

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2003

OR

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

For the Transition Period from _____ to _____

Commission file number 0-21656

UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia 58-180-7304
(State of Incorporation) (I.R.S. Employer Identification No.)

63 Highway 515
Blairsville, Georgia
Address of Principal Executive Offices

30512
(Zip Code)

(706) 781-2265
(Telephone Number)

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

YES NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

YES NO

Common stock, par value \$1 per share: 23,488,012 shares
outstanding as of September 30, 2003

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Item 1 – Financial Statements**UNITED COMMUNITY BANKS, INC.****Consolidated Statement of Income****For the Three and Nine Months Ended September 30, 2003 and 2002**

<i>(in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Interest revenue:	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest and fees on loans	\$ 46,623	\$ 42,533	\$ 133,461	\$ 126,167
Interest on federal funds sold and deposits in banks	140	76	307	427
Interest on investment securities:				
Taxable	5,738	5,087	17,803	16,528
Tax-exempt	694	795	2,164	2,435
Total interest revenue	<u>53,195</u>	<u>48,491</u>	<u>153,735</u>	<u>145,557</u>
Interest expense:				
Interest on deposits:				
Demand	1,728	3,073	6,119	8,469
Savings	82	134	287	398
Time	9,784	11,303	30,673	34,355
Other borrowings	<u>5,852</u>	<u>4,432</u>	<u>16,423</u>	<u>14,171</u>
Total interest expense	<u>17,446</u>	<u>18,942</u>	<u>53,502</u>	<u>57,393</u>
Net interest revenue	35,749	29,549	100,233	88,164
Provision for loan losses	1,500	1,800	4,500	5,100
Net interest revenue after provision for loan losses	<u>34,249</u>	<u>27,749</u>	<u>95,733</u>	<u>83,064</u>
Fee revenue:				
Service charges and fees	5,009	3,576	13,270	9,801
Mortgage loan and related fees	3,115	1,844	8,762	5,087
Consulting fees	1,092	1,216	3,366	3,381
Brokerage fees	447	467	1,315	1,456
Securities (losses) gains, net	(122)	64	(125)	64
Other	<u>860</u>	<u>560</u>	<u>2,506</u>	<u>2,161</u>
Total fee revenue	<u>10,401</u>	<u>7,727</u>	<u>29,094</u>	<u>21,950</u>
Total revenue	<u>44,650</u>	<u>35,476</u>	<u>124,827</u>	<u>105,014</u>
Operating expenses:				
Salaries and employee benefits	17,990	14,352	50,665	42,786
Occupancy	2,344	2,047	6,640	6,223
Communications and equipment	2,310	1,685	6,314	4,708
Postage, printing and supplies	1,237	870	3,354	2,836
Professional fees	1,036	881	3,007	2,621
Advertising and public relations	766	639	2,439	2,358
Amortization of intangibles	370	85	783	255
Merger-related charges	-	-	1,508	-
Other	<u>2,659</u>	<u>1,992</u>	<u>7,126</u>	<u>6,332</u>
Total operating expenses	<u>28,712</u>	<u>22,551</u>	<u>81,836</u>	<u>68,119</u>
Income before income taxes	15,938	12,925	42,991	36,895
Income taxes	5,574	4,524	15,094	12,675
Net income	<u>\$ 10,364</u>	<u>\$ 8,401</u>	<u>\$ 27,897</u>	<u>\$ 24,220</u>
Net income available to common stockholders	<u>\$ 10,352</u>	<u>\$ 8,375</u>	<u>\$ 27,840</u>	<u>\$ 24,142</u>
Earnings per common share:				
Basic	\$.44	\$.39	\$ 1.24	\$ 1.13
Diluted	.43	.38	1.20	1.09
Average common shares outstanding:				
Basic	23,408	21,392	22,501	21,402
Diluted	24,123	22,233	23,233	22,227

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED COMMUNITY BANKS, INC.
Consolidated Balance Sheet
For the period ended

