand for, and thus our ability to originate, loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our results of operations and financial condition. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses.

Because of significant competitive pressures in our markets and the negative impact of these pressures on our deposit and loan pricing, coupled with the fact that a significant portion of our loan portfolio has variable rate pricing that moves in concert with changes to the Federal Reserve's federal funds rate or LIBOR (both of which are at relatively low levels as a result of macroeconomic conditions), our net interest margin may be negatively impacted if these short-term rates remain at their low levels. However, if short-term interest rates continue to rise, our results of operations may also be negatively impacted if we are unable to increase the rates we charge on loans or earn on our investment securities in excess of the increases we must pay on deposits and our other funding sources. As interest rates change, we expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities (usually deposits and borrowings) will be more sensitive to changes in market interest rates than our interest-earning assets (usually loans and investment securities), or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our results of operations and financial condition may be negatively affected.

We have historically entered into certain hedging transactions including interest rate swaps, which are designed to lessen elements of our interest rate exposure. In the event that interest rates do not change in the manner anticipated, such transactions may not be effective and our results of operations may be adversely affected.

Competition from financial institutions and other financial service providers may adversely affect our profitability.

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with banks, credit unions, savings and loan associations, mortgage banking firms, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as community, super-regional, national and international financial institutions that operate offices in our market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. Many of our competitors are well-established, larger financial institutions that are able to operate profitably with a narrower net interest margin and have a more diverse revenue base. We may face a competitive disadvantage as a result of our smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although we compete by concentrating marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, customer loyalty can be easily influenced by a competitor's new products and our strategy may or may not continue to be successful. We may also be affected by the marketplace loosening of credit underwriting standards and structures.

Our acquisitions and future expansion may result in additional risks.

We expect to continue to expand in our current markets and in select attractive growth markets through additional branches and also may consider expansion within these markets through additional acquisitions of all or part of other financial institutions. These types of expansions involve various risks, including:

Planning and Execution of Expansion. We may be unable to successfully:

- identify and expand into suitable markets;
- identify and acquire suitable sites for new banking offices and comply with zoning and permitting requirements;

- identify and evaluate potential acquisition and merger targets in a timely and cost-effective manner;
- develop accurate estimates and judgments to evaluate asset values and credit, operations, management and market risks with respect to an acquired branch or institution, a new branch office or a new market;
- manage transaction costs to preserve the expected financial benefits of the transaction;
- avoid the diversion of our management's attention to operations by the negotiation of a transaction;
- manage entry into new markets where we have limited or no direct prior experience;
- obtain regulatory and other approvals, or obtain such approvals without restrictive conditions;
- avoid the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on results of operations; or
- finance an acquisition or expansion or avoid possible dilution of our tangible book value and/or net income per common share.

Management of Growth. We may be unable to successfully:

- maintain loan quality in the context of significant loan growth;
- attract sufficient deposits and capital to fund anticipated loan growth;
- maintain adequate common equity and regulatory capital;
- avoid diversion or disruption of our existing operations or management as well as those of the acquired institution;
- hire or retain adequate management personnel and systems to oversee and support such growth;
- avoid the loss of key employees and customers of an acquired branch or institution;
- maintain adequate internal audit, loan review and compliance functions;
- implement additional policies, procedures and operating systems required to support such growth;
- integrate the acquired financial institution or portion of the institution; or
- avoid temporary disruption of our business or the business of the acquired institution.

Results of Operations. There is no assurance that existing offices or future offices will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. Our growth strategy necessarily entails growth in overhead expenses as we routinely add new offices and staff. Our historical results may not be indicative of future results or results that may be achieved as we continue to increase the number and concentration of our branch offices in our newer markets.

Development of Offices. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, any new branches we establish can be expected to negatively impact our earnings for some period of time until they reach certain economies of scale. The same is true for our efforts to expand in these markets with the hiring of additional seasoned professionals with significant experience in that market. Our expenses could be further increased if we encounter delays in opening any of our new branches.

Regulatory and Economic Factors. Our growth and expansion plans may be adversely affected by a number of regulatory and economic developments or other events. Failure to obtain required regulatory approvals, changes in laws and regulations or other regulatory developments and changes in prevailing economic conditions or other unanticipated events may prevent or adversely affect our continued growth and expansion. Such factors may cause us to alter our growth and expansion plans or slow or halt the growth and expansion process, which may prevent us from entering into or expanding in our targeted markets or allow competitors to gain or retain market share in our existing markets.

Failure to successfully address these and other issues related to our expansion could have a material adverse effect on our financial condition and results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our results of operations and financial condition could be materially adversely affected.

Liquidity risk could impair our ability to fund our operations and jeopardize our financial condition.

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility that we may be unable to satisfy current or future funding requirements and needs.

The objective of managing liquidity risk is to ensure that our cash flow requirements resulting from depositor, borrower and other creditor demands as well as our operating cash needs, are met, and that our cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and a liquidity and funds management policy, including a contingency funding plan that, among other things, include procedures for

managing and monitoring liquidity risk. Generally we rely on deposits, repayments of loans and leases and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with wholesale deposit sources such as brokered deposits, along with Federal Home Loan Bank of Atlanta (“FHLB”) advances, federal funds purchased and other sources of short-term and long-term borrowings, to make loans and leases, acquire investment securities and other assets and to fund continuing operations.

An inability to maintain or raise funds in amounts necessary to meet our liquidity needs could have a substantial negative effect, individually or collectively, on our and the Bank’s liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. For example, factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, a reduction in our credit rating, any damage to our reputation or any other decrease in depositor or investor confidence in our creditworthiness and business. Our access to liquidity could also be impaired by factors that are

not specific to us, such as severe volatility or disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Any such event or failure to manage our liquidity effectively could affect our competitive position, increase our borrowing costs and the interest rates we pay on deposits, limit our access to the capital markets and have a material adverse effect on our results of operations or financial condition.

Deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan and lease repayments are a relatively stable source of funds but are subject to the borrowers' and lessees' ability to repay loans and leases, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors. Furthermore, loans and leases generally are not readily convertible to cash. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans and leases, deposit withdrawal demands or otherwise fund operations. Such secondary sources include FHLB advances, brokered deposits, secured and unsecured federal funds lines of credit from correspondent banks, Federal Reserve borrowings and/or accessing the equity or debt capital markets.

The availability of these secondary funding sources is subject to broad economic conditions, to regulation and to investor assessment of our financial strength and, as such, the cost of funds may fluctuate significantly and/or the availability of such funds may be restricted, thus impacting our net interest income, our immediate liquidity and/or our access to additional liquidity. If we fail to remain "well capitalized" our ability to utilize brokered deposits may be restricted. We have somewhat similar risks to the extent high balance core deposits exceed the amount of deposit insurance coverage available.

We anticipate we will continue to rely primarily on deposits, loan and lease repayments, and cash flows from our investment securities to provide liquidity. Additionally, where necessary, the secondary sources of borrowed funds described above will be used to augment our primary funding sources. If we are unable to access any of these secondary funding sources when needed, we might be unable to meet our customers' or creditors' needs, which would adversely affect our financial condition, results of operations and liquidity.

We may need to raise additional capital in the future and our ability to raise capital and maintain required capital levels could be impacted by changes in the capital markets and deteriorating economic and market conditions.

Federal and state bank regulators require United and the Bank to maintain adequate levels of capital to support operations. At December 31, 2018, United's and the Bank's regulatory capital ratios were above "well-capitalized" levels under regulatory guidelines. However, our business strategy calls for continued growth in our existing banking markets and targeted expansion in new markets. Growth in assets at rates in excess of the rate at which our capital is increased through retained earnings will reduce our capital ratios unless we continue to increase capital. Failure by us to meet applicable capital guidelines or to satisfy certain other regulatory requirements could subject us to a variety of enforcement remedies available to the federal regulatory authorities and would negatively impact our ability to pursue acquisitions or other expansion opportunities.

We may need to raise additional capital (including through the issuance of common stock) in the future to provide us with sufficient capital resources to meet our commitments and business needs or in connection with acquisitions. Our ability to maintain capital levels could be impacted by negative perceptions of our business or prospects, changes in the capital markets and deteriorating economic and market conditions. The Bank's ability to pay dividends is described under "Supervision and Regulation - Payment of Dividends" in Part I, Item 1. Any restriction on the ability of the Bank to pay dividends to the Holding Company could impact United's ability to continue to pay dividends on its common

stock or its ability to pay interest on its indebtedness.

We cannot assure you that access to capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets may materially and adversely affect our capital costs and our ability to raise capital and/or debt and, in turn, our liquidity. If we cannot raise additional capital when needed, our ability to expand through internal growth or acquisitions or to continue operations could be impaired, and we may need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to do so or have to do so on terms which are unfavorable, which could adversely affect our results of operations and financial condition.

Changes to capital requirements for bank holding companies and depository institutions that became fully effective January 1, 2019 may negatively impact United's and the Bank's results of operations.

In July 2013, the Federal Reserve and the FDIC approved final rules that substantially amended the regulatory risk-based capital rules. The final rules, which were phased in beginning January 1, 2016 and became fully effective on January 1, 2019, implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes “capital” for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The minimum capital level requirements now applicable to bank holding companies and banks subject to the rules are: (i) a common equity Tier 1 risk-based capital ratio of 7%; (ii) a Tier 1 risk-based capital ratio of 8.5%; (iii) a total risk-based capital ratio of 10.5%; and (iv) a Tier 1 leverage ratio of 4% for all institutions.

We will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if our capital levels fall below these minimums. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under these rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Common equity Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. Tier 2 capital generally consists of subordinated debt, other preferred stock and a limited amount of loan loss reserves. The total amount of Tier 2 capital is limited to 100% of Tier 1 capital. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than \$15.0 billion in total assets at that date, trust preferred securities issued prior to that date, continue to count as Tier 1 capital subject to certain limitations. If our total assets exceeded \$15.0 billion in the future, the subordinated debentures we, and companies we have acquired, issued in connection with prior trust preferred securities offerings will no longer qualify as Tier 1 capital under applicable banking regulations. Though these trust preferred securities may no longer qualify as Tier 1 capital, we believe they would continue to qualify as Tier 2 capital, subject to applicable limitations. We may need to increase the level of Tier 1 capital we maintain through issuance of common stock or noncumulative perpetual preferred stock, which could cause dilution to our existing common shareholders.

The final rules allow banks and their holding companies with less than \$250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. We opted-out of this requirement.

The application of more stringent capital requirements, like those adopted to implement the Basel III reforms, could, among other things, result in lower returns on invested capital, require the raising of additional capital, particularly in the form of common stock, make it more difficult for us to receive regulatory approvals related to our growth initiatives and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III either because we became subject to those requirements directly or because our regulators seek to propose additional on-balance sheet liquidity requirements on us, could result in our having to lengthen the term of our funding, restructure our business models and/or increase our holdings of liquid assets, which could adversely impact our results of operations.

Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying dividends or buying back shares.

Our reported financial results depend on the accounting and reporting policies of United, the application of which requires significant assumptions, estimates and judgments.

Our accounting and reporting policies are fundamental to the methods by which we record and report our financial condition and results of operations. Management must make significant assumptions and estimates and exercise significant judgment in selecting and applying many of these accounting and reporting policies so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select a policy from two or more alternatives, any of which may be reasonable under the circumstances, which may result in reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting United's financial condition and results. They require management to make difficult, subjective and complex assumptions, estimates and judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to the allowance for loan losses, fair value measurement and income taxes. Because of the uncertainty of assumptions and estimates involved in these matters, United may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the reserve provided; significantly decrease the carrying value of loans, foreclosed property

or other assets or liabilities to reflect a reduction in their fair value; or, significantly increase or decrease accrued taxes and the value of our deferred tax assets.

We may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers and employees.

When we make loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and the borrower's net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our financial condition or results of operations.

Changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our financial condition and results of operations.

We are heavily regulated by federal and state authorities. This regulation is designed primarily to protect depositors, federal deposit insurance funds and the banking system as a whole, but not shareholders. Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including interpretation and implementation of statutes, regulations or policies could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we may offer or increasing the ability of non-banks to offer competing financial services and products. Any regulatory changes or scrutiny could increase or decrease the cost of doing business, limit or expand our permissible activities, or affect the competitive balance among banks, credit unions, savings and loan associations and other institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

Federal and state regulators have the ability to impose or request that we consent to substantial sanctions, restrictions and requirements on our bank and nonbank subsidiaries if they determine, upon examination or otherwise, violations of laws, rules or regulations with which we or our subsidiaries must comply, or weaknesses or failures with respect to general standards of safety and soundness. Such enforcement may be formal or informal and can include directors' resolutions, memoranda of understanding, cease and desist or consent orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital level of the institution. In particular, institutions that are not sufficiently capitalized in accordance with regulatory standards may also face capital directives or prompt corrective action. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Enforcement actions, including the imposition of monetary penalties, may have a material impact on our financial condition or results of operations, damage our reputation, and result in the loss of our holding company status. In addition, compliance with any such action could distract management's attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities and limit our ability to raise capital. Closure of the Bank would result in a total loss of your investment.

In addition to other banking regulations, the federal Bank Secrecy Act, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal FinCEN, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal bank regulatory agencies, as well as the DOJ, Drug Enforcement Administration and Internal Revenue Service. Federal

bank regulatory agencies and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, which would negatively impact our business, financial condition and results of operations.

Changes in other laws and regulations not specific to banking or financial services could also negatively impact our business, financial condition and results of operations. Changes in bankruptcy law, zoning or land use laws and regulations or environmental laws, rules, regulation and enforcement or other statutes, ordinances, rules or administrative or judicial interpretations that affect our customers' businesses could negatively impact our business.

Changes in the method pursuant to which the LIBOR and other benchmark rates are determined could adversely impact our business and results of operations.

Our floating-rate funding, certain hedging transactions and certain of the products that we offer, such as floating-rate loans and mortgages, determine their applicable interest rate or payment amount by reference to a benchmark rate, such as LIBOR, the prime rate or the federal funds rate. LIBOR and certain other benchmark rates are the subject of recent national, international and other regulatory guidance and proposals for reform. In July 2017, the Chief Executive of the United Kingdom's Financial Conduct Authority (the "FCA") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-linked financial instruments. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify these systems as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. We provide our customers the ability to bank remotely, including over the Internet or through their mobile device. The secure transmission of confidential information is a critical element of remote and mobile banking. Our network, and the systems of parties with whom we contract, could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches (including breaches of security of customer systems and networks) and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

In addition, we outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. While we have selected these vendors carefully, we do not control their actions. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Financial or operational difficulties of a vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third party vendors could also create significant delay and expense. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience

interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business, financial condition and results of operations.

We could be subject to changes in tax laws, regulations and interpretations or challenges to our income tax provision.

We compute our income tax provision based on enacted tax rates in the jurisdictions in which we operate. Any change in enacted tax laws, rules or regulatory or judicial interpretations, any adverse outcome in connection with tax audits in any jurisdiction or any change in the pronouncements relating to accounting for income taxes could adversely affect our effective tax rate, tax payments and results of operations. In addition, changes in enacted tax laws, such as adoption of a lower income tax rate in any of the jurisdictions in which we operate, could impact our ability to obtain the future tax benefits represented by our deferred tax assets.

Negative publicity could damage our reputation and our business.

Reputation risk, or the risk to our earnings, liquidity and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, securities compliance, mergers and acquisitions, and disclosure, from sharing or inadequate protection of customer information and from actions taken by government regulators and community organizations in response to that conduct. Negative public opinion could also result from adverse news or publicity that impairs the reputation of the financial services industry generally. Because we conduct most of our business under the “United” brand, negative public opinion about one business could affect our other businesses.

Inability to retain management and key employees or to attract new experienced financial services or technology professionals could impair our relationship with our customers, reduce growth and adversely affect our business.

We have assembled a management team which has substantial background and experience in banking and financial services in our markets. Moreover, much of our organic loan growth in recent years (like the growth that we are seeking going forward) was the result of our ability to attract experienced financial services professionals who have been able to attract customers from other financial institutions. We anticipate deploying a similar hiring strategy in the future. Operating our technology systems requires employees with specialized skills that are not readily available in the general employee candidate pool. Inability to retain these key personnel (including key personnel of the businesses we have acquired) or to continue to attract experienced lenders with established books of business could negatively impact our growth because of the loss of these individuals’ skills and customer relationships and/or the potential difficulty of promptly replacing them. Moreover, the higher costs we have to pay to hire and retain these experienced individuals could cause our noninterest expense levels to rise and negatively impact our results of operations.

We are subject to certain litigation, and our expenses related to this litigation may adversely affect our results.

We are from time to time subject to certain litigation in the ordinary course of our business. As we hire new revenue producing associates we, and the associates we hire, may also periodically be the subject of litigation and threatened litigation with these associates’ former employers. We may also be subject to claims related to our loan servicing programs, particularly those involving servicing of commercial real estate loans. From time to time, and particularly during periods of economic stress, customers, including real estate developers and consumer borrowers, may make claims or otherwise take legal action pertaining to performance of our responsibilities. These claims are often referred to as “lender liability” claims and are sometimes brought in an effort to produce or increase leverage against us in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims.

These and other claims and legal actions, as well as supervisory and enforcement actions by our regulators, including the CFPB or other regulatory agencies with which we deal, including those with oversight of our loan servicing programs, could involve large monetary claims, capital directives, agreements with federal regulators, cease and desist orders and significant defense costs. The outcome of any such cases or actions is uncertain. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

An ineffective risk management framework could have a material adverse effect on our strategic planning and our ability to mitigate risks and/or losses and could have adverse regulatory consequences.

We have implemented a risk management framework to identify and manage our risk exposure. This framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, operational, capital, compliance, strategic and reputational risks. Our framework also includes financial, analytical, forecasting, or other modeling methodologies, which involves management assumptions and judgment. In addition, our board of directors, in consultation with management, has adopted a risk appetite statement, which sets forth certain thresholds and limits to govern our

overall risk profile. However, there is no assurance that our risk management framework, including the risk metrics under our risk appetite statement, will be effective under all circumstances or that it will adequately identify, manage or mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and become subject to regulatory consequences, as a result of which our business, financial condition, results of operations or prospects could be materially adversely affected.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and financial stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to various counterparties, including brokers and dealers, commercial and correspondent banks, and others. As a result, defaults by, or rumors or questions about, one or more financial services institutions, or the financial services industry generally, may result in market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose us to credit risk in the event of default of one or more counterparties and could have a material adverse effect on our financial position, results of operations and liquidity.

Natural disasters may adversely affect us.

Our operations and customer base are located in markets where natural disasters, including tornadoes, severe storms, fires, floods, hurricanes and earthquakes have occurred. Such natural disasters could significantly impact the local population and economies and our business, and could pose physical risks to our properties. Although our banking offices are geographically dispersed throughout portions of the southeastern United States and we maintain insurance coverages for such events, a significant natural disaster in or near one or more of our markets could have a material adverse effect on our financial condition, results of operations or liquidity.

Disruptions in the operation of government or changes in government funding may adversely affect us.

Certain of our operations and customers are dependent on the regular operation of the federal or state government or programs they administer. For example, our SBA lending program depends on reviews and approvals by the SBA, an independent agency of the federal government. During a lapse in funding, such as has occurred during previous federal government “shutdowns”, the SBA may not be able to conduct such reviews and issue the necessary approvals. Similarly, loans we make through USDA lending programs may be delayed or adversely affected by lapses in funding for the USDA. In addition, customers who depend directly or indirectly on providing goods and services to federal or state governments or their agencies may reduce their business with us or delay repayment of loans due to lost or delayed revenue from those relationships. If funding for these lending programs or federal spending generally is reduced as part of the appropriations process or by administrative decision, demand for our services may be reduced. Any of these developments could have a material adverse effect on our financial condition, results of operations or liquidity.

Risks Related to Common Stock

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;

- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; or
- geopolitical conditions such as acts or threats of terrorism, military conflicts, or trade relations.

General market fluctuations, including real or anticipated changes in the strength of the local economy; industry factors and general economic and political conditions and events, such as economic slowdowns or recessions; interest rate changes, oil price volatility or credit loss trends could also cause our stock price to decrease regardless of operating results.

Although our common stock currently is traded on the Nasdaq Stock Market's Global Select Market, it has less liquidity than other stocks quoted on a national securities exchange.

Although our common stock is listed for trading on the Nasdaq, the trading volume in our common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

The trading volume in our common stock on the Nasdaq Global Select Market has been relatively low when compared with larger companies listed on the Nasdaq Global Select Market or other stock exchanges. For 2018, our average daily trading volume was 460,152 shares. Although we have experienced increased liquidity in our stock, we cannot say with any certainty that a more active and liquid trading market for our common stock will continue to develop. Because of this, it may be more difficult for shareholders to sell a substantial number of shares for the same price at which shareholders could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock has fluctuated significantly and may fluctuate in the future. These fluctuations may be unrelated to our performance. General market or industry price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Holders of our indebtedness have rights that are senior to those of our shareholders.

At December 31, 2018, we had outstanding securitized notes payable, senior debentures, subordinated debentures and trust preferred securities and accompanying subordinated debentures totaling \$267 million. Payments of the principal and interest on the securitized notes payable, senior debentures, subordinated debentures and the subordinated debentures accompanying the trust preferred securities are senior to payments with respect to shares of our common stock. We also conditionally guarantee payments of the principal and interest on the trust preferred securities. As a result, we must make payments on these debt instruments (including the related trust preferred securities) before any dividends can be paid on common stock and, in the event of bankruptcy, dissolution or liquidation, the holders of the debt must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on the subordinated debentures related to the trust preferred securities (and the related guarantee of payments on the trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock. If our financial condition deteriorates or if we do not receive required regulatory approvals, we may be required to defer distributions on the subordinated debentures related to the trust preferred securities (and the related guarantee of payments on the trust preferred securities).

We may from time to time issue additional senior or subordinated indebtedness that would have to be repaid before our shareholders would be entitled to receive any of our assets.

Our ability to declare and pay dividends is limited.

While our board of directors has approved the payment of a quarterly cash dividend on our common stock since the fourth quarter of 2013, there can be no assurance of whether or when we may pay dividends on our common stock in the future. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors. Our principal source of funds used to pay cash dividends on our common stock will be dividends that we receive from the Bank. Although the Bank's asset quality, earnings performance, liquidity and capital requirements will be taken into account before we declare or pay any future dividends on our common stock, our board of directors will also consider our liquidity and capital requirements and our board of directors could determine to declare and pay dividends without relying on dividend payments from the Bank.

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay and that the Bank may declare and pay to us. For example, Federal Reserve regulations implementing the capital rules required under Basel III do not permit dividends unless capital levels exceed certain higher levels applying capital conservation buffers that apply beginning January 1, 2019.

In addition, the terms of our debentures prohibit us from paying dividends on our common stock until we have made required payments under the debentures or if we have deferred payments under the terms of such debentures.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain our or the Bank's capital at desired or regulatory-required levels, we may issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. We may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute shareholder ownership. We could also issue additional shares in connection with acquisitions of other financial institutions or other investments, which could also dilute shareholder ownership.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential holders of our securities could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.

Maintaining and adapting our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, is expensive and requires significant management attention. Moreover, as we continue to grow, our internal controls may become more complex and require additional resources to ensure they remain effective amid dynamic regulatory and other guidance. Failure to implement effective controls or difficulties encountered in the process may harm our results of operations and financial condition or cause us to fail to meet our reporting obligations. If we or our independent registered accounting firm identify material weaknesses in our internal control over financial reporting or are otherwise required to restate our financial statements, we could be required to implement expensive and time-consuming remedial measures and could lose investor confidence in the accuracy and completeness of our financial reports. We may also face regulatory enforcement or other actions, including the potential delisting of our securities from the Nasdaq Global Select Market. This could have an adverse effect on our business, financial condition or results of operations, as well as the trading price of our securities, and could potentially subject us to litigation.

Our corporate organizational documents and the provisions of Georgia law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition of United that you may favor.

Our amended and restated articles of incorporation, as amended, and bylaws, as amended, contain various provisions that could have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control of United. These provisions include:

- a provision allowing our board of directors to take into account the interests of our employees, customers, suppliers and creditors when considering an acquisition proposal;
- a provision that all amendments to our amended and restated articles of incorporation, as amended, and bylaws, as amended, must be approved by two-thirds of the outstanding shares of our capital stock entitled to vote;
- a provision requiring that any business combination involving United be approved by 75% of the outstanding shares of our Common Stock excluding shares held by stockholders who are deemed to have an interest in the transaction unless the business combination is approved by 75% of our directors;
- a provision restricting removal of directors except for cause and upon the approval of two-thirds of the outstanding shares of our capital stock entitled to vote;
 - a provision that any special meeting of our shareholders may be called only by our chairman, our chief executive officer, our president, our chief financial officer, our board of directors, or the holders of 25% of the outstanding shares of our capital stock entitled to vote; and

a provision establishing certain advance notice procedures for matters to be considered at an annual meeting of shareholders.

Additionally, our amended and restated charter, as amended, authorizes the board of directors to issue shares of our preferred stock without shareholder approval and upon such terms as the board of directors may determine. The issuance of our preferred stock, while providing desirable flexibility in connection with possible acquisitions, financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a controlling interest in us.

An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described herein and our shareholders will bear the risk of loss if the value or market price of our common stock is adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive offices of United are located at 125 Highway 515 East, Blairsville, Georgia. United owns this property. The Bank provides services or performs operational functions at 184 locations, of which 144 are owned and 40 are leased under operating leases. We believe the terms of the various leases are consistent with market standards and were arrived at through arm's-length bargaining. We consider our properties to be suitable and adequate for operating our banking business. Note 8 to United's consolidated financial statements includes additional information regarding amounts invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS.

In the ordinary course of operations, United and the Bank are parties to various legal proceedings and periodic regulatory examinations and investigations. There are no material pending legal proceedings to which United or any of its subsidiaries is a party or of which any of its property is subject.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

28

PART II

ITEM MARKET FOR UNITED'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER
5. PURCHASES OF EQUITY SECURITIES.

Stock. United's common stock trades on the Nasdaq Global Select Market under the symbol "UCBI". The closing price for the period ended December 31, 2018 was \$21.46.

At January 31, 2019, there were 8,601 record shareholders of United's common stock.

Dividends. United declared cash dividends of \$0.58 and \$0.38 per share on its common stock in 2018 and 2017, respectively. Federal and state laws and regulations impose restrictions on the ability of the Bank to pay dividends to the Holding Company without prior approvals.

Additional information regarding dividends is included in Note 19 to the consolidated financial statements, under the heading of "Supervision and Regulation" in Part I of this report and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Dividends."

Share Repurchases. In November 2018, United's Board of Directors approved an increase and extension of the existing common stock repurchase plan, authorizing \$50 million of repurchases through December 31, 2019. Under the program, the shares may be repurchased periodically in open market transactions at prevailing market prices, in privately negotiated transactions, or by other means in accordance with federal securities laws. The actual timing, number and value of shares repurchased under the program depends on a number of factors, including the market price of United's common stock, general market and economic conditions, and applicable legal requirements.

The following table contains information for shares repurchased during the fourth quarter of 2018.

(Dollars in thousands, except for per share amounts)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2018 - October 31, 2018	—	\$ —	—	\$ 36,342
November 1, 2018 - November 30, 2018	—	—	—	50,000
December 1, 2018 - December 31, 2018	—	—	—	50,000
Total	—	\$ —	—	\$ 50,000

United's Amended and Restated 2000 Key Employee Stock Option Plan allows option holders to exercise stock options by delivering previously acquired shares having a fair market value equal to the exercise price provided that the shares delivered must have been held by the option holder for at least six months. In addition, United may withhold a sufficient number of restricted stock shares at the time of vesting to cover payroll tax withholdings at the election of the restricted stock recipient. In 2018 and 2017, 65,422 and 62,386 shares, respectively, were withheld to cover payroll taxes owed at the time of restricted stock vesting. No shares were delivered to exercise stock options in 2018 or 2017.

Performance Graph. Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United's common stock against the cumulative total return on the Nasdaq Stock Market (U.S. Companies) Index and the Nasdaq Bank Stocks Index for the five-year period commencing December 31, 2013 and ending on December 31, 2018.

	Cumulative Total Return*					
	2013	2014	2015	2016	2017	2018
United Community Banks, Inc.	\$100	\$107	\$112	\$172	\$166	\$129
Nasdaq Stock Market (U.S.) Index	100	113	120	129	165	159
Nasdaq Bank Index	100	103	110	148	153	126

Assumes \$100 invested on December 31, 2013 in United's common stock and above noted indexes. Total return *includes reinvestment of dividends at the closing stock price of the common stock on the dividend payment date and the closing values of stock and indexes as of December 31 of each year.

UNITED COMMUNITY BANKS, INC.

Item 6. Selected Financial Data

For the Years Ended December 31,

(in thousands, except per share data)

INCOME SUMMARY

	2018	2017	2016	2015	2014
Interest revenue	\$500,080	\$389,720	\$335,020	\$278,532	\$248,432
Interest expense	61,330	33,735	25,236	21,109	25,551
Net interest revenue	438,750	355,985	309,784	257,423	222,881
Provision for credit losses	9,500	3,800	(800)	3,700	8,500
Noninterest income	92,961	88,260	93,697	72,529	55,554
Total revenue	522,211	440,445	404,281	326,252	269,935
Expenses	306,285	267,611	241,289	211,238	162,865
Income before income tax expense	215,926	172,834	162,992	115,014	107,070
Income tax expense	49,815	105,013	62,336	43,436	39,450
Net income	166,111	67,821	100,656	71,578	67,620
Merger-related and other charges	7,345	14,662	8,122	17,995	—
Income tax benefit of merger-related and other charges	(1,494)	(3,745)	(3,074)	(6,388)	—
Impact of remeasurement of deferred tax asset resulting from 2017 Tax Cuts and Jobs Act	—	38,199	—	—	—
Impairment of deferred tax asset on cancelled non-qualified stock options	—	—	976	—	—
Release of disproportionate tax effects lodged in OCI	—	3,400	—	—	—
Net income - operating ⁽¹⁾	\$171,962	\$120,337	\$106,680	\$83,185	\$67,620

PERFORMANCE MEASURES

Per common share:

Diluted net income - GAAP	\$2.07	\$0.92	\$1.40	\$1.09	\$1.11	
Diluted net income - operating ⁽¹⁾	2.14	1.63	1.48	1.27	1.11	
Cash dividends declared	0.58	0.38	0.30	0.22	0.11	
Book value	18.24	16.67	15.06	14.02	12.20	
Tangible book value ⁽³⁾	14.24	13.65	12.95	12.06	12.15	
Key performance ratios:						
Return on common equity - GAAP ⁽²⁾	11.60	% 5.67	% 9.41	% 8.15	% 9.17	%
Return on common equity - operating ⁽¹⁾⁽²⁾	12.01	10.07	9.98	9.48	9.17	
Return on tangible common equity - operating ⁽¹⁾⁽²⁾⁽³⁾	15.69	12.02	11.86	10.24	9.32	
Return on assets - GAAP	1.35	0.62	1.00	0.85	0.91	
Return on assets - operating ⁽¹⁾	1.40	1.09	1.06	0.98	0.91	
Dividend payout ratio - GAAP	28.02	41.30	21.43	20.18	9.91	
Dividend payout ratio - operating ⁽¹⁾	27.10	23.31	20.27	17.32	9.91	
Net interest margin (fully taxable equivalent)	3.91	3.52	3.36	3.30	3.26	
Efficiency ratio - GAAP	57.31	59.95	59.80	63.96	58.26	
Efficiency ratio - operating ⁽¹⁾	55.94	56.67	57.78	58.51	58.26	
Average equity to average assets	11.24	10.71	10.54	10.27	9.69	
Average tangible equity to average assets ⁽³⁾	8.92	9.29	9.21	9.74	9.67	
Average tangible common equity to average assets ⁽³⁾	8.92	9.29	9.19	9.66	9.60	
Tangible common equity to risk-weighted assets ⁽³⁾	12.00	12.05	11.84	12.82	13.82	