<i>(\$ in thousands)</i>	September 30, 2003	December 31, 2002	September 30, 2002
	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 94,381	\$ 75,027	\$ 81,480
Interest-bearing deposits in banks	67,022	31,318	36,168
Federal funds sold	-	-	28,344
Cash and cash equivalents	<u>161,403</u>	<u>106,345</u>	<u>145,992</u>
Securities available for sale	634,421	559,390	460,673
Mortgage loans held for sale	14,348	24,080	24,766
Loans, net of unearned income	2,918,412	2,381,798	2,331,862
Less - allowance for loan losses	<u>37,773</u>	<u>30,914</u>	<u>30,300</u>
Loans, net	2,880,639	2,350,884	2,301,562
Premises and equipment, net	83,342	70,748	69,585
Accrued interest receivable	23,079	20,275	18,335
Intangible assets	65,674	12,767	12,853
Other assets	<u>79,233</u>	<u>66,855</u>	<u>108,627</u>
Total assets	<u>\$ 3,942,139</u>	<u>\$ 3,211,344</u>	<u>\$ 3,142,393</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$ 404,752	\$ 297,613	\$ 317,783
Interest-bearing demand	798,072	734,494	684,577
Savings	137,613	100,523	99,244
Time	<u>1,449,894</u>	<u>1,252,609</u>	<u>1,285,358</u>
Total deposits	2,790,331	2,385,239	2,386,962
Accrued expenses and other liabilities	24,752	17,222	71,473
Federal funds purchased and repurchase agreements	78,900	20,263	80,219
Federal Home Loan Bank advances	650,572	492,130	332,860
Long-term debt and other borrowings	<u>107,871</u>	<u>74,911</u>	<u>55,449</u>
Total liabilities	<u>3,652,426</u>	<u>2,989,765</u>	<u>2,926,963</u>
Stockholders' equity:			
Preferred stock, \$1 par value; \$10 stated value; 10,000,000 shares authorized; 65,500, 172,600 and 172,600 shares issued and outstanding	655	1,726	1,726
Common stock, \$1 par value; 50,000,000 shares authorized; 23,804,382, 21,805,924 and 21,805,924 shares issued	23,804	21,806	21,806
Capital surplus	106,925	62,495	62,419
Retained earnings	158,464	135,709	128,504
Treasury stock; 316,370, 542,652 and 461,385 shares, at cost	(8,015)	(11,432)	(9,401)
Accumulated other comprehensive income	<u>7,880</u>	<u>11,275</u>	<u>10,376</u>
Total stockholders' equity	<u>289,713</u>	<u>221,579</u>	<u>215,430</u>
Total liabilities and stockholders' equity	<u>\$ 3,942,139</u>	<u>\$ 3,211,344</u>	<u>\$ 3,142,393</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED COMMUNITY BANKS, INC.
 Consolidated Statement of Changes in Stockholders' Equity
 For the Nine Months Ended September 30,

<i>(in thousands)</i>	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2001	\$ 1,726	\$ 21,806	\$62,829	\$108,371	\$ (5,749)	\$ 5,682	\$194,665
Comprehensive income:							
Net income				24,220			24,220
Other comprehensive income:							
Unrealized holding gains on available for sale securities, net of deferred tax benefit and reclassification adjustment						4,485	4,485
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit						209	209
Comprehensive income				24,220		4,694	28,914
Cash dividends declared (\$.1875 per share)				(4,009)			(4,009)
Exercise of stock options (44,374 shares)			(410)		866		456
Acquisition of treasury stock (223,281 shares)					(4,761)		(4,761)
Employee stock grant (12,470 shares)					243		243
Dividends declared on preferred stock (\$.45 per share)				(78)			(78)
Balance, September 30, 2002	\$ 1,726	\$ 21,806	\$62,419	\$ 128,504	\$ (9,401)	\$ 10,376	\$215,430
Balance, December 31, 2002	\$ 1,726	\$ 21,806	\$62,495	\$135,709	\$(11,432)	\$ 11,275	\$221,579
Comprehensive income:							
Net income				27,897			27,897
Other comprehensive income:							
Unrealized holding losses on available for sale securities, net of deferred tax expense and reclassification adjustment						(2,498)	(2,498)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of deferred tax expense						(897)	(897)
Comprehensive income				27,897		(3,395)	24,502
Redemption of preferred stock (107,100 shares)	(1,071)						(1,071)
Cash dividends declared (\$.225 per share)				(5,085)			(5,085)
Common stock issued for acquisition (1,998,458 shares)		1,998	47,893				49,891
Exercise of stock options (466,001 shares)			(3,379)		9,420		6,041
Conversion of debt (12,000 shares)			(84)		234		150
Acquisition of treasury stock (251,719 shares)					(6,237)		(6,237)
Dividends declared on preferred stock (\$.45 per share)				(57)			(57)
Balance, September 30, 2003	\$ 655	\$ 23,804	\$106,925	\$158,464	\$(8,015)	\$ 7,880	\$289,713