ASSET QUALITY

Nonperforming loans	\$23,778	\$23,658	\$21,539	\$22,653	\$17,881
Foreclosed properties	1,305	3,234	7,949	4,883	1,726

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

Total nonperforming assets (NPAs)	25,083	26,892	29,488	27,536	19,607	
Allowance for loan losses	61,203	58,914	61,422	68,448	71,619	
Net charge-offs	6,113	5,998	6,766	6,259	13,879	
Allowance for loan losses to loans	0.73	% 0.76	% 0.89	% 1.14	% 1.53	%
Net charge-offs to average loans	0.07	0.08	0.11	0.12	0.31	
NPAs to loans and foreclosed properties	0.30	0.35	0.43	0.46	0.42	
NPAs to total assets	0.20	0.23	0.28	0.29	0.26	
AVERAGE BALANCES (\$ in millions)						
Loans	\$8,170	\$7,150	\$6,413	\$5,298	\$4,450	
Investment securities	2,899	2,847	2,691	2,368	2,274	
Earning assets	11,282	10,162	9,257	7,834	6,880	
Total assets	12,284	11,015	10,054	8,462	7,436	
Deposits	10,000	8,950	8,177	7,055	6,228	
Shareholders' equity	1,380	1,180	1,059	869	720	
Common shares - basic (thousands)	79,662	73,247	71,910	65,488	60,588	
Common shares - diluted (thousands)	79,671	73,259	71,915	65,492	60,590	
AT PERIOD END (\$ in millions)						
Loans	\$8,383	\$7,736	\$6,921	\$5,995	\$4,672	
Investment securities	2,903	2,937	2,762	2,656	2,198	
Total assets	12,573	11,915	10,709	9,616	7,558	
Deposits	10,535	9,808	8,638	7,873	6,335	
Shareholders' equity	1,458	1,303	1,076	1,018	740	
Common shares outstanding (thousands)	79,234	77,580	70,899	71,484	60,259	

⁽¹⁾ Excludes merger-related and other charges which includes amortization of certain executive change of control benefits, the 2017 impact of remeasurement of United's deferred tax assets following the passage of tax reform legislation, a 2017 release of disproportionate tax effects lodged in OCI, a 2016 deferred tax asset impairment charge related to cancelled non-qualified stock options and 2015 impairment losses on surplus bank property. ⁽²⁾ Net income less 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.

UNITED COMMUNITY BANKS, INC.

Item 6. Selected Financial Data, continued

(in thousands, except per share data)	2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
INCOME SUMMARY								
Interest revenue	\$133,854	\$128,721	\$122,215	\$115,290	\$106,757	\$98,839	\$93,166	\$90,958
Interest expense	18,975	16,611	13,739	12,005	9,249	9,064	8,018	7,404
Net interest revenue	114,879	112,110	108,476	103,285	97,508	89,775	85,148	83,554
Provision for credit losses	2,100	1,800	1,800	3,800	1,200	1,000	800	800
Noninterest income	23,045	24,180	23,340	22,396	21,928	20,573	23,685	22,074
Total revenue	135,824	134,490	130,016	121,881	118,236	109,348	108,033	104,828
Expenses	78,242	77,718	76,850	73,475	75,882	65,674	63,229	62,826
Income before income tax expense	57,582	56,772	53,166	48,406	42,354	43,674	44,804	42,002
Income tax expense	12,445	13,090	13,532	10,748	54,270	15,728	16,537	18,478
Net income	45,137	43,682	39,634	37,658	(11,916)	27,946	28,267	23,524
Merger-related and other charges	1,234	592	2,873	2,646	7,358	3,420	1,830	2,054
Income tax benefit of merger-related and other charges	(604)	(141)	(121)	(628)	(1,165)	(1,147)	(675)	(758)
Impact of remeasurement of deferred tax asset resulting from 2017 Tax Cuts and Jobs Act	—	—	—	—	38,199	—	—	—
Release of disproportionate tax effects lodged in OCI	—	—	—	—	—	—	—	3,400
Net income - operating ⁽¹⁾	\$45,767	\$44,133	\$42,386	\$39,676	\$32,476	\$30,219	\$29,422	\$28,220
PERFORMANCE MEASURES								
Per common share:								
Diluted net income (loss) - GAAP	\$0.56	\$0.54	\$0.49	\$0.47	\$(0.16)	\$0.38	\$0.39	\$0.33

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

Diluted net income - operating ⁽¹⁾	0.57	0.55	0.53	0.50	0.42	0.41	0.41	0.39	
Cash dividends declared	0.16	0.15	0.15	0.12	0.10	0.10	0.09	0.09	
Book value	18.24	17.56	17.29	17.02	16.67	16.50	15.83	15.40	
Tangible book value ⁽³⁾	14.24	13.54	13.25	12.96	13.65	14.11	13.74	13.30	
Key performance ratios:									
Return on common equity - GAAP ⁽²⁾⁽⁴⁾	12.08	% 11.96	% 11.20	% 11.11	% (3.57)% 9.22	% 9.98	% 8.54	%
Return on common equity - operating ⁽¹⁾⁽²⁾⁽⁴⁾	12.25	12.09	11.97	11.71	9.73	9.97	10.39	10.25	
Return on tangible common equity - operating ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	15.88	15.81	15.79	15.26	11.93	11.93	12.19	12.10	
Return on assets - GAAP ⁽⁴⁾	1.43	1.41	1.30	1.26	(0.40)	1.01	1.06	0.89
Return on assets - operating ⁽¹⁾⁽⁴⁾	1.45	1.42	1.39	1.33	1.10	1.09	1.10	1.07	
Dividend payout ratio - GAAP	28.57	27.78	30.61	25.53	(62.50)	26.32	23.08	27.27
Dividend payout ratio - operating ⁽¹⁾	28.07	27.27	28.30	24.00	23.81	24.39	21.95	23.08	
Net interest margin (fully taxable equivalent) ⁽⁴⁾	3.97	3.95	3.90	3.80	3.63	3.54	3.47	3.45	
Efficiency ratio - GAAP	56.73	56.82	57.94	57.83	63.03	59.27	57.89	59.29	
Efficiency ratio - operating ⁽¹⁾	55.83	56.39	55.77	55.75	56.92	56.18	56.21	57.35	
Average equity to average assets	11.35	11.33	11.21	11.03	11.21	10.86	10.49	10.24	
Average tangible equity to average assets ⁽³⁾	9.04	8.97	8.83	8.82	9.52	9.45	9.23	8.96	
Average tangible common equity to average assets ⁽³⁾	9.04	8.97	8.83	8.82	9.52	9.45	9.23	8.96	
Tangible common equity to risk-weighted assets ⁽³⁾	12.00	11.61	11.36	11.19	12.05	12.80	12.44	12.07	
ASSET QUALITY									

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

Nonperforming loans	\$23,778	\$22,530	\$21,817	\$26,240	\$23,658	\$22,921	\$23,095	\$19,812	
Foreclosed properties	1,305	1,336	2,597	2,714	3,234	2,736	2,739	5,060	
Total nonperforming assets (NPAs)	25,083	23,866	24,414	28,954	26,892	25,657	25,834	24,872	
Allowance for loan losses	61,203	60,940	61,071	61,085	58,914	58,605	59,500	60,543	
Net charge-offs	1,787	1,466	1,359	1,501	1,061	1,635	1,623	1,679	
Allowance for loan losses to loans	0.73	% 0.74	% 0.74	% 0.75	% 0.76	% 0.81	% 0.85	% 0.87	%
Net charge-offs to average loans ⁽⁴⁾	0.09	0.07	0.07	0.08	0.06	0.09	0.09	0.10	
NPAs to loans and foreclosed properties	0.30	0.29	0.30	0.35	0.35	0.36	0.37	0.36	
NPAs to total assets	0.20	0.19	0.20	0.24	0.23	0.23	0.24	0.23	
AVERAGE BALANCES (\$ in millions)									
Loans	\$8,306	\$8,200	\$8,177	\$7,993	\$7,560	\$7,149	\$6,980	\$6,904	
Investment securities	3,004	2,916	2,802	2,870	2,991	2,800	2,775	2,822	
Earning assets	11,534	11,320	11,193	11,076	10,735	10,133	9,899	9,872	
Total assets	12,505	12,302	12,213	12,111	11,687	10,980	10,704	10,677	
Deposits	10,306	9,950	9,978	9,759	9,624	8,913	8,659	8,592	
Shareholders' equity	1,420	1,394	1,370	1,336	1,310	1,193	1,123	1,093	
Common shares - basic (thousands)	79,884	79,806	79,753	79,205	76,768	73,151	71,810	71,700	
Common shares - diluted (thousands)	79,890	79,818	79,755	79,215	76,768	73,162	71,820	71,708	
AT PERIOD END (\$ in millions)									
Loans	\$8,383	\$8,226	\$8,220	\$8,184	\$7,736	\$7,203	\$7,041	\$6,965	
Investment securities	2,903	2,873	2,834	2,731	2,937	2,847	2,787	2,767	
Total assets	12,573	12,405	12,386	12,264	11,915	11,129	10,837	10,732	
Deposits	10,535	10,229	9,966	9,993	9,808	9,127	8,736	8,752	
Shareholders' equity	1,458	1,402	1,379	1,357	1,303	1,221	1,133	1,102	
Common shares outstanding (thousands)	79,234	79,202	79,138	79,123	77,580	73,403	70,981	70,973	

⁽¹⁾ Excludes merger-related and other charges which includes amortization of certain executive change of control benefits, the fourth quarter 2017 impact of remeasurement of United's deferred tax assets following the passage of tax

reform legislation and a first quarter 2017 release of disproportionate tax effects lodged in OCI. ⁽²⁾ Net income less 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

The following discussion and analysis of the financial condition and results of operations of United should be read in conjunction with the consolidated financial statements and accompanying notes. Historical results of operations and any trends that may appear may not indicate trends in results of operations for any future periods.

United offers a wide array of commercial and consumer banking services and investment advisory services through a 149 branch network throughout Georgia, South Carolina, North Carolina and Tennessee. United has grown organically as well as through strategic acquisitions.

In the past three years, United has completed the following acquisitions:

Entity	Date Acquired
NLFC Holdings Corp. ("NLFC")	February 1, 2018
Four Oaks Fincorp, Inc. ("FOFN")	November 1, 2017
HCSB Financial Corporation ("HCSB")	July 31, 2017
Tidelands Bancshares, Inc. ("Tidelands")	July 1, 2016

The acquired entities' results are included in United's consolidated results beginning on the respective acquisition dates.

United reported net income of \$166 million, or \$2.07 per diluted share, in 2018, compared with \$67.8 million, or \$0.92 per diluted share, in 2017 and \$101 million, or \$1.40 per diluted share, in 2016. The increase in net interest revenue and noninterest income and the reduction of the federal income tax rate from 35% in 2017 and 2016 to 21% in 2018 contributed to the increase in net income and diluted earnings per share in 2018. The decrease in net income for 2017 compared to 2016 was also attributable to the Tax Act as it required a remeasurement of United's deferred tax assets in the period of enactment. The remeasurement resulted in a \$38.2 million increase in income tax expense in 2017.

Net interest revenue increased to \$439 million for 2018, compared to \$356 million in 2017 and \$310 million in 2016. The increase was primarily due to higher loan volume, much of which resulted from the acquisitions of NLFC, FOFN, HCSB and Tidelands (collectively, the "Acquisitions") and rising interest rates. Net interest margin increased 39 basis points to 3.91% in 2018 from 3.52% in 2017 due to the effect of rising interest rates on floating rate loans, as well as a more favorable earning asset mix due to the acquisition of higher yielding loans from NLFC and FOFN.

The provision for credit losses was \$9.50 million for 2018, compared to \$3.80 million for 2017. Net charge-offs for 2018 were \$6.11 million, compared to \$6.00 million for 2017. Since credit quality remained stable, the increase in the provision reflects growth in the loan and lease portfolio (collectively referred to as the "loan portfolio" or "loans"), including a \$6.53 million increase resulting from the inclusion of NLFC's loans in the allowance for loan losses in 2018. Because NLFC's loans were recorded at a premium, the allowance for loan losses model required us to immediately establish an allowance for loan losses sufficient to cover estimated credit losses inherent in the NLFC loan portfolio.

As of December 31, 2018, the allowance for loan losses was \$61.2 million, or 0.73% of loans, compared with \$58.9 million, or 0.76% of loans, at the end of 2017, reflecting continued asset quality improvement. Nonperforming assets of \$25.1 million were 0.20% of total assets at December 31, 2018 compared to 0.23% at December 31, 2017.

Noninterest income of \$93.0 million for 2018 was up \$4.70 million, or 5%, from 2017. Service charges and fees decreased 6% compared to 2017 due mainly to the effect of the Durbin Amendment of the Dodd-Frank Act (the “Durbin Amendment”), which took effect for United in the third quarter of 2017 and limited the amount of interchange fees United could earn on debit card transactions. Mortgage loan and related fees increased 4% from 2017. The increase is due to United’s emphasis on growing its mortgage business by recruiting lenders in metropolitan markets. Other noninterest income for 2018 increased \$7.12 million from 2017, primarily due to fee revenue from the equipment finance business that came through acquisition of NLFC. Noninterest income is shown in more detail in Table 4.

Noninterest expenses for 2018 of \$306 million were up \$38.7 million, or 14%, from 2017 largely due to the acquisitions of NLFC, FOFN and HCSB. Salaries and employee benefits expense increased \$27.9 million in 2018 which can be mostly attributed to the 2018 and 2017 acquisitions, investment in additional staff and new teams to expand the Commercial Banking Solutions area, and higher incentive compensation in connection with increased lending activities and improvement in earnings performance.

Loans at December 31, 2018 were \$8.38 billion, up \$648 million from the end of 2017, primarily due to the acquisition of NLFC combined with solid growth in our community banking and Commercial Banking Solutions areas. Deposits were up \$727 million to \$10.5 billion at December 31, 2018, as United continued to focus on increasing low cost core transaction deposits, which grew \$190 million in 2018, excluding public funds deposits. At the end of 2018, total equity capital was \$1.46 billion, up \$154 million from December 31, 2017, reflecting net income of \$166 million and shares issued for the NLFC acquisition of \$45.7 million, partially offset by the payment of dividends on United's common stock of \$46.6 million. At December 31, 2018, all of United's regulatory capital ratios were significantly above "well-capitalized" levels.

At December 31, 2018, United had consolidated total assets of \$12.6 billion and 2,312 full-time equivalent employees.

Critical Accounting Policies

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more critical accounting and reporting policies include accounting for the allowance for loan losses, fair value measurements and income taxes. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon future events. Carrying assets and liabilities at fair value results in more financial statement volatility. The fair values and the information used to record the valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies for United are presented in Note 1 to the accompanying consolidated financial statements. These policies, along with the disclosures presented in the other notes to the consolidated financial statements and in this Management's Discussion and Analysis, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant effect on the financial statements.

Management considers the following accounting policies to be critical accounting policies:

Allowance for Credit Losses

The allowance for credit losses is an estimate and represents management's estimate of probable incurred credit losses in the loan portfolio and unfunded loan commitments. It consists of two components: the allowance for loan losses and the allowance for unfunded commitments. Estimating the amount of the allowance for credit losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on

impaired loans, estimated losses on non-impaired loans based on historical loss experience, management's evaluation of the current loan portfolio, and consideration of current economic trends, events and conditions. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses is an estimate of probable incurred losses in the loan portfolio and is based on analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on impairment analyses of all nonaccrual loan relationships over \$500,000 and all troubled debt restructurings ("TDRs"), regardless of amount. These analyses involve judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loss experience is adjusted for known changes in economic trends, events and conditions and credit quality trends such as changes in the amount of past due and nonperforming loans. The resulting loss allocation factors are applied to the balance of each type of loan after removing the balance of impaired loans and other specifically allocated loans from each category. The loss allocation factors are updated quarterly.

There are many factors affecting the allowance for credit losses; some are quantitative while others require qualitative judgment. Although management believes its processes for determining the allowance adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect earnings or financial position in future periods.

Additional information on the loan portfolio and allowance for credit losses can be found in the sections of Management's Discussion and Analysis titled "Asset Quality and Risk Elements" and "Nonperforming Assets" and in the section of Part I, Item 1 titled "Lending Activities". Note 1 to the consolidated financial statements includes additional information on accounting policies related to the allowance for loan losses.

Fair Value Measurements

At December 31, 2018, the percentage of total assets measured at fair value on a recurring basis was 21%. See Note 23 "Fair Value" in the consolidated financial statements herein for additional disclosures regarding the fair value of our assets and liabilities, including a description of the fair value hierarchy.

Impaired loans and foreclosed assets may be measured and carried at fair value, the determination of which requires management to make assumptions, estimates and judgments. When a loan is considered individually impaired, the loan is carried on a net basis at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral through either a specific valuation allowance or a charge-off. In addition, foreclosed assets are carried at the lower of cost, fair value, less cost to sell, or listed selling price less cost to sell, following foreclosure. Fair value is defined by GAAP "as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets. It is not a forced transaction (for example, a forced liquidation or distress sale)." Although management believes its processes for determining the value of impaired loans and foreclosed properties are appropriate and allow United to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. In addition, because of subjectivity in fair value determinations, there may be grounds for differences in opinions, which may result in disagreements between management and the Bank's regulators, disagreements which could cause the Bank to change its judgments about fair value.

The fair values for available-for-sale and held-to-maturity securities are generally based upon quoted market prices or observable market prices for similar instruments. Management utilizes a third-party pricing service to assist with determining the fair value of its securities portfolio. The pricing service uses observable inputs when available including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers. These values take into account recent market activity as well as other market observable data such as interest rate, spread and prepayment information. When market observable data is not available, which generally occurs due to the lack of liquidity for certain securities, the valuation of the security is subjective and may involve substantial judgment by management. United periodically reviews available-for-sale securities that are in an unrealized loss position to determine whether other-than-temporary impairment exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost-basis. The primary factors management considers in determining whether impairment is other-than-temporary are long term expectations and recent experience regarding principal and interest payments, and the ability and intent to hold the security until the amortized cost basis is recovered.

United uses derivatives primarily to manage its interest rate risk or to help its customers manage their interest rate risk. The fair values of derivative financial instruments are determined based on quoted market prices, dealer quotes and internal pricing models that are primarily sensitive to market observable data. However, United does evaluate the level of these observable inputs and there are some instances, with highly structured transactions, where United has determined that the inputs are not directly observable. United mitigates the credit risk by subjecting counterparties to credit reviews and approvals similar to those used in making loans and other extensions of credit. In addition, certain counterparties are required to provide collateral to United when their unsecured loss positions exceed certain negotiated limits.

United recognizes a servicing rights asset upon the sale of residential mortgage loans and SBA/USDA loans sold with servicing retained. Servicing right assets are carried at fair value. Given the nature of these SBA/USDA and residential mortgage servicing assets, the key valuation inputs are unobservable and United discloses them as a level 3 item. Prior to January 1, 2017, United carried the mortgage servicing right asset at amortized cost.

Beginning in the third quarter of 2016, management elected the fair value option for most newly originated mortgage loans held for sale. United elected the fair value option for its portfolio of mortgage loans held for sale in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the value of derivative instruments used to economically hedge them. The fair value of mortgage loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan, and as such is categorized as level 2.

As of December 31, 2018, United had \$995,000 of available-for-sale securities, \$7.51 million in servicing rights for SBA/USDA loans, \$11.9 million in residential mortgage servicing rights and \$11.8 million in derivative assets that were valued using unobservable inputs. The sum of these items represents less than 0.26% of total assets. United also had \$15.7 million in derivative liabilities that were valued using unobservable inputs, which represents 0.14% of total liabilities.

Income Tax Accounting

Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current or prior years. Deferred tax liabilities and assets are also established for the future tax consequences of events that have been recognized in the financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred tax liabilities and assets is considered critical as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of regulatory agencies and federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings.

At December 31, 2018, United reported a net deferred tax asset totaling \$64.2 million, net of a valuation allowance of \$3.37 million. Management assesses whether a valuation allowance should be established against the deferred tax asset based on the consideration of all available evidence, both positive and negative, using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified.

Regulatory risk-based capital rules limit the amount of deferred tax assets that a bank or bank holding company can include in Tier 1 capital. Generally, deferred tax assets that arise from net operating loss and tax credit carryforwards, net of any related valuation allowances and net of deferred tax liabilities, are excluded from CET1 and Tier 1 capital. Deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, net of related valuation allowances and net of deferred tax liabilities, that exceed certain thresholds are excluded from CET1 and Tier 1 capital.

Mergers and Acquisitions

United selectively engages in the evaluation of strategic partnerships. Mergers and acquisitions present opportunities to enter new markets with an established presence and a capable management team already in place or enhance our market share in markets where we already have an established presence. United employs certain criteria to ensure that any merger or acquisition candidate meets strategic growth and earnings objectives that will build future franchise value for shareholders. Additionally, the criteria include ensuring that management of a potential partner shares United's community banking philosophy of premium service quality and operates in attractive markets with excellent opportunities for further organic growth.

On February 1, 2018, United completed the acquisition of NLFC and its wholly-owned subsidiary, Navitas Credit Corp (“Navitas”). Navitas is a specialty lending company providing equipment finance credit services to small and medium-sized businesses nationwide. In connection with the acquisition, United acquired \$393 million of assets and assumed \$350 million of liabilities. Under the terms of the merger agreement, NLFC shareholders received \$130 million in total consideration, of which \$84.5 million was paid in cash and \$45.7 million was paid in United common stock. 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 \$87.4 million, representing the intangible value of NLFC’s business and reputation within the markets it served.

On November 1, 2017, United completed the acquisition of FOFN and its wholly-owned bank subsidiary, Four Oaks Bank & Trust Company. FOFN operated 14 banking offices in the Raleigh, North Carolina area. In connection with the acquisition, United acquired \$730 million of assets and assumed \$658 million of liabilities. Under the terms of the merger agreement, FOFN shareholders received 0.6178 shares of United common stock and \$1.90 for each share of FOFN common stock issued and outstanding at the closing date, or an aggregate of \$126 million. 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 \$53.5 million.

On July 31, 2017, United completed the acquisition of HCSB and its wholly-owned bank subsidiary, Horry County State Bank. HCSB operated eight branches in coastal South Carolina. In connection with the acquisition, United acquired \$389 million of assets and assumed \$347 million of liabilities. Under the terms of the merger agreement, HCSB shareholders received 0.0050 shares of United common stock for each share of HCSB common stock issued and outstanding at the closing date, or an aggregate of \$65.8 million. 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 \$24.2 million.

On July 1, 2016, United completed the acquisition of Tidelands and its wholly-owned bank subsidiary, Tidelands Bank. Tidelands operated seven branches in coastal South Carolina. In connection with the acquisition, United acquired \$440 million of assets and assumed \$440 million of liabilities. Under the terms of the merger agreement, Tidelands' shareholders received cash equal to \$0.52 per common share, or an aggregate of \$2.22 million. Additionally, at closing, United redeemed all of Tidelands' fixed-rate cumulative preferred stock that was issued to the U.S. Treasury under the Capital Purchase Program, plus unpaid dividends, for \$8.98 million in aggregate. 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 \$10.7 million.

United will continue to evaluate potential transactions as opportunities arise.

Recent Developments

On February 5, 2019, United announced that it had entered into a definitive merger agreement to acquire First Madison Bank & Trust ("First Madison"). As of December 31, 2018, First Madison had total assets of \$258 million, loans of \$202 million and deposits of \$213 million. First Madison, which currently operates four banking offices in the Athens-Clarke County, Georgia metropolitan statistical area, will merge into and operate under the brand of the Bank.

Under the terms of the merger agreement, which has been unanimously approved by the Boards of Directors of both companies, First Madison shareholders will receive merger consideration of \$52.0 million in cash.

The merger, which is subject to regulatory approval, the approval of shareholders of First Madison, and other customary conditions, is expected to close in the second quarter of 2019.

GAAP Reconciliation and Explanation

This Form 10-K contains financial information determined by methods other than in accordance with GAAP. Such non-GAAP financial information includes the following measures: "tangible book value per common share," "tangible equity to assets," "tangible common equity to assets" and "tangible common equity to risk-weighted assets." In addition, management presents non-GAAP operating performance measures, which exclude merger-related and other items that are not part of United's ongoing business operations. Operating performance measures include "expenses – operating," "net income – operating," "diluted income per common share – operating," "return on common equity – operating," "return on tangible common equity – operating," "return on assets – operating," "dividend payout ratio – operating" and "efficiency ratio – operating." Management has developed internal processes and procedures to accurately capture and account for merger-related and other charges and those charges are reviewed with the audit committee of United's Board of Directors each quarter. Management uses these non-GAAP measures because it believes they may provide useful supplemental information for evaluating United's operations and performance over periods of time, as well as in managing and evaluating United's business and in discussions about United's operations and performance. Management believes these non-GAAP measures may also provide users of United's financial information with a meaningful measure for assessing United's financial results and credit trends, as well as a comparison to financial

results for prior periods. These non-GAAP measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP and are not necessarily comparable to other similarly titled measures used by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable measures as reported in accordance with GAAP are included in the tables on pages 38 through 39.

UNITED COMMUNITY BANKS, INC.

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

(in thousands, except per share data)	For the Twelve Months Ended December 31,					
	2018	2017	2016	2015	2014	
Expense reconciliation						
Expenses (GAAP)	\$306,285	\$267,611	\$241,289	\$211,238	\$162,865	
Merger-related and other charges	(7,345)	(14,662)	(8,122)	(17,995)	—	
Expenses - operating	\$298,940	\$252,949	\$233,167	\$193,243	\$162,865	
Net income reconciliation						
Net income (GAAP)	\$166,111	\$67,821	\$100,656	\$71,578	\$67,620	
Merger-related and other charges	7,345	14,662	8,122	17,995	—	
Income tax benefit of merger-related and other charges	(1,494)	(3,745)	(3,074)	(6,388)	—	
Impact of tax reform on remeasurement of deferred tax asset	—	38,199	—	—	—	
Impairment of deferred tax asset on canceled non-qualified stock options	—	—	976	—	—	
Release of disproportionate tax effects lodged in OCI	—	3,400	—	—	—	
Net income - operating	\$171,962	\$120,337	\$106,680	\$83,185	\$67,620	
Diluted income per common share reconciliation						
Diluted income per common share (GAAP)	\$2.07	\$0.92	\$1.40	\$1.09	\$1.11	
Merger-related and other charges	0.07	0.14	0.07	0.18	—	
Impact of tax reform on remeasurement of deferred tax asset	—	0.52	—	—	—	
Impairment of deferred tax asset on canceled non-qualified stock options	—	—	0.01	—	—	
Release of disproportionate tax effects lodged in OCI	—	0.05	—	—	—	
Diluted income per common share - operating	\$2.14	\$1.63	\$1.48	\$1.27	\$1.11	
Book value per common share reconciliation						
Book value per common share (GAAP)	\$18.24	\$16.67	\$15.06	\$14.02	\$12.20	
Effect of goodwill and other intangibles	(4.00)	(3.02)	(2.11)	(1.96)	(0.05)	
Tangible book value per common share	\$14.24	\$13.65	\$12.95	\$12.06	\$12.15	
Return on tangible common equity reconciliation						
Return on common equity (GAAP)	11.60	% 5.67	% 9.41	% 8.15	% 9.17	%
Merger-related and other charges	0.41	0.92	0.48	1.33	—	
Impact of tax reform on remeasurement of deferred tax asset	—	3.20	—	—	—	
Impairment of deferred tax asset on canceled non-qualified stock options	—	—	0.09	—	—	
Release of disproportionate tax effects lodged in OCI	—	0.28	—	—	—	
Return on common equity - operating	12.01	10.07	9.98	9.48	9.17	
Effect of goodwill and other intangibles	3.68	1.95	1.88	0.76	0.15	
Return on tangible common equity - operating	15.69	% 12.02	% 11.86	% 10.24	% 9.32	%
Return on assets reconciliation						
Return on assets (GAAP)	1.35	% 0.62	% 1.00	% 0.85	% 0.91	%

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

Merger-related and other charges	0.05	0.09	0.05	0.13	—	
Impact of tax reform on remeasurement of deferred tax asset	—	0.35	—	—	—	
Impairment of deferred tax asset on canceled non-qualified stock options	—	—	0.01	—	—	
Release of disproportionate tax effects lodged in OCI	—	0.03	—	—	—	
Return on assets - operating	1.40	% 1.09	% 1.06	% 0.98	% 0.91	%
Dividend payout ratio reconciliation						
Dividend payout ratio (GAAP)	28.02	% 41.30	% 21.43	% 20.18	% 9.91	%
Merger-related and other charges	(0.92	) (5.65	) (1.02	) (2.86) —	
Impact of tax reform on remeasurement of deferred tax asset	—	(11.61) —	—	—	
Impairment of deferred tax asset on canceled non-qualified stock options	—	—	(0.14) —	—	
Release of disproportionate tax effects lodged in OCI	—	(0.73) —	—	—	
Dividend payout ratio - operating	27.10	% 23.31	% 20.27	% 17.32	% 9.91	%
Efficiency ratio reconciliation						
Efficiency ratio (GAAP)	57.31	% 59.95	% 59.80	% 63.96	% 58.26	%
Merger-related and other charges	(1.37	) (3.28	) (2.02	) (5.45) —	
Efficiency ratio - operating	55.94	% 56.67	% 57.78	% 58.51	% 58.26	%
Average equity to assets reconciliation						
Equity to assets (GAAP)	11.24	% 10.71	% 10.54	% 10.27	% 9.69	%
Effect of goodwill and other intangibles	(2.32	) (1.42	) (1.33	) (0.53	) (0.02)
Tangible equity to assets	8.92	9.29	9.21	9.74	9.67	
Effect of preferred equity	—	—	(0.02	) (0.08	) (0.07)
Tangible common equity to assets	8.92	% 9.29	% 9.19	% 9.66	% 9.60	%
Tangible common equity to risk-weighted assets reconciliation						
Tier 1 capital ratio (Regulatory)	12.42	% 12.24	% 11.23	% 11.45	% 12.06	%
Effect of other comprehensive income	(0.44	) (0.29	) (0.34	) (0.38	) (0.35)
Effect of deferred tax limitation	0.28	0.51	1.26	2.05	3.11	
Effect of trust preferred	(0.26	) (0.36	) (0.25	) (0.08	) (1.00)
Effect of preferred equity	—	—	—	(0.15) —	
Basel III intangibles transition adjustment	—	(0.05	) (0.06	) (0.10) —	
Basel III disallowed investments	—	—	—	0.03	—	
Tangible common equity to risk-weighted assets	12.00	% 12.05	% 11.84	% 12.82	% 13.82	%

UNITED COMMUNITY BANKS, INC.