*Comprehensive income for the third quarters of 2003 and 2002 was \$4,557 and \$9,062, respectively.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Cash Flows
For the Nine Months Ended September 30,

<i>(in thousands)</i>	2003	2002
Operating activities:	(Unaudited)	(Unaudited)
Net income	\$ 27,897	\$ 24,220
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	10,801	5,817
Provision for loan losses	4,500	5,100
Loss (gain) on sale of securities available for sale	125	(64)
Gain on sale of other assets	(18)	(15)
Employee stock grant	-	243
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(8,547)	(1,906)
Accrued expenses and other liabilities	8,923	5,238
Mortgage loans held for sale	14,147	(8,228)
Net cash provided by operating activities	<u>57,828</u>	<u>30,405</u>
Investing activities (net of purchase adjustments):		
Proceeds from sales of securities available for sale	39,327	10,289
Proceeds from maturities and calls of securities available for sale	216,971	151,592
Purchases of securities available for sale	(299,802)	(149,174)
Net increase in loans	(229,857)	(327,149)
Purchases of premises and equipment	(9,038)	(10,083)
Net cash received from acquisitions	28,828	-
Proceeds from sale of other real estate	659	2,042
Net cash used by investing activities	<u>(252,912)</u>	<u>(322,483)</u>
Financing activities (net of purchase adjustments):		
Net change in deposits	13,125	270,463
Net change in federal funds purchased and repurchase agreements	57,655	3,005
Net change in notes payable and other borrowings	(3,840)	7,258
Proceeds from FHLB advances	642,600	256,699
Repayments of FHLB advances	(487,988)	(214,233)
Proceeds from issuance of subordinated debt	34,464	-
Proceeds from exercise of stock options	6,017	437
Proceeds from conversion of debt	150	-
Redemption of preferred stock	(1,071)	-
Purchase of treasury stock	(6,237)	(4,761)
Cash dividends on common stock	(4,676)	(3,747)
Cash dividends on preferred stock	(57)	(78)
Net cash provided by financing activities	<u>250,142</u>	<u>315,043</u>
Net change in cash and cash equivalents	55,058	22,965
Cash and cash equivalents at beginning of period	<u>106,345</u>	<u>123,027</u>
Cash and cash equivalents at end of period	<u>\$ 161,403</u>	<u>\$ 145,992</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 53,257	\$ 59,768
Income taxes	14,388	14,556

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

United Community Banks, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 - Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. ("United") and its subsidiaries conform to accounting principles generally accepted in the United States of America and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United's accounting policies is included in the 2002 annual report filed on Form 10-K.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are considered normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Note 2 - Stock-Based Compensation

United's stock-based compensation plans are accounted for based on the intrinsic value method set forth in Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation expense for employee stock options is not recognized if the exercise price of the option equals or exceeds the fair value of the stock on the date of grant. Compensation expense for restricted share awards is ratably recognized over the period of service, usually the restricted period, based on the fair value of the stock on the date of grant. Had compensation costs been determined based upon the fair value of the options at the grant dates consistent with the method of SFAS No. 123, United's net income and earnings per common share would have reflected the pro forma amounts below (*in thousands, except per share data*):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Net income available to common shareholders:				
As reported	\$ 10,352	\$ 8,375	\$ 27,840	\$ 24,142
Pro forma	10,270	8,244	27,526	23,642
Basic earnings per common share:				
As reported	.44	.39	1.24	1.13
Pro forma	.44	.39	1.22	1.10
Diluted earnings per common share:				
As reported	.43	.38	1.20	1.09
Pro forma	.43	.37	1.19	1.07