Table 1 (Continued) - Non-GAAP Performance Measures Reconciliation - Quarterly
Selected Financial Information

(in thousands, except per share data)	2018				2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Expense reconciliation								
Expenses (GAAP)	\$78,242	\$77,718	\$76,850	\$73,475	\$75,882	\$65,674	\$63,229	\$62,826
Merger-related and other charges	(1,234)	(592)	(2,873)	(2,646)	(7,358)	(3,420)	(1,830)	(2,054)
Expenses - operating	\$77,008	\$77,126	\$73,977	\$70,829	\$68,524	\$62,254	\$61,399	\$60,772
Net income reconciliation								
Net income (GAAP)	\$45,137	\$43,682	\$39,634	\$37,658	\$(11,916)	\$27,946	\$28,267	\$23,524
Merger-related and other charges	1,234	592	2,873	2,646	7,358	3,420	1,830	2,054
Income tax benefit of merger-related and other charges	(604)	(141)	(121)	(628)	(1,165)	(1,147)	(675)	(758)
Impact of tax reform on remeasurement of deferred tax asset	—	—	—	—	38,199	—	—	—
Release of disproportionate tax effects lodged in OCI	—	—	—	—	—	—	—	3,400
Net income - operating	\$45,767	\$44,133	\$42,386	\$39,676	\$32,476	\$30,219	\$29,422	\$28,220
Diluted income per common share reconciliation								
Diluted income per common share (GAAP)	\$0.56	\$0.54	\$0.49	\$0.47	\$(0.16)	\$0.38	\$0.39	\$0.33
Merger-related and other charges	0.01	0.01	0.04	0.03	0.08	0.03	0.02	0.01
Impact of tax reform on remeasurement of deferred tax asset	—	—	—	—	0.50	—	—	—
Release of disproportionate tax effects lodged in OCI	—	—	—	—	—	—	—	0.05

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

Diluted income per common share - operating	\$0.57	\$0.55	\$0.53	\$0.50	\$0.42	\$0.41	\$0.41	\$0.39	
Book value per common share reconciliation									
Book value per common share (GAAP)	\$18.24	\$17.56	\$17.29	\$17.02	\$16.67	\$16.50	\$15.83	\$15.40	
Effect of goodwill and other intangibles	(4.00)	(4.02)	(4.04)	(4.06)	(3.02)	(2.39)	(2.09)	(2.10)	
Tangible book value per common share	\$14.24	\$13.54	\$13.25	\$12.96	\$13.65	\$14.11	\$13.74	\$13.30	
Return on tangible common equity reconciliation									
Return on common equity (GAAP)	12.08	% 11.96	% 11.20	% 11.11	% (3.57)	% 9.22	% 9.98	% 8.54	%
Merger-related and other charges	0.17	0.13	0.77	0.60	1.86	0.75	0.41	0.47	
Impact of tax reform on remeasurement of deferred tax asset	—	—	—	—	11.44	—	—	—	
Release of disproportionate tax effects lodged in OCI	—	—	—	—	—	—	—	1.24	
Return on common equity - operating	12.25	12.09	11.97	11.71	9.73	9.97	10.39	10.25	
Effect of goodwill and other intangibles	3.63	3.72	3.82	3.55	2.20	1.96	1.80	1.85	
Return on tangible common equity - operating	15.88	% 15.81	% 15.79	% 15.26	% 11.93	% 11.93	% 12.19	% 12.10	%
Return on assets reconciliation									
Return on assets (GAAP)	1.43	% 1.41	% 1.30	% 1.26	% (0.40)	% 1.01	% 1.06	% 0.89	%
Merger-related and other charges	0.02	0.01	0.09	0.07	0.20	0.08	0.04	0.05	
Impact of tax reform on remeasurement of deferred tax asset	—	—	—	—	1.30	—	—	—	
	—	—	—	—	—	—	—	0.13	

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

Release of disproportionate tax effects lodged in OCI									
Return on assets - operating	1.45	% 1.42	% 1.39	% 1.33	% 1.10	% 1.09	% 1.10	% 1.07	%
Dividend payout ratio									
reconciliation									
Dividend payout ratio (GAAP)	28.57	% 27.78	% 30.61	% 25.53	% (62.50)	% 26.32	% 23.08	% 27.27	%
Merger-related and other charges	(0.50)	(0.51)	(2.31)	(1.53)	12.04	(1.93)	(1.13)	(0.98))
Impact of tax reform on remeasurement of deferred tax asset	—	—	—	—	74.27	—	—	—	
Release of disproportionate tax effects lodged in OCI	—	—	—	—	—	—	—	(3.21))
Dividend payout ratio - operating	28.07	% 27.27	% 28.30	% 24.00	% 23.81	% 24.39	% 21.95	% 23.08	%
Efficiency ratio									
reconciliation									
Efficiency ratio (GAAP)	56.73	% 56.82	% 57.94	% 57.83	% 63.03	% 59.27	% 57.89	% 59.29	%
Merger-related and other charges	(0.90)	(0.43)	(2.17)	(2.08)	(6.11)	(3.09)	(1.68)	(1.94))
Efficiency ratio - operating	55.83	% 56.39	% 55.77	% 55.75	% 56.92	% 56.18	% 56.21	% 57.35	%
Average equity to assets									
reconciliation									
Equity to assets (GAAP)	11.35	% 11.33	% 11.21	% 11.03	% 11.21	% 10.86	% 10.49	% 10.24	%
Effect of goodwill and other intangibles	(2.31)	(2.36)	(2.38)	(2.21)	(1.69)	(1.41)	(1.26)	(1.28))
Tangible common equity to assets	9.04	% 8.97	% 8.83	% 8.82	% 9.52	% 9.45	% 9.23	% 8.96	%
Tangible common equity to risk-weighted assets									
reconciliation									
Tier 1 capital ratio (Regulatory)	12.42	% 12.25	% 11.94	% 11.61	% 12.24	% 12.27	% 11.91	% 11.46	%
Effect of other comprehensive income	(0.44)	(0.68)	(0.57)	(0.50)	(0.29)	(0.13)	(0.15)	(0.24))

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

Effect of deferred tax limitation	0.28	0.30	0.33	0.42	0.51	0.94	0.95	1.13	
Effect of trust preferred	(0.26)	(0.26)	(0.34)	(0.34)	(0.36)	(0.24)	(0.25)	(0.25)	
Basel III intangibles transition adjustment	—	—	—	—	(0.05)	(0.04)	(0.02)	(0.03)	
Tangible common equity to risk-weighted assets	12.00	% 11.61	% 11.36	% 11.19	% 12.05	% 12.80	% 12.44	% 12.07	%

Results of Operations

United reported net income of \$166 million for the year ended December 31, 2018. This compared to net income of \$67.8 million in 2017. Diluted earnings per common share for 2018 were \$2.07, compared to diluted earnings per common share for 2017 of \$0.92.

Net Interest Revenue

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and other liabilities) is the single largest component of revenue. Management seeks to optimize this revenue while balancing interest rate, credit, and liquidity risks. Net interest revenue for 2018 was \$439 million, compared to \$356 million for 2017 and \$310 million for 2016. Taxable equivalent net interest revenue totaled \$441 million in 2018, an increase of \$82.6 million, or 23%, from 2017. Taxable equivalent net interest revenue for 2017 increased \$47.4 million, or 15%, from 2016.

The combination of the larger earning asset base from the Acquisitions, growth in the loan portfolio and a wider net interest margin were responsible for the increase in net interest revenue.

Average interest-earning assets for 2018 increased \$1.12 billion, or 11%, from 2017, due primarily to the increase in loans. Average loans increased \$1.02 billion, or 14%, from 2017, while the yield on loans increased 73 basis points, reflecting the effect of rising interest rates on the floating rate loans in the portfolio and the addition of higher yielding loans from FOFN and NLFC.

Average interest-bearing liabilities in 2018 increased \$582 million, or 8%, from the prior year, partly due to deposits received through the Acquisitions, as funding needs increased with the increase in loans and a larger securities portfolio. Average noninterest-bearing deposits increased \$385 million from 2017 to 2018, providing some of United's 2018 funding needs. The average cost of interest-bearing liabilities for 2018 was 0.82% compared to 0.49% for 2017, reflecting a higher average rate on interest-bearing deposits as United increased deposit rates to retain and capture more deposit market share, as well as a higher average rate on short-term borrowings.

The banking industry uses two key ratios to measure relative profitability of net interest revenue: the net interest spread and the net interest margin. 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 noninterest-bearing deposits and other noninterest-bearing funding sources 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 overall balance sheet management activities and is defined as net interest revenue as a percentage of total average interest-earning assets, which includes the positive effect of funding a portion of interest-earning assets with customers' noninterest-bearing deposits and with shareholders' equity.

For 2018, 2017 and 2016, the net interest spread was 3.63%, 3.37%, and 3.24%, respectively, while the net interest margin was 3.91%, 3.52%, and 3.36%, respectively. In 2018 and 2017, increases in loan yield and securities yield were only partially offset by an increase in the cost of interest-bearing liabilities, as rates paid on core deposits lagged general increases in market rates.

The following table shows the relationship between interest revenue and interest expense and the average balances of interest-earning assets and interest-bearing liabilities.

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

For the Years Ended December 31,

(In thousands, fully taxable equivalent (FTE))

	2018			2017			2016		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:									
Interest-earning assets:									
Loans, net of unearned income (FTE) ⁽¹⁾⁽²⁾	\$8,170,143	\$420,001	5.14%	\$7,150,211	\$315,138	4.41%	\$6,412,740	\$268,478	4.19%
Taxable securities ⁽³⁾	2,745,715	73,496	2.68	2,761,983	70,172	2.54	2,665,051	63,413	2.38
Tax-exempt securities (FTE) ⁽¹⁾⁽³⁾	152,855	5,641	3.69	85,415	3,627	4.25	26,244	1,005	3.83
Federal funds sold and other interest-earning assets	213,137	2,968	1.39	164,314	2,966	1.81	152,722	3,149	2.06
Total interest-earning assets (FTE)	11,281,850	502,106	4.45	10,161,923	391,903	3.86	9,256,757	336,045	3.63
Noninterest-earning assets:									
Allowance for loan losses	(61,443)			(60,602)			(65,294)		
Cash and due from banks	135,345			107,053			95,613		
Premises and equipment	216,646			198,970			187,698		
Other assets ⁽³⁾	711,671			607,174			579,051		
Total assets	\$12,284,069			\$11,014,518			\$10,053,825		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
Interest-bearing deposits:									
NOW and interest-bearing demand	\$2,018,404	\$7,390	0.37	\$1,950,827	\$3,365	0.17	\$1,826,729	\$1,903	0.10
Money market	2,206,643	12,097	0.55	2,136,336	7,033	0.33	1,941,288	4,982	0.26
Savings deposits	672,735	150	0.02	591,831	135	0.02	515,179	135	0.03

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

Time deposits	1,547,221	12,585	0.81	1,338,859	5,417	0.40	1,289,876	3,138	0.24
Brokered deposits	347,072	7,321	2.11	108,891	1,112	1.02	171,420	(2)	—
Total									
interest-bearing deposits	6,792,075	39,543	0.58	6,126,744	17,062	0.28	5,744,492	10,156	0.18
Federal funds purchased and other borrowings	57,376	1,112	1.94	26,856	352	1.31	34,906	399	1.14
Federal Home Loan Bank advances	328,871	6,345	1.93	576,472	6,095	1.06	499,026	3,676	0.74
Long-term debt	290,004	14,330	4.94	156,327	10,226	6.54	170,479	11,005	6.46
Total borrowed funds	676,251	21,787	3.22	759,655	16,673	2.19	704,411	15,080	2.14
Total interest-bearing liabilities	7,468,326	61,330	0.82	6,886,399	33,735	0.49	6,448,903	25,236	0.39
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	3,207,625			2,823,005			2,432,846		
Other liabilities	227,980			124,832			112,774		
Total liabilities	10,903,931			9,834,236			8,994,523		
Shareholders' equity	1,380,138			1,180,282			1,059,302		
Total liabilities and shareholders' equity	\$12,284,069			\$11,014,518			\$10,053,825		
Net interest revenue (FTE)		\$440,776			\$358,168			\$310,809	
Net interest-rate spread (FTE)			3.63%			3.37%			3.24%
Net interest margin (FTE) ⁽⁴⁾			3.91%			3.52%			3.36%

Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable (1) securities and loans. The rate used was 26% in 2018 and 39% in 2017 and 2016, reflecting the statutory federal rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

Securities available for sale are shown at amortized cost. Pretax unrealized losses of \$45.2 million, and pretax (3) unrealized gains of \$4.33 million and \$16.0 million in 2018, 2017 and 2016, respectively, 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 resulting from changes in the average outstanding balances (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid by United on such assets and liabilities.

Table 3 - Change in Interest Revenue and Interest Expense
(in thousands, fully taxable equivalent)

	2018 Compared to 2017			2017 Compared to 2016		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	\$48,405	\$56,458	\$104,863	\$31,991	\$14,669	\$46,660
Taxable securities	(416)	3,740	3,324	2,361	4,398	6,759
Tax-exempt securities	2,542	(528)	2,014	2,501	121	2,622
Federal funds sold and other interest-earning assets	767	(765)	2	228	(411)	(183)
Total interest-earning assets	51,298	58,905	110,203	37,081	18,777	55,858
Interest-bearing liabilities:						
Interest-bearing deposits:						
NOW and interest-bearing demand	120	3,905	4,025	137	1,325	1,462
Money Market	239	4,825	5,064	538	1,513	2,051
Savings deposits	18	(3)	15	19	(19)	—
Time deposits	957	6,211	7,168	123	2,156	2,279
Brokered deposits	4,175	2,034	6,209	—	1,114	1,114
Total interest-bearing deposits	5,509	16,972	22,481	817	6,089	6,906
Federal funds purchased and other short-term borrowings	535	225	760	(100)	53	(47)
Federal Home Loan Bank advances	(3,357)	3,607	250	636	1,783	2,419
Long-term debt	7,081	(2,977)	4,104	(924)	145	(779)
Total borrowed funds	4,259	855	5,114	(388)	1,981	1,593
Total interest-bearing liabilities	9,768	17,827	27,595	429	8,070	8,499
Increase in net interest revenue	\$41,530	\$41,078	\$82,608	\$36,652	\$10,707	\$47,359

Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Provision for Credit Losses

The provision for credit losses is based on management's evaluation of probable incurred losses in the loan portfolio and unfunded loan commitments as measured by analysis of the allowance for credit losses at the end of each reporting period. The provision for credit losses was \$9.50 million in 2018, compared to a provision of \$3.80 million in 2017 and a release of provision of \$800,000 in 2016. The amount of provision recorded in each year was the amount required such that the total allowance for credit losses reflected the appropriate balance, in the estimation of management, and was sufficient to cover incurred losses in the loan portfolio. The increase in provision expense in 2018 was primarily due to the NLFC acquisition. The increase in 2017 was due to loan growth as credit quality measures remained favorable and stable. The ratio of net loan charge-offs to average outstanding loans for 2018 was 0.07% compared with 0.08% for 2017 and 0.11% for 2016.

The allowance for unfunded loan commitments, which is included in other liabilities in the consolidated balance sheets, 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. At December 31, 2018, the allowance for unfunded commitments was \$3.41 million compared with \$2.31 million at December 31, 2017 and \$2.00 million at December 31, 2016.

Additional discussion on credit quality and the allowance for loan losses is included in the “Asset Quality and Risk Elements” and “Critical Accounting Policies” sections of this report, as well as Note 1 to the consolidated financial statements.

Noninterest Income

The following table presents the components of noninterest income for the periods indicated.

Table 4 - Noninterest Income

For the Years Ended December 31,

(in thousands)

	2018	2017	2016	Change	
				2018-2017	
Overdraft fees	\$14,814	\$14,004	\$13,883	6	%
ATM and debit card interchange fees	12,649	16,922	20,839	(25)
Other service charges and fees	8,534	7,369	7,391	16	
Service charges and fees	35,997	38,295	42,113	(6)
Mortgage loan and related fees	19,010	18,320	20,292	4	
Brokerage fees	5,191	4,633	4,280	12	
Gains from sales of SBA/USDA loans	9,277	10,493	9,545	(12)
Bank owned life insurance	3,557	3,261	1,634	9	
Customer derivatives	2,669	2,421	4,104	10	
Securities (losses) gains, net	(656	) 42	982		
Other	17,916	10,795	10,747	66	
Total noninterest income	\$92,961	\$88,260	\$93,697	5	

2018 to 2017 comparison:

Service charges and fees for 2018 decreased \$2.30 million compared to 2017 primarily due to the effect of the Durbin Amendment which took effect for United in the third quarter of 2017 and limited the amount of interchange fees United could earn on debit card transactions. The increase in brokerage fees in 2018 compared with a year ago was primarily due to adding financial advisors in 2018 and 2017.

Mortgage loan and related fees increased 4% from 2017, which is a reflection of United's focus on growing the mortgage business by recruiting new mortgage lenders in key metropolitan markets and an increase in purchase and refinancing activity. In 2018, United closed 3,770 mortgage loans totaling \$891 million, which represents an additional 542 loans and an increase of \$146 million in loans closed from 2017. In 2018 and 2017, new home purchase mortgages accounted for 63% of production volume.

In 2018, United realized \$9.28 million in gains from the sales of the guaranteed portion of SBA and USDA loans, compared to \$10.5 million in 2017. United's SBA/USDA lending strategy includes selling a portion of the loan production each quarter. United retains the servicing rights on the sold loans and earns a fee for servicing the loans. In 2018, United sold the guaranteed portion of loans in the amount of \$121 million, compared to \$117 million for 2017. The decrease in gains recognized in 2018 compared to 2017 reflects a decrease in the premiums received on the sold loans.

Other noninterest income increased \$7.12 million in 2018 compared to 2017. The primary contributors to the increase included revenue from NLFC of approximately \$4.69 million, \$533,000 in gains from the prepayment of fixed rate FHLB advances and \$1.16 million in gains from the cancellation of interest rate swaps and caps that were serving as economic hedges to protect against rising interest rates.

United realized net securities losses of \$656,000 and gains of \$42,000 during 2018 and 2017, respectively. The securities losses realized in 2018 were part of the same balance sheet management activities described above that resulted in the gains from prepayment of FHLB advances and cancellation of derivative instruments. The gains from those activities more than offset the securities losses.

2017 to 2016 comparison:

Service charges and fees for 2017 decreased \$3.82 million, or 9%, in 2017 compared to 2016. The decrease was primarily due to the effect of the Durbin Amendment discussed above.

Mortgage loan and related fees of \$18.3 million were down \$1.97 million, or 10%, for 2017 compared to 2016. The decrease reflected a combination of factors including our strategic decision to hold more mortgages on our balance sheet, margin compression and a decline in refinance activity in a rising rate environment. In addition, 2016 included the impact of moving to mandatory delivery of loans to the

43

secondary market from best efforts, which accelerated revenue recognition to the time of the rate lock. In 2017, United closed 3,228 mortgage loans totaling \$745 million compared with 3,246 loans totaling \$718 million in 2016. In 2017, new home purchase mortgages of \$468 million accounted for 63% of production volume compared with \$382 million, or 53%, of production volume in 2016.

Fees from customer swap transactions decreased \$1.68 million from 2016 due to lower demand for this product. United provides interest rate swaps to commercial customers who desire fixed rate loans. United makes a floating rate loan to those customers and enters into an interest rate swap contract with the customer to swap the floating rate to a fixed rate. United then enters into an offsetting swap with a swap dealer with terms that mirror the customer swap. The fixed and variable legs of the customer and dealer swaps offset leaving United with the equivalent of a variable rate loan.

Earnings from bank owned life insurance were up \$1.63 million, or 100% from 2016 due to the purchase of \$30 million of bank owned life insurance in late 2016 and early 2017, as well as the acquisition of HCSB and FOFN, both of which had bank owned life insurance policies.

In 2017, United realized \$10.5 million in gains from the sales of the guaranteed portion of SBA and USDA loans, compared to \$9.55 million in 2016. In 2017, United sold the guaranteed portion of loans in the amount of \$117 million, compared to \$120 million for 2016. The increase in the related gain in 2017 compared to 2016 reflects an increase in the premiums received on the sold loans.

Noninterest Expenses

The following table presents the components of noninterest expenses for the periods indicated.

Table 5 - Noninterest Expenses

For the Years Ended December 31,

(in thousands)

	2018	2017	2016	Change
				2018-2017
Salaries and employee benefits	\$181,015	\$153,098	\$138,789	18 %
Communications and equipment	21,277	19,660	18,355	8
Occupancy	22,781	20,344	19,603	12
Advertising and public relations	5,991	4,242	4,426	41
Postage, printing and supplies	6,416	5,952	5,382	8
Professional fees	15,540	12,074	11,822	29
FDIC assessments and other regulatory charges	8,491	6,534	5,866	30
Amortization of core deposit intangibles	4,915	4,084	4,182	20
Other	32,514	26,961	24,742	21
Total excluding merger-related and other charges and amortization of noncompete agreements	298,940	252,949	233,167	18
Merger-related and other charges	5,414	13,901	8,122	(61)
Amortization of noncompete agreements	1,931	761	—	
Total noninterest expenses	\$306,285	\$267,611	\$241,289	14

2018 to 2017 comparison:

Noninterest expenses increased in 2018 compared to 2017 primarily due to the addition of operating expenses associated with the Acquisitions.

Salaries and employee benefits increased \$27.9 million in 2018 due to a number of factors including additional staff resulting from the Acquisitions, as well as investments in additional staff and teams to expand Commercial Banking Solutions and other key areas. These factors contributed to an 8% increase in the full-time equivalent headcount to 2,312 at December 31, 2018 since the prior year-end.

FDIC assessments and other regulatory charges increased in 2018 as a result of a larger balance sheet and being assessed at the higher deposit insurance rate for banks exceeding \$10 billion in assets for the full year in 2018. Amortization of intangibles increased relative to 2017 due to the additional amortization resulting from intangibles related to the HCSB and FOFN acquisitions. Professional fees increased primarily due to the Acquisitions, corporate and technology related projects, and increased legal fees associated with loan

growth. Merger-related and other charges decreased \$8.47 million from 2017 mostly as a result of a reduced level of merger-related activity in 2018 in comparison to the prior year.

2017 to 2016 comparison:

The \$26.3 million, or 11%, increase in total noninterest expenses from 2016 to 2017 was primarily due to the inclusion of operating expenses associated with the acquisitions of Tideland, HCSB and FOFN.

Salaries and employee benefits expense for 2017 increased \$14.3 million, or 10%, from 2016. The increase was due to a number of factors including investments in additional staff and additional staff resulting from the acquisitions of HCSB and FOFN. Full-time equivalent headcount totaled 2,137 at December 31, 2017 compared to 1,916 at December 31, 2016, an increase of 12%.

Amortization of noncompete intangibles increased due to the addition of HCSB and FOFN. Communications and equipment expense of \$19.7 million for 2017 was up \$1.31 million, or 7%, from 2016 due to higher software maintenance contracts and higher equipment depreciation charges mostly resulting from the 2017 and 2016 acquisitions.

FDIC assessments and other regulatory charges expense for 2017 increased \$668,000, or 11%, from 2016 due to a larger balance sheet as well as the effect of the higher deposit insurance assessment imposed beginning in the third quarter of 2017 as a result of United's exceeding the \$10 billion asset size threshold.

In 2017, merger-related and other charges consisted primarily of merger costs of \$10.4 million associated with the acquisitions of HCSB and FOFN, impairment charges on surplus bank properties of \$1.14 million, executive retirement costs of \$1.53 million and branch closure costs of \$831,000. The 2016 charges, which included severance, conversion and legal and professional fees were primarily related to the Palmetto Bancshares, Inc. and Tideland acquisitions.

Income Taxes

Income tax expense was \$49.8 million in 2018, compared to \$105 million in 2017 and \$62.3 million in 2016. Income tax expense for 2018, 2017 and 2016 represents an effective tax rate of 23.1%, 60.8% and 38.2%, respectively. The abnormally high tax expense and effective tax rate in 2017 reflects a \$38.2 million charge to remeasure United's deferred tax assets at the new lower federal income tax rate of 21% following the passage of the Tax Act on December 22, 2017.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and their respective tax basis including operating losses and tax credit carryforwards. Net deferred tax assets (deferred tax assets net of deferred tax liabilities and valuation allowance) are reported in the consolidated balance sheets as a component of total assets.

Management assesses whether a valuation allowance should be established against the deferred tax asset based on the consideration of all available evidence using a "more likely than not" standard. The determination of whether a valuation allowance for deferred tax assets is appropriate is subject to considerable judgment and requires an evaluation of all positive and negative evidence with more weight given to evidence that can be objectively verified. Each quarter, management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. Based on all evidence considered, as of December 31, 2018 and 2017, management concluded that it was more likely than not that nearly all of the net deferred tax asset would be realized. Management expects to generate levels of future taxable income that will allow

for full utilization of most of United's net operating loss carryforwards within the statutory carryforward periods. The valuation allowance of \$3.37 million at December 31, 2018 was related to specific state income tax credits and certain acquired state net operating losses, both of which are expected to expire unused.

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.

Fourth Quarter 2018 Discussion

Net interest revenue for the fourth quarter of 2018 increased \$17.4 million, or 18%, to \$115 million from the same period a year ago, which is primarily attributable to the increase in the loan portfolio and the increased yield on loans. The increase in loans is primarily attributable to organic loan growth and the acquisition of NLFC. The increase in yield on the loan portfolio reflects the effect of rising interest rates on floating rate loans and the acquisition of higher yielding loans from NLFC. The net interest margin for the fourth quarter of 2018 increased to 3.97% from 3.63% in the fourth quarter of 2017, reflecting the higher yields on earning assets, partially offset by a smaller increase in the average rate paid on interest-bearing liabilities.

United recorded a provision for credit losses in the fourth quarter of 2018 of \$2.10 million, compared to \$1.20 million for the fourth quarter of 2017. The increase was primarily due to loan growth as credit quality remained stable.

The following table presents the components of noninterest income for the periods indicated.

Table 6 - Quarterly Noninterest Income
(in thousands)

	Three Months Ended		
	December 31,		
	2018	2017	Change
Overdraft fees	\$3,917	\$3,731	5 %
ATM and debit card fees	3,076	3,188	(4)
Other service charges and fees	2,173	1,851	17
Service charges and fees	9,166	8,770	5
Mortgage loan and related fees	3,082	4,885	(37)
Brokerage fees	1,593	1,068	49
Gains from sales of SBA/USDA loans	2,493	3,102	(20)
Customer derivatives	628	613	2
Securities gains (losses), net	646	(148)	
Other	5,437	3,638	49
Total noninterest income	\$23,045	\$21,928	5

Noninterest income for the fourth quarter of 2018 increased \$1.12 million from the fourth quarter of 2017. Service charges and fees on deposit accounts increased from the fourth quarter of 2017, which was primarily attributable to volume driven increases provided by the acquisition of FOFN. The \$1.80 million decrease in mortgage fees between the fourth quarter of 2017 and 2018 was primarily due to the decrease in the fair value of the mortgage servicing asset, resulting from higher expected prepayments on mortgage loans due to a sharp decrease in the 10-year U. S. Treasury rate in December of 2018. The increase in brokerage fees in the fourth quarter of 2018 compared with a year ago primarily related to the addition of financial advisors in 2018. Sales of \$34.7 million in SBA/USDA loans in fourth quarter 2018 resulted in net gains of \$2.49 million, compared to \$33.6 million sold in fourth quarter 2017, resulting in net gains of \$3.10 million. The primary driver in the increase in other noninterest income was the addition of other income from NLFC, which totaled approximately \$1.46 million in the fourth quarter of 2018.

The following table presents noninterest expenses for the periods indicated.

Table 7 - Quarterly Noninterest Expenses
(in thousands)

	Three Months Ended		
	December 31,		
	2018	2017	Change
Salaries and employee benefits	\$ 45,631	\$ 41,042	11 %
Communications and equipment	6,206	5,217	19
Occupancy	5,842	5,542	5
Advertising and public relations	1,650	895	84
Postage, printing and supplies	1,520	1,825	(17)
Professional fees	4,105	3,683	11
FDIC assessments and other regulatory charges	1,814	1,776	2
Amortization of core deposit intangibles	1,151	1,243	(7)
Other	9,089	7,301	24
Total excluding merger-related and other charges and amortization of noncompete agreements	77,008	68,524	12
Merger-related and other charges	965	6,841	
Amortization of noncompete agreements	269	517	
Total noninterest expenses	\$ 78,242	\$ 75,882	3

Operating expenses excluding merger-related and other charges increased \$8.48 million from the fourth quarter of 2017 to the fourth quarter of 2018, largely due to the acquisitions of FOFN and NLFC. \$4.59 million of the increase was attributable to the increase in salaries and employee benefits, which was due to a number of factors including investments in additional staff and new teams to expand Commercial Banking Solutions and other key areas, additional staff resulting from the acquisitions, and incentive accruals. Communications and equipment expense increased \$989,000 from the fourth quarter of 2017 primarily as a result of various technology related projects and higher software maintenance contracts. The increase in advertising and public relations was mostly due to the timing of advertising campaigns as well as an increase in sponsorships and charitable giving in the fourth quarter of 2018. Professional fees increased \$422,000 in the fourth quarter of 2018 compared to fourth quarter of 2017 due to increased legal fees associated with loan growth. Other expenses were up \$1.79 million from the fourth quarter of 2017 due to a number of factors including higher lending support costs resulting from higher loan production volume. Merger-related and other charges decreased by \$5.88 million due to the lack of merger-related activity during the fourth quarter of 2018 compared to 2017, which included merger charges primarily related to HCSB and FOFN.

Balance Sheet Review

Total assets at December 31, 2018 were \$12.6 billion, an increase of \$658 million, or 6%, from December 31, 2017. On a daily average basis, total assets increased \$1.27 billion, or 12%, from 2017 to 2018. Average interest-earning assets for 2018 and 2017 were \$11.3 billion and \$10.2 billion, respectively.

Loans

United's loan portfolio is its largest category of interest-earning assets. Many of United's loans are to customers located in the immediate market areas of its community banks in Georgia, South Carolina, North Carolina and Tennessee, including customers who have a seasonal residence in United's market areas, or are generated by the Commercial Banking Solutions division that focuses on specific commercial loan businesses, such as SBA, franchise, and equipment finance lending that offer services nationwide. Approximately 74% of loans are secured by real estate.

Total loans averaged \$8.17 billion in 2018, compared with \$7.15 billion in 2017, an increase of 14%. At December 31, 2018, total loans were \$8.38 billion, an increase of 8%, from December 31, 2017. Loans increased year over year due to organic growth and the acquisition of NLFC.

The following table presents the composition of United's loan portfolio for the last five years.

Table 8 - Loans Outstanding

As of December 31,

(in thousands)

Loans by Category	2018	2017	2016	2015	2014
Owner occupied commercial real estate	\$1,647,904	\$1,923,993	\$1,650,360	\$1,570,988	\$1,256,779
Income producing commercial real estate	1,812,420	1,595,174	1,281,541	1,020,464	766,834
Commercial & industrial	1,278,347	1,130,990	1,069,715	784,870	709,615
Commercial construction	796,158	711,936	633,921	518,335	364,564
Equipment financing	564,614	—	—	—	—
Total commercial	6,099,443	5,362,093	4,635,537	3,894,657	3,097,792
Residential mortgage	1,049,232	973,544	856,725	764,175	613,592
Home equity lines of credit	694,010	731,227	655,410	589,325	455,825
Residential construction	211,011	183,019	190,043	176,202	131,382
Consumer direct	122,013	127,504	123,567	115,111	104,899
Indirect auto	207,692	358,185	459,354	455,971	268,629
Total loans	\$8,383,401	\$7,735,572	\$6,920,636	\$5,995,441	\$4,672,119
Loans by Market	2018	2017	2016	2015	2014
North Georgia	\$980,968	\$1,018,945	\$1,096,974	\$1,125,123	\$1,163,479
Atlanta MSA	1,506,990	1,510,067	1,398,657	1,259,377	1,243,535
North Carolina	1,071,790	1,049,592	544,792	548,591	552,527
Coastal Georgia	587,988	629,919	581,138	536,598	455,709
Gainesville MSA	246,715	248,060	247,410	254,016	257,449
East Tennessee	477,403	474,515	503,843	504,277	280,312
South Carolina	1,645,567	1,485,632	1,233,185	819,560	29,786
Commercial Banking Solutions	1,658,288	960,657	855,283	491,928	420,693
Indirect auto	207,692	358,185	459,354	455,971	268,629
Total loans	\$8,383,401	\$7,735,572	\$6,920,636	\$5,995,441	\$4,672,119

As of December 31, 2018, United's 25 largest credit relationships consisted of loans and loan commitments ranging from \$19.3 million to \$45.5 million, with an aggregate total credit exposure of \$628 million. Total credit exposure includes \$183 million in unfunded commitments and \$445 million in balances outstanding, excluding participations sold. United had 21 lending relationships whose total credit exposure exceeded \$20 million of which only eight relationships were in excess of \$25 million.