The weighted average fair value of options granted in 2003 and 2002 was \$5.18 and \$4.85, respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes model with the following weighted average assumptions: dividend yield of 1%; a risk free interest rate of 3.48% in 2003 and 4.25% in 2002; expected volatility of 15%; and, an expected life of 7 years. Since United's stock trading history dates back only to March of 2002, when United listed on Nasdaq, the Nasdaq Bank Index was used to determine volatility. The fair value of each option granted prior to 2002 was estimated on the date of grant using the minimum value method with the following weighted average assumptions: dividend yield of 1%; a risk free interest rate of 5%; and, an expected life of 7 years. Compensation expense, included in the proforma results, was determined based on the fair value of the options at the time of grant, multiplied by the number of options granted, which was then amortized, net of tax, over the vesting period.

Note 3 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30.

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Basic earnings per share:				
Weighted average shares outstanding	23,408	21,392	22,501	21,402
Net income available to common shareholders	<u>\$ 10,352</u>	<u>\$ 8,375</u>	<u>\$ 27,840</u>	<u>\$ 24,142</u>
Basic earnings per share	<u>\$.44</u>	<u>\$.39</u>	<u>\$ 1.24</u>	<u>\$ 1.13</u>
Diluted earnings per share:				
Weighted average shares outstanding	23,408	21,392	22,501	21,402
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the period	447	561	459	545
Effect of conversion of subordinated debt	<u>268</u>	<u>280</u>	<u>273</u>	<u>280</u>
Total weighted average shares and common stock equivalents outstanding	<u>24,123</u>	<u>22,223</u>	<u>23,233</u>	<u>22,227</u>
Net income available to common shareholders	\$ 10,352	\$ 8,375	\$ 27,840	\$ 24,142
Income effect of conversion of subordinated debt, net of tax	<u>23</u>	<u>29</u>	<u>72</u>	<u>86</u>
Net income, adjusted for effect of conversion of subordinated debt, net of tax	<u>\$ 10,375</u>	<u>\$ 8,404</u>	<u>27,912</u>	<u>24,228</u>
Diluted earnings per share	<u>\$.43</u>	<u>\$.38</u>	<u>\$ 1.20</u>	<u>\$ 1.09</u>

Note 4 – Mergers and Acquisitions

On March 31, 2003, United acquired 100 percent of the outstanding common shares of First Central Bancshares, Inc. ("First Central") a community bank holding company headquartered in Lenoir City, Tennessee. First Central's results of operations are included in consolidated financial results from the acquisition date. First Central was the parent company of First Central Bank, a community bank with 8 banking offices serving east Tennessee in the Knoxville MSA and surrounding markets. United had long sought to enter the east Tennessee market with its attractive demographics and its close proximity to United's existing markets. The aggregate purchase price was \$29.6 million including \$9 million of cash and 821,160 shares of United's common stock valued at \$20.6 million. The value of the common shares issued of \$25.10 was determined based on the average market price of United's common shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

On May 1, 2003, United acquired 100 percent of the outstanding common shares of First Georgia Holding ("First Georgia"), a community bank holding company headquartered in Brunswick, Georgia. First Georgia's results of operations are included in consolidated financial results from the acquisition date. First Georgia was the parent company of First Georgia Bank, a community bank serving the south Georgia coast along the Interstate 95 corridor. United targeted coastal Georgia for potential expansion due to the attractive demographics and the similarities to its existing markets. The aggregate purchase price was \$42.1 million including \$12.8 million of cash and 1,177,298 shares of United's common stock valued at \$29.3 million. The value of the common shares issued of \$24.87 was determined based on the market price of United's common shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of each acquisition in 2003.

	First Central Bank (March 31)	First Georgia Bank (May 1)
Assets:		
Cash and cash equivalents	\$ 47,206	\$ 23,415
Investment securities	30,713	18,829
Loans held for sale	4,415	-
Loans, net	86,163	218,114
Premises and equipment	4,732	4,089
Core deposit intangible	2,860	7,370
Goodwill	17,480	25,597
Other assets	1,592	5,937
Total assets	<u>\$ 195,161</u>	<u>\$ 303,351</u>
Liabilities and Stockholders' Equity:		
Deposits	\$ 163,223	\$ 248,794
Other borrowed funds	-	5,670
Other liabilities	2,355	6,928
Stockholders equity	29,583	41,959
Total liabilities and stockholders' equity	<u>\$ 195,161</u>	<u>\$ 303,351</u>

Core deposit intangibles are being amortized over a period of 10 years. Goodwill is not expected to be amortized or to be deductible for tax purposes.

In connection with the acquisition of First Central Bank, United incurred charges of \$840,000 during the first quarter. The charges are included in operating expenses in the Consolidated Statement of Income. The table below provides a summary of the merger charges showing the amounts paid during the period and the remaining accrued amounts at September 30, 2003.

	Expensed in Nine months ended <u>September 30, 2003</u>	Utilized in Nine months ended <u>September 30, 2003</u>	Balance at <u>September 30, 2003</u>
Severance and related costs	\$ 50	\$ 50	\$ -
Termination of equipment leases	565	565	-
Professional fees	123	123	-
Other conversion costs	102	102	-
	<u>\$ 840</u>	<u>\$ 840</u>	<u>\$ -</u>

In connection with the acquisition of First Georgia Bank, United incurred charges of \$668,000 during the second quarter. The charges are included in operating expenses in the Consolidated Statement of Income. The table below provides a summary of the merger charges showing the amounts paid during the period and the remaining accrued amounts at September 30, 2003.

	Expensed in Nine months ended <u>September 30, 2003</u>	Utilized in Nine months ended <u>September 30, 2003</u>	Balance at <u>September 30, 2003</u>
Professional fees	\$ 455	\$ 455	\$ -
Other conversion costs	213	213	-
	<u>\$ 668</u>	<u>\$ 668</u>	<u>\$ -</u>

The financial statements below present the proforma earnings of United assuming that the acquisitions of First Central Bank and First Georgia Bank occurred prior to the earliest reported period.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Total revenue	\$ 44,650	\$ 40,197	\$ 126,723	\$ 118,913
Net income	10,364	9,139	20,882	26,231
Diluted earnings per common share	.43	.38	.44	1.08

Included in the proforma earnings for the nine months ended September 30, 2003, were executive change of control payments and other severance costs of \$3.5 million, contract termination costs of \$1.6 million, and asset write downs to net realizable value of \$1.5 million for incompatible / unusable equipment. The effective tax rate for the nine-month period ended September 30, 2003 has been adjusted to reflect charges that are not tax deductible.

On August 15, 2003, United announced an agreement to acquire three branches in western North Carolina in Avery, Mitchell and Graham counties. The branches had aggregate deposits and loans of \$74 million and \$11 million, respectively, at September 30, 2003. The three branches compliment United's existing North Carolina markets and are a natural extension of the existing franchise. United completed the acquisition of two of the branches on October 24, 2003. The acquisition of the third branch will be completed in November 2003. United paid a premium for each branch of between 7% and 11% of average deposits.

Note 5 – Reclassification

Certain amounts for the comparative periods of 2002 have been reclassified to conform to the 2003 presentation.

Part I

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

Forward-Looking Statements

This Form 10-Q, contains forward-looking statements regarding United Community Banks, Inc., including, without limitation, statements relating to United's expectations with respect to revenue, credit losses, levels of nonperforming assets, expenses, earnings and other measures of financial performance. Words such as "may", "could", "would", "should", "believes", "expects", "anticipates", "estimates", "intends", "plans", "targets" or similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond United's control). The following factors, among others, could cause United's financial performance to differ materially from the expectations expressed in such forward-looking statements: (1) business increases, productivity gains and other investments are lower than expected or do not occur as quickly as anticipated; (2) competitive pressures among financial services companies increase significantly; (3) the strength of the United States economy in general and/or the strength of the local economies of the states in which United conducts operations changes; (4) trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, change; (5) inflation, interest rates and/or market conditions fluctuate; (6) conditions in the stock market, the public debt market and other capital markets deteriorate; (7) United fails to develop competitive new products and services and/or new and existing customers do not accept these products and services; (8) financial services laws and regulations change; (9) technology changes and United fails to adapt to those changes; (10) consumer spending and saving habits change; (11) unanticipated regulatory or judicial proceedings occur; and (12) United is unsuccessful at managing the risks involved in the foregoing. 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. United cautions that the foregoing list of factors is not exclusive and undue reliance should not be placed on forward-looking statements. United does not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this Form 10-Q.