The following table sets forth the maturity distribution of commercial and construction loans, including the interest rate sensitivity for loans maturing after one year.

Table 9 - Loan Portfolio Maturity

As of December 31, 2018

(in thousands)

	Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial (commercial and industrial)	\$262,523	\$625,941	\$389,883	\$1,278,347	\$368,645	\$647,179
Construction (commercial and residential)	402,672	424,832	179,665	1,007,169	154,250	450,247
Equipment financing	43,224	475,774	45,616	564,614	521,390	—

Total	\$708,419	\$1,526,547	\$615,164	\$2,850,130	\$1,044,285	\$1,097,426
-------	-----------	-------------	-----------	-------------	-------------	-------------

48

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 concentration limits, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures among all of the community banking and commercial banking solutions areas. Additional information on United's credit administration function is included in Item 1 under the heading "Lending Activities."

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 December 31, 2018 and 2017, the funded portion of home equity lines totaled \$694 million and \$731 million, respectively. Of the \$694 million in balances outstanding at December 31, 2018, \$414 million, or 60%, were first liens. At December 31, 2018, 52% 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 generally receives notification when the first lien holder is in the process of foreclosure and upon that notification, United determines its collection options by obtaining valuations to conclude if any additional charge-offs or reserves are warranted.

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.

The table below presents performing classified loans for the last five years.

Table 10 - Performing Classified Loans
As of December 31,
(in thousands)

	2018	2017	2016	2015	2014
By Category					
Owner occupied commercial real estate	\$32,909	\$41,467	\$42,169	\$44,790	\$52,671
Income producing commercial real estate	18,048	30,061	29,379	37,638	29,194
Commercial & industrial	20,980	11,879	8,903	5,967	7,664
Commercial construction	9,549	8,264	8,840	8,622	14,263
Equipment financing	217	—	—	—	—
Total commercial	81,703	91,671	89,291	97,017	103,792
Residential mortgage	5,623	15,323	15,324	18,141	15,985
Home equity lines of credit	1,665	6,055	5,060	6,851	5,181
Residential construction	293	1,837	2,726	3,548	1,479
Consumer direct	165	515	584	757	1,382
Indirect auto	1,334	1,760	1,362	1,213	574
Total	\$90,783	\$117,161	\$114,347	\$127,527	\$128,393
By Market					
North Georgia	\$16,477	\$30,952	\$39,438	\$46,668	\$55,821
Atlanta MSA	10,863	9,358	17,954	25,723	31,201
North Carolina	11,556	30,670	11,089	14,087	16,479

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

Coastal Georgia	2,730	3,322	4,516	5,187	15,642
Gainesville MSA	519	750	713	566	1,109
East Tennessee	8,543	10,953	7,485	9,522	5,933
South Carolina	26,277	27,212	31,623	23,620	—
Commercial Banking Solutions	12,484	2,184	167	941	1,634
Indirect auto	1,334	1,760	1,362	1,213	574
Total loans	\$90,783	\$117,161	\$114,347	\$127,527	\$128,393

49

At December 31, 2018, performing classified loans totaled \$90.8 million. The decrease of \$26.4 million from the prior year end coincides with the overall decrease in classified loans from December 31, 2017.

Reviews of classified performing and non-performing loans, 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 or respective credit officer 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 the reviews mentioned above, United also has an internal loan review team which directly reviews the portfolio in conjunction with external loan review to ensure the objectivity of the loan review process.

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 increase in the 2018 provision and the higher level of the allowance for loan losses compared to the previous year reflects loan growth, as credit quality remained stable.

The allocation of the allowance for credit losses is based on historical data, subjective judgment and estimates and, therefore, is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur.

The following table summarizes the allocation of the allowance for credit losses for each of the past five years.

Table 11 - Allocation of Allowance for Credit Losses

As of December 31,
(in thousands)

	2018		2017		2016		2015		2014	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Owner occupied commercial real estate	\$12,207	19	\$14,776	25	\$16,446	24	\$18,016	26	\$18,174	27
Income producing commercial real estate	11,073	22	9,381	21	8,843	18	11,548	17	14,517	16
Commercial & industrial	4,802	15	3,971	15	3,810	16	4,433	13	3,252	15
Commercial construction	10,337	9	10,523	9	13,405	9	9,553	9	10,901	8
Equipment financing	5,452	7	—	—	—	—	—	—	—	—
Total commercial	43,871	72	38,651	70	42,504	67	43,550	65	46,844	66
Residential mortgage	8,295	13	10,097	13	8,545	13	12,719	13	14,133	13
Home equity lines of credit	4,752	8	5,177	9	4,599	9	5,956	10	4,476	10
Residential construction	2,433	3	2,729	2	3,264	3	4,002	3	4,374	3
Consumer direct	853	2	710	2	708	2	828	2	731	2
Indirect auto	999	2	1,550	4	1,802	6	1,393	7	1,061	6
Total allowance for loan losses	61,203	100	58,914	100	61,422	100	68,448	100	71,619	100
Allowance for unfunded commitments	3,410		2,312		2,002		2,542		1,930	
Total allowance for credit losses	\$64,613		\$61,226		\$63,424		\$70,990		\$73,549	

* Loan balance in each category, expressed as a percentage of total loans.

The following table presents a summary of changes in the allowance for credit losses for each of the past five years.

Table 12 - Allowance for Credit Losses

Years Ended December 31,

(in thousands)

	2018	2017	2016	2015	2014	
Balance beginning of period	\$58,914	\$61,422	\$68,448	\$71,619	\$76,762	
Charge-offs:						
Owner occupied commercial real estate	303	406	2,029	2,901	4,567	
Income producing commercial real estate	3,304	2,985	1,433	1,280	2,671	
Commercial & industrial	1,669	1,528	1,830	1,358	2,145	
Commercial construction	622	1,023	837	1,947	1,574	
Equipment financing	1,536	—	—	—	—	
Residential mortgage	754	1,473	1,151	1,615	5,011	
Home equity lines of credit	1,194	1,435	1,690	1,094	2,314	
Residential construction	54	129	533	851	1,837	
Consumer direct	2,445	1,803	1,459	1,597	2,008	
Indirect auto	1,277	1,420	1,399	772	540	
Total loans charged-off	13,158	12,202	12,361	13,415	22,667	
Recoveries:						
Owner occupied commercial real estate	1,227	980	706	755	3,343	
Income producing commercial real estate	1,064	178	580	866	1,009	
Commercial & industrial	1,390	1,768	1,689	2,174	1,665	
Commercial construction	734	1,018	821	736	503	
Equipment financing	460	—	—	—	—	
Residential mortgage	336	314	301	1,080	572	
Home equity lines of credit	423	567	386	242	287	
Residential construction	376	178	79	173	135	
Consumer direct	807	917	800	1,044	1,221	
Indirect auto	228	284	233	86	54	
Total recoveries	7,045	6,204	5,595	7,156	8,789	
Net charge-offs	6,113	5,998	6,766	6,259	13,878	
Provision for loan losses	8,402	3,490	(260)	3,088	8,735	
Allowance for loan losses at end of period	61,203	58,914	61,422	68,448	71,619	
Allowance for unfunded commitments at beginning of period	2,312	2,002	2,542	1,930	2,165	
Provision for unfunded commitments	1,098	310	(540)	612	(235)	
Allowance for unfunded commitments at end of period	3,410	2,312	2,002	2,542	1,930	
Allowance for credit losses	\$64,613	\$61,226	\$63,424	\$70,990	\$73,549	
Total loans:						
At year-end	\$8,383,401	\$7,735,572	\$6,920,636	\$5,995,441	\$4,672,119	
Average	8,170,143	7,150,211	6,412,740	5,297,687	4,440,868	
Allowance for loan losses as a percentage of year-end loans	0.73	% 0.76	% 0.89	% 1.14	% 1.53	%

As a percentage of average loans:

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

Net charge-offs	0.07	0.08	0.11	0.12	0.31
Provision for loan losses	0.10	0.05	—	0.06	0.20

The allowance for credit losses, which includes a portion related to unfunded commitments, totaled \$64.6 million at December 31, 2018 compared with \$61.2 million at December 31, 2017. At December 31, 2018, the allowance for loan losses was \$61.2 million, or 0.73% of total loans, compared with \$58.9 million, or 0.76%, of loans at December 31, 2017. The increase in the allowance for credit losses reflects the addition of the NLFC equipment financing loan portfolio and the impact of loan growth.

At December 31, 2018, for acquired loans that had no evidence of credit deterioration at the time of acquisition, the remaining unaccreted fair value discount was \$4.31 million.

Management believes that the allowance for credit losses at December 31, 2018 reflects the probable incurred losses in the loan portfolio and unfunded loan commitments. This assessment involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if management's assessment of loan quality or collateral values changes 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 credit losses.

Nonperforming Assets

Nonperforming loans totaled \$23.8 million at December 31, 2018, compared with \$23.7 million at December 31, 2017. At December 31, 2018 and 2017, the ratio of nonperforming loans to total loans was 0.28% and 0.31%, respectively. Nonperforming assets, which include nonperforming loans and foreclosed properties, totaled \$25.1 million at December 31, 2018, compared with \$26.9 million at December 31, 2017.

United's policy is to place loans on nonaccrual status when, in the opinion of management, the full principal and interest on a loan is not likely to be collected or when the loan becomes 90 days past due. When a loan is placed on nonaccrual status, interest previously accrued but not collected is reversed against current interest revenue. Interest payments received on nonaccrual loans are applied to reduce the loan's recorded investment.

Purchased Credit Impaired ("PCI") loans 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 loan loss provision or future period yield adjustments. PCI loans were not classified as nonaccrual at December 31, 2018 or 2017 as the carrying value of the respective loan or pool of loans cash flows were considered estimable and probable of collection. Therefore, interest revenue, through accretion of the difference between the carrying value of the loans and the expected cash flows, is being recognized on all PCI loans.

Generally, United does not commit to lend additional funds to customers whose loans are on nonaccrual status, although in certain isolated cases, United executes forbearance agreements whereby United will continue to fund construction loans to completion or other lines of credit as long as the borrower meets the conditions of the forbearance agreement. United may also fund other amounts necessary to protect collateral such as amounts to pay past due property taxes and insurance coverage. The table below summarizes nonperforming assets at year-end for the last five years.

Table 13 - Nonperforming Assets
As of December 31,
(in thousands)

	2018	2017	2016	2015	2014	
Nonaccrual loans (NPLs)	\$23,778	\$23,658	\$21,539	\$22,653	\$17,881	
Foreclosed properties	1,305	3,234	7,949	4,883	1,726	
Total nonperforming assets (NPAs)	\$25,083	\$26,892	\$29,488	\$27,536	\$19,607	
NPLs as a percentage of total loans	0.28	% 0.31	% 0.31	% 0.38	% 0.38	%

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

NPAs as a percentage of loans and foreclosed properties	0.30	0.35	0.43	0.46	0.42
NPAs as a percentage of total assets	0.20	0.23	0.28	0.29	0.26

52

The following table summarizes nonperforming assets by category and market.

Table 14 - Nonperforming Assets by Category
(in thousands)

	December 31, 2018			December 31, 2017		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
BY CATEGORY						
Owner occupied commercial real estate	\$6,421	\$ 170	\$6,591	\$4,923	\$ 1,955	\$6,878
Income producing commercial real estate	1,160	—	1,160	3,208	244	3,452
Commercial & industrial	1,417	—	1,417	2,097	—	2,097
Commercial construction	605	421	1,026	758	884	1,642
Equipment financing	2,677	—	2,677	—	—	—
Total commercial	12,280	591	12,871	10,986	3,083	14,069
Residential mortgage	8,035	654	8,689	8,776	136	8,912
Home equity lines of credit	2,360	60	2,420	2,024	15	2,039
Residential construction	288	—	288	192	—	192
Consumer direct	89	—	89	43	—	43
Indirect auto	726	—	726	1,637	—	1,637
Total NPAs	\$23,778	\$ 1,305	\$25,083	\$23,658	\$ 3,234	\$26,892
BY MARKET						
North Georgia	\$6,527	\$ 286	\$6,813	\$7,310	\$ 94	\$7,404
Atlanta MSA	1,578	—	1,578	1,395	279	1,674
North Carolina	3,259	743	4,002	4,543	1,213	5,756
Coastal Georgia	1,491	—	1,491	2,044	20	2,064
Gainesville MSA	479	—	479	739	—	739
East Tennessee	1,147	—	1,147	1,462	—	1,462
South Carolina	4,123	276	4,399	3,433	1,059	4,492
Commercial Banking Solutions	4,448	—	4,448	1,095	569	1,664
Indirect auto	726	—	726	1,637	—	1,637
Total NPAs	\$23,778	\$ 1,305	\$25,083	\$23,658	\$ 3,234	\$26,892

The following table summarizes activity in nonperforming assets by year.

Table 15 - Activity in Nonperforming Assets
(in thousands)

	2018			2017			2016		
	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs	Nonaccrual Loans	Foreclosed Properties	Total NPAs
Beginning Balance	\$23,658	\$ 3,234	\$26,892	\$21,539	\$ 7,949	\$29,488	\$22,653	\$ 4,883	\$27,536
Acquisitions	428	—	428	20	1,464	1,484	—	6,998	6,998
Loans placed on non-accrual	22,663	—	22,663	28,621	—	28,621	24,583	—	24,583
Payments received	(14,723)	—	(14,723)	(16,688)	—	(16,688)	(13,783)	—	(13,783)
Loan charge-offs	(5,736)	—	(5,736)	(6,762)	—	(6,762)	(6,011)	—	(6,011)
Foreclosures	(2,512)	3,018	506	(3,072)	4,146	1,074	(5,903)	8,177	2,274
Capitalized costs	—	—	—	—	—	—	—	127	127
Note / property sales	—	(4,664)	(4,664)	—	(9,534)	(9,534)	—	(12,238)	(12,238)
Write downs	—	(456)	(456)	—	(1,127)	(1,127)	—	(387)	(387)
Net gains on sales	—	173	173	—	336	336	—	389	389
Ending Balance	\$23,778	\$ 1,305	\$25,083	\$23,658	\$ 3,234	\$26,892	\$21,539	\$ 7,949	\$29,488

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.

At December 31, 2018 and 2017 United had \$52.4 million and \$58.1 million, respectively, in loans with terms that have been modified in a TDR. Included therein were \$7.09 million and \$5.50 million, respectively, of TDRs that were classified as nonaccrual and were included in nonperforming loans. The remaining TDRs with an aggregate balance of \$45.3 million and \$52.6 million, respectively, were performing according to their modified terms and were therefore not considered to be nonperforming assets.

At December 31, 2018 and 2017, there were \$55.4 million and \$62.3 million, respectively, of loans that were individually evaluated for impairment (“impaired loans”), including TDRs which are by definition considered impaired. Included in impaired loans at December 31, 2018 and 2017 were \$23.5 million and \$9.37 million, respectively, that did not require specific reserves or had previously been charged down to net realizable value. The remaining balance of impaired loans at December 31, 2018 of \$32.0 million had specific reserves that totaled \$2.31 million and the balance of impaired loans at December 31, 2017 of \$52.9 million had specific reserves that totaled \$3.26 million. The average recorded investment in impaired loans for 2018, 2017 and 2016 was \$59.7 million, \$78.4 million and \$90.4 million, respectively. During 2018, 2017 and 2016, United recognized \$3.08 million, \$3.63 million and \$4.27 million, respectively, in interest revenue on impaired loans. United’s policy is to discontinue the recognition of interest revenue for loans classified as impaired when a loan meets the criteria for nonaccrual status. Impaired loans decreased 11% from 2017 to 2018.