Overview

United is a bank holding company registered under the Bank Holding Company Act of 1956, and was incorporated under the laws of the state of Georgia in 1987 and commenced operations in 1988. United's activities are primarily conducted by its wholly-owned banking subsidiaries (which are collectively referred to as the "Banks" in this discussion) and Brintech, Inc. a consulting firm providing professional services to the financial services industry.

On March 18, 2002, United began trading on the NASDAQ National Market under the symbol UCBI. Previously, the stock was listed on the over-the-counter market on the Pink Sheets.

At September 30, 2003, United had total consolidated assets of \$3.9 billion, total loans of \$2.9 billion, total deposits of \$2.8 billion and stockholders' equity of \$290 million.

Mergers and Acquisitions

On March 31, 2003, United completed its acquisition of First Central Bancshares, a community bank holding company headquartered in Lenoir City, Tennessee, and its wholly-owned Tennessee bank subsidiary, First Central Bank. On March 31, 2003, First Central Bank had assets of \$195 million, including purchase accounting related intangibles. United exchanged 821,160 shares of its common stock valued at \$20.6 million and approximately \$9 million in cash for all of the outstanding shares. First Central Bank's name was changed to United Community Bank Tennessee.

On May 1, 2003, United completed its acquisition of First Georgia Holding, a community bank holding company headquartered in Brunswick, Georgia, and its wholly-owned Georgia subsidiary, First Georgia Bank. On May 1, 2003, First Georgia Bank had assets of \$303 million, including purchase accounting related intangibles. United exchanged 1,177,298 shares of its common stock valued at \$29.3 million and approximately \$12.8 million in cash for all of the outstanding shares. First Georgia Bank was merged into United's Georgia bank subsidiary, United Community Bank, and operates as a separate community bank doing business as "First Georgia Bank".

On August 15, 2003, United announced an agreement to acquire three branches in western North Carolina in Avery, Mitchell and Graham counties. At September 30, 2003, the three branches had aggregate deposits and loans of \$74 million and \$11 million, respectively. These branches compliment United's existing North Carolina markets and are a natural extension of our existing franchise. The acquisition of two of the branches was completed on October 24, 2003. The acquisition of the third branch will be completed in November 2003. United paid a premium for each branch of between 7% and 11% of average deposits.

Critical Accounting Policies

The accounting and reporting policies of United Community Banks and its subsidiaries are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The more critical accounting and reporting policies include United's accounting for securities, loans and the allowance for loan losses. In particular, United's accounting policies relating to the allowance for loan losses involve the use of estimates and require significant judgments to be made by management. Different assumptions in the application of these policies could result in material changes in United's consolidated financial position or consolidated results of operations. See "Asset Quality and Risk Elements" herein for a complete discussion of United's accounting methodologies related to the allowance.

Table 1 – Financial Highlights
UNITED COMMUNITY BANKS, INC.
For the Three and Nine Months Ended September 30, 2003

(in thousands, except per share data; taxable equivalent)	2003			2002		Third Quarter
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	2003-2002 Change
INCOME SUMMARY	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Interest revenue	\$ 53,731	\$ 53,261	\$ 48,403	\$ 48,579	\$ 49,076	
Interest expense	17,446	18,467	17,589	18,964	18,942	
Net interest revenue	36,285	34,794	30,814	29,615	30,134	20 %
Provision for loan losses	1,500	1,500	1,500	1,800	1,800	
Total fee revenue	10,401	10,316	8,377	8,784	7,727	35
Total revenue	45,186	43,610	37,691	36,599	36,061	25
Operating expenses ⁽¹⁾	28,712	27,699	23,917	23,005	22,551	27
Income before taxes	16,474	15,911	13,774	13,594	13,510	22
Income taxes	6,110	6,014	5,164	5,034	5,109	
Net operating income	10,364	9,897	8,610	8,560	8,401	23
Merger-related charges, net of tax	-	428	546	-	-	
Net income	\$ 10,364	\$ 9,469	\$ 8,064	\$ 8,560	\$ 8,401	23
OPERATING PERFORMANCE ⁽¹⁾						
Earnings per common share:						
Basic	\$.44	\$.43	\$.40	\$.40	\$.39	13
Diluted	.43	.42	.39	.39	.38	13
Return on equity ⁽²⁾	14.90 %	15.43 %	16.55 %	16.42 %	16.56 %	
Return on tangible equity ⁽³⁾	19.94	19.54	17.79	17.68	17.88	
Return on assets	1.06	1.06	1.07	1.08	1.12	
Efficiency ratio	61.34	61.40	61.03	59.94	59.66	
Dividend payout ratio	17.05	17.44	18.75	15.63	16.03	
GAAP PERFORMANCE						
PER COMMON SHARE						
Basic earnings	\$.44	\$.41	\$.38	\$.40	\$.39	13
Diluted earnings	.43	.40	.37	.39	.38	13
Cash dividends declared	.075	.075	.075	.0625	.0625	20
Book value	12.31	12.22	11.09	10.34	10.01	23
Tangible book value ⁽³⁾	9.66	9.55	9.59	9.74	9.41	3
KEY PERFORMANCE RATIOS						
Return on equity ⁽²⁾	14.90 %	14.76 %	15.50 %	16.42 %	16.56 %	
Return on assets	1.06	1.01	1.00	1.08	1.12	
Efficiency ratio	61.34	62.88	63.17	59.94	59.66	
Net interest margin	3.97	3.99	4.05	4.03	4.31	
Dividend payout ratio	17.05	18.29	19.74	15.63	16.03	
Equity to assets	7.35	7.31	6.87	6.90	6.86	
Equity to assets (tangible) ⁽³⁾	5.85	5.80	5.96	6.47	6.42	
ASSET QUALITY						
Allowance for loan losses	\$ 37,773	\$ 37,353	\$ 33,022	\$ 30,914	\$ 30,300	
Non-performing assets	7,998	8,232	7,745	8,019	9,591	
Net charge-offs	1,080	1,069	1,030	1,186	690	
Allowance for loan losses to loans	1.29 %	1.31 %	1.30 %	1.30 %	1.30 %	
Non-performing assets to total assets	.20	.21	.22	.25	.31	
Net charge-offs to average loans	.15	.16	.17	.20	.12	
AVERAGE BALANCES						
Loans	\$ 2,881,375	\$ 2,742,952	\$ 2,422,542	\$ 2,358,021	\$ 2,300,681	25
Earning assets ⁽⁴⁾	3,629,819	3,497,851	3,072,719	2,919,613	2,780,276	31
Total assets	3,888,141	3,756,689	3,269,481	3,138,747	2,976,509	31
Deposits	2,826,900	2,829,986	2,466,801	2,408,773	2,378,656	19
Stockholders' equity	285,790	269,972	223,599	217,051	212,703	34
Common shares outstanding:						
Basic	23,408	22,853	21,218	21,293	21,392	
Diluted	24,123	23,592	21,957	22,078	22,233	
AT PERIOD END						
Loans	\$ 2,918,412	\$ 2,861,481	\$ 2,546,001	\$ 2,381,798	\$ 2,331,862	25
Earning assets	3,676,018	3,642,545	3,304,232	3,029,409	2,908,577	26
Total assets	3,942,139	3,905,929	3,579,004	3,211,344	3,142,393	25
Deposits	2,790,331	2,870,926	2,723,574	2,385,239	2,386,962	17

Stockholders' equity	289,713	285,500	245,699	221,579	215,430	34
Common shares outstanding	23,488	23,311	22,037	21,263	21,345	10

TABLE 1 CONTINUED
UNITED COMMUNITY BANKS, INC.
For the Three and Nine Months Ended September 30, 2003