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 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 December 31, 2018 decreased \$34.1 million from a year ago.

At December 31, 2018 and 2017, United had debt securities held-to-maturity with a carrying value of \$274 million and \$321 million, respectively, and debt securities available-for-sale totaling \$2.63 billion and \$2.62 billion, respectively. At December 31, 2018 and 2017, the securities portfolio represented approximately 23% and 25%, respectively, of total assets. At December 31, 2018, the effective duration of the investment portfolio was 3.34 years, compared with 3.41 years at December 31, 2017.

The following table shows the carrying value of United's debt securities.

Table 16 - Carrying Value of Debt Securities

As of December 31,

(in thousands)

	December 31, 2018		
	Available-for-Sale	Hold-to-Maturity	Total Securities
U.S. Treasuries	\$ 149,307	\$ —	\$ 149,307
U.S. Government agencies	25,553	—	25,553
State and political subdivisions	233,941	68,551	302,492
Residential mortgage-backed securities	1,445,910	176,488	1,622,398
Commercial mortgage-backed securities	391,917	29,368	421,285
Corporate bonds	199,163	—	199,163
Asset-backed securities	182,676	—	182,676
Total securities	\$ 2,628,467	\$ 274,407	\$ 2,902,874

	December 31, 2017		
	Available-for-Sale	Hold-to-Maturity	Total Securities
U.S. Treasuries	\$ 121,113	\$ —	\$ 121,113
U.S. Government agencies	26,372	—	26,372
State and political subdivisions	197,286	71,959	269,245
Residential mortgage-backed securities	1,311,733	208,805	1,520,538
Commercial mortgage-backed securities	415,478	40,330	455,808
Corporate bonds	306,353	—	306,353
Asset-backed securities	237,458	—	237,458
Other	57	—	57
Total securities	\$ 2,615,850	\$ 321,094	\$ 2,936,944

Mortgage-backed securities, which include both U.S. Government sponsored agency and non-agency 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 differ from the contractual maturities because the loans underlying the security 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 collateralized loan obligations and securities that are backed by student loans.

Management evaluates its securities portfolio each quarter to determine if any security is other than temporarily impaired. In making this evaluation, management considers its ability and intent to hold securities to recover current market losses. Losses on fixed income securities at December 31, 2018 primarily reflect the effect of changes in interest rates. United did not recognize any other than temporary impairment losses on its investment securities in 2018, 2017 or 2016.

At December 31, 2018, United had 70% of its total investment securities portfolio in mortgage-backed securities, compared with 67% at December 31, 2017. United has continued to purchase mortgage-backed securities in order to obtain a favorable yield with low risk. United did not have debt obligations of any issuer in excess of 10% of equity at year-end 2018 or 2017, excluding U.S. Government sponsored entities. Approximately 2% of the securities portfolio

is rated below “A” by at least one rating agency or unrated and 14% of securities, excluding government or agency securities, are rated “Aaa”. See Note 6 to the consolidated financial statements for further discussion of the investment portfolio and related fair value and maturity information.

Goodwill and Other Intangible Assets

Goodwill represents the premium paid for acquired companies above the fair value of the assets acquired and liabilities assumed, including separately identifiable intangible assets. Management evaluates goodwill annually, or more frequently if necessary, to determine if any impairment exists.

Core deposit intangibles, representing the value of the acquired deposit base, and noncompete agreements 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 other intangible assets.

Deposits

Customer deposits are the primary source of funds for the continued growth of United's earning assets. Management has focused on growing customer transaction deposit accounts relative to 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 December 31, 2018 were \$9.85 billion, an increase of \$414 million from December 31, 2017. Total core transaction deposits (demand, NOW, money market and savings deposits, excluding public funds) of \$6.96 billion increased \$190 million, or 3%, from December 31, 2017.

Total time deposits, excluding brokered deposits, as of December 31, 2018 were \$1.60 billion, which represents an increase of \$50 million from December 31, 2017. The increase is attributable to more competitive pricing and is a reflection of United's organic deposit growth.

Brokered deposits totaled \$684 million as of December 31, 2018, an increase of \$313 million from December 31, 2017, and included NOW accounts, money market deposits and certificates of deposit. Brokered certificates of deposit accounted for \$544 million and \$133 million of the balance at December 31, 2018 and 2017, respectively. The increase in brokered certificates of deposit reflects a strategy to diversify wholesale funding sources at a reasonable cost.

The following table sets forth the scheduled maturities of time deposits of \$250,000 and greater and brokered time deposits.

Table 17 - Maturities of Time Deposits of \$250,000 and Greater and Brokered Time Deposits

As of December 31,

(in thousands)

\$250,000 and greater:	2018	2017
Three months or less	\$63,510	\$37,982
Three to six months	44,478	27,099
Six to twelve months	80,034	59,736
Over one year	74,368	79,937
Total	\$262,390	\$204,754
Brokered time deposits:		
Three months or less	\$249,833	\$30,932
Three to six months	202,871	1,639
Six to twelve months	—	2,155
Over one year	91,218	98,022

Total \$543,922 \$132,748

Borrowing Activities

The Bank is a shareholder in the FHLB and, through this affiliation, had FHLB secured advances totaling \$160 million and \$505 million at December 31, 2018 and 2017, respectively. United anticipates continued use of this short and long-term source of funds. FHLB advances outstanding at December 31, 2018 had 2019 maturity dates and a weighted average interest rate of 2.52%. Additional information regarding FHLB advances is provided in Note 12 to the consolidated financial statements.

At December 31, 2017 United had \$50.0 million in federal funds purchased outstanding. At December 31, 2018, United had no federal funds purchased outstanding.

At December 31, 2018 and 2017, United also had long-term debt outstanding of \$267 million and \$121 million, respectively, which includes senior debentures, subordinated debentures, trust preferred securities, and securitized notes payable. Additional information regarding these debt instruments is provided in Note 13 to the consolidated financial statements.

Liquidity Management

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. The primary objective 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. United maintains an unencumbered liquid asset reserve to help ensure its ability to meet its obligations under normal conditions for at least a 12-month period and under severely adverse liquidity conditions for a minimum of 30 days.

An important part of the Bank's liquidity resides in the asset portion of the balance sheet, which provides liquidity primarily through loan interest and principal repayments and the maturities and sales of securities, as well as the ability to use these assets as collateral for borrowings on a secured basis.

The Bank's main source of liquidity is customer interest-bearing and noninterest-bearing deposit accounts. Liquidity is also available from wholesale funding sources consisting primarily of Federal funds purchased, FHLB advances, brokered deposits, and securities sold under agreements to repurchase. 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.

In addition, because the Holding Company is a separate entity and apart from the Bank, it must provide for its own liquidity. The Holding Company is responsible for the payment of dividends declared for its common shareholders, and interest and principal on any outstanding debt or trust preferred securities. The Holding Company currently has internal capital resources to meet these obligations. While the Holding Company has access to the capital markets and maintains a line of credit as a contingent funding source, the ultimate sources of its liquidity are subsidiary service fees and dividends from the Bank, which are limited by applicable law and regulations. In 2018 and 2017, the Bank paid dividends of \$162 million and \$103 million, respectively, to the Holding Company. Holding Company liquidity is managed to a minimum of 15-months of positive cash flow after considering all of its liquidity needs over this period.

The table below presents a summary of short-term borrowings over the last three years.

Table 18 - Short-Term Borrowings
As of and for the year ended December 31,
(in thousands)

	Period-end balance	Period end weighted-average interest rate	Maximum outstanding at any month-end	Average amounts outstanding during the year	Weighted-average rate for the year		
2018							
Federal funds purchased	\$ —	—	%	\$ 65,000	\$ 55,799	1.98	%
Repurchase agreements	—	—		—	1,577	0.44	
	\$ —				\$ 57,376		
2017							
Federal funds purchased	\$ 50,000	1.56	%	\$ 84,575	\$ 26,853	1.19	%
Repurchase agreements	—	—		1,027	3	0.12	
	\$ 50,000				\$ 26,856		
2016							
Federal funds purchased	\$ 5,000	0.81	%	\$ 50,000	\$ 27,572	0.66	%
Repurchase agreements	—	—		19,234	7,334	0.15	
	\$ 5,000				\$ 34,906		

At December 31, 2018, United had sufficient qualifying collateral to increase FHLB advances by \$1.09 billion and Federal Reserve discount window capacity of \$1.52 billion, as well as unpledged investment securities of \$1.98 billion that could be used as collateral for additional borrowings. Management 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 at any time by competing more aggressively on pricing.

As disclosed in the consolidated statements of cash flows, net cash provided by operating activities was \$270 million for the year ended December 31, 2018. Net income of \$166 million for the year included non-cash expenses for the following: deferred income tax expense of \$32.6 million, depreciation, amortization and accretion of \$31.0 million, provision expense of \$9.50 million, and stock-based compensation of \$6.06 million. Other sources of cash from operating activities included a decrease in other assets and accrued interest receivable of \$13.1 million, an increase in accrued expenses and other liabilities of \$3.77 million, and a decrease in loans held for sale of \$16.4 million. Net cash used in investing activities of \$359 million consisted primarily of \$566 million of purchases of debt securities available for sale and equity securities, a net increase in loans of \$292 million and cash paid for acquisitions of \$56.8 million. These uses of cash were partially offset by proceeds from sales of debt securities available for sale and equity securities of \$169 million, maturities and calls of debt securities available for sale of \$347 million, and maturities and calls of securities held to maturity of \$58.6 million. The \$102 million of net cash provided by financing activities consisted primarily of a net increase in deposits of \$728 million and proceeds from the issuance of long-term debt of \$98.2 million, partially offset by repayments of short-term borrowings of \$265 million, a \$344 million net reduction in FHLB advances, \$71.8 million repayment of long-term debt and \$41.6 million in common stock dividends. In the opinion of management, United's liquidity position at December 31, 2018 was sufficient to meet its expected cash flow requirements.

The following table shows United's contractual obligations and other commitments.

Table 19 - Contractual Obligations and Other Commitments

As of December 31, 2018

(in thousands)

	Total	Unamortized Premium (Discount)	Maturity By Years			
			1 or Less	1 to 3	3 to 5	Over 5
Contractual Cash Obligations						
FHLB advances	\$160,000	\$ —	\$160,000	\$—	\$—	\$—
Long-term debt	267,189	(9,309)	—	51,783	53,213	171,502
Operating leases	28,844	—	5,352	10,065	8,390	5,037
Total contractual cash obligations	\$456,033	\$ (9,309)	\$165,352	\$61,848	\$61,603	\$176,539
Other Commitments						
Commitments to extend credit	\$2,129,463	\$ —	\$533,431	\$430,508	\$427,294	\$738,230
Commercial letters of credit	25,447	—	21,333	2,965	1,149	—
Uncertain tax positions	3,264	—	375	2,069	470	350
Total other commitments	\$2,158,174	\$ —	\$555,139	\$435,542	\$428,913	\$738,580

The following table presents the expected maturity of investment securities by date and average yields based on amortized cost (for all obligations on a fully taxable basis). The composition and maturity / repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

Table 20 - Maturity of Available-for-Sale and Held-to-Maturity Debt Securities

As of December 31, 2018

(in thousands)

	Maturity By Years					Total
	1 or Less	1 to 5	5 to 10	Over 10		
Available-for-Sale						
U.S. Treasuries	\$—	\$120,391	\$28,916	\$—		\$149,307
U.S. Government agencies	4,034	19,968	570	981		25,553
State and political subdivisions	3,154	50,993	179,794	—		233,941
Residential mortgage-backed securities	12,424	1,071,414	337,843	24,229		1,445,910
Commercial mortgage-backed securities	4,548	294,215	93,154	—		391,917
Corporate bonds	—	198,168	—	995		199,163
Asset-backed securities	2,463	52,779	125,033	2,401		182,676
Total securities available-for-sale	\$26,623	\$1,807,928	\$765,310	\$28,606		\$2,628,467
Weighted average yield ⁽¹⁾	2.56	% 2.86	% 3.01	% 3.81	% 2.91	%
Held-to-Maturity						
State and political subdivisions	\$5,830	\$12,919	\$19,801	\$30,001		\$68,551
Residential mortgage-backed securities	821	108,643	41,359	25,665		176,488
Commercial mortgage-backed securities	20,295	7,541	—	1,532		29,368
Total securities held-to-maturity	\$26,946	\$129,103	\$61,160	\$57,198		\$274,407
Weighted average yield ⁽¹⁾	3.51	% 2.77	% 2.89	% 3.22	% 2.96	%
Combined Portfolio						
U.S. Treasuries	\$—	\$120,391	\$28,916	\$—		\$149,307
U.S. Government agencies	4,034	19,968	570	981		25,553
State and political subdivisions	8,984	63,912	199,595	30,001		302,492
Residential mortgage-backed securities	13,245	1,180,057	379,202	49,894		1,622,398
Commercial mortgage-backed securities	24,843	301,756	93,154	1,532		421,285
Corporate bonds	—	198,168	—	995		199,163
Asset-backed securities	2,463	52,779	125,033	2,401		182,676
Total securities	\$53,569	\$1,937,031	\$826,470	\$85,804		\$2,902,874
Weighted average yield ⁽¹⁾	3.04	% 2.85	% 3.00	% 3.42	% 2.91	%

⁽¹⁾ Based on amortized cost, taxable equivalent basis

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, which included commitments to extend credit and letters of credit, totaled \$2.15 billion at December 31, 2018.

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. Management 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 believes that it has adequate sources of liquidity to fund commitments that are drawn upon by the borrowers. 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 20 to the consolidated financial statements for additional information on off-balance sheet arrangements.

At December 31, 2018 and 2017, United had \$50 million and \$100 million, respectively, in offsetting repurchase agreements / reverse repurchase agreements that were netted in the consolidated balance sheets. United enters into these collateral swap arrangements from time to time as a source of additional revenue.

Capital Resources and Dividends

Shareholders' equity at December 31, 2018 was \$1.46 billion, an increase of \$154 million from December 31, 2017 primarily due to earnings and stock issued for acquisitions partially offset by dividends declared. 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 defined benefit retirement plans, is excluded in the calculation of regulatory capital ratios.

Effective January 1, 2015, the Board of Governors of the Federal Reserve System and the FDIC implemented 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 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% to 6%, require a minimum ratio of Total Capital to risk-weighted assets of 8%, and require a minimum Tier 1 leverage ratio of 4%. A new capital conservation buffer, comprised of common equity Tier 1 capital, was also established above the regulatory minimum capital requirements. This capital conservation buffer has been phased in since January 1, 2016 and reached 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 revised the definition and calculation of Tier 1 capital, Total Capital, and risk-weighted assets.

Under the risk-based capital guidelines, assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor, or, if relevant, the guarantor or the nature of the collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with the category. The resulting weighted values from each of the risk categories are added together, and generally this sum is the Company's total risk weighted assets. Risk-weighted assets for purposes of United's capital ratios are calculated under these guidelines.

Tier 1 capital consists of shareholders' equity, excluding accumulated other comprehensive income, intangible assets (goodwill and deposit-based intangibles), and disallowed deferred tax assets, plus qualifying capital securities. Tier 2 capital components include supplemental capital such as the qualifying portion of the allowance for loan losses and qualifying subordinated debt. Tier 1 capital plus Tier 2 capital is referred to as Total risk-based capital.

United has outstanding junior subordinated debentures related to trust preferred securities totaling \$25.0 million at December 31, 2018. The related trust preferred securities of \$24.3 million (excluding common securities) qualify as Tier 1 capital under risk-based capital guidelines provided that total trust preferred securities do not exceed certain quantitative limits. At December 31, 2018, all of United's

trust preferred securities qualified as Tier 1 capital. Further information on trust preferred securities is provided in Note 13 to the consolidated financial statements.

The following table shows capital ratios, as calculated under regulatory guidelines in effect at the time, as of the dates indicated:

Table 21 - Capital Ratios
As of December 31,
(dollars in thousands)