	For the Nine		YTD
	Months Ended		2003-2002
<i>(in thousands, except per share data; taxable equivalent)</i>	2003	2002	Change
INCOME SUMMARY	(Unaudited)	(Unaudited)	
Interest revenue	\$ 155,395	\$ 147,353	
Interest expense	<u>53,502</u>	<u>57,393</u>	
Net interest revenue	101,893	89,960	13 %
Provision for loan losses	4,500	5,100	
Total fee revenue	<u>29,094</u>	<u>21,950</u>	33
Total revenue	126,487	106,810	18
Operating expenses ⁽¹⁾	<u>80,328</u>	<u>68,119</u>	18
Income before taxes	46,328	38,691	19
Income taxes	<u>17,288</u>	<u>14,471</u>	
Net operating income	28,871	24,220	19
Merger-related charges, net of tax	<u>974</u>	<u>-</u>	
Net income	<u>\$ 27,897</u>	<u>\$ 24,220</u>	15
OPERATING PERFORMANCE ⁽¹⁾			
Earnings per common share:			
Basic	\$ 1.28	\$ 1.13	13
Diluted	1.24	1.09	14
Return on equity ⁽²⁾	15.55 %	16.58 %	
Return on tangible equity ⁽³⁾	19.12	17.96	
Return on assets	1.06	1.12	
Efficiency ratio	61.27	60.90	
Dividend payout ratio	17.58	16.59	
GAAP PERFORMANCE			
PER COMMON SHARE			
Basic earnings	\$ 1.24	\$ 1.13	10
Diluted earnings	1.20	1.09	10
Cash dividends declared	.225	.1875	20
Book value	12.31	10.01	23
Tangible book value ⁽³⁾	9.66	9.41	3
KEY PERFORMANCE RATIOS			
Return on equity ⁽²⁾	15.02 %	16.58%	
Return on assets	1.02	1.12	
Efficiency ratio	62.42	60.90	
Net interest margin	4.00	4.44	
Dividend payout ratio	18.15	16.59	
Equity to assets	7.35	6.86	
Equity to assets (tangible) ⁽³⁾	5.85	6.42	
ASSET QUALITY			
Allowance for loan losses	\$ 37,773	\$ 30,300	
Non-performing assets	7,998	9,591	
Net charge-offs	3,179	1,924	
Allowance for loan losses to loans	1.29 %	1.30 %	
Non-performing assets to total assets	.20	.31	
Net charge-offs to average loans	.16	.12	
AVERAGE BALANCES			
Loans	\$ 2,683,970	\$ 2,200,061	22
Earning assets ⁽⁴⁾	3,402,170	2,707,904	26
Total assets	3,640,371	2,898,823	26
Deposits	2,709,215	2,279,009	19
Stockholders' equity	260,015	204,030	27
Common shares outstanding:			
Basic	22,501	21,402	
Diluted	23,233	22,227	
AT PERIOD END			
Loans	\$ 2,918,412	\$ 2,331,862	25
Earning assets	3,676,018	2,908,577	26
Total assets	3,942,139	3,142,393	25
Deposits	2,790,331	2,386,962	17
Stockholders' equity	289,713	215,430	34

- (1) Excludes pre-tax merger-related charges totaling \$840,000 or \$.02 per diluted common share and \$668,000 or \$.02 per diluted common share recorded in the first and second quarters, respectively, of 2003. See footnote 4 to the Consolidated Financial Statements for a more detailed description of these charges.
- (2) Net income available to common stockholders divided by average realized common equity which excludes accumulated other comprehensive income.
- (3) Excludes effect of acquisition related intangibles and associated amortization.
- (4) Excludes unrealized gains and losses on securities available for sale.

Merger-Related Charges

During the first and second quarters of 2003, United recorded merger-related charges of \$840,000 in connection with the acquisition of First Central Bank, and \$668,000 in connection with the acquisition and integration of First Georgia Bank, respectively. The charges are included in operating expense in the Consolidated Statement of Income. These charges have been excluded from the presentation of operating earnings as management believes that excluding merger-related charges as a financial measure provides useful information to investors because it better demonstrates United's financial performance from its ongoing business operations. A more detailed description of these charges is in footnote 4 to the Consolidated Financial Statements.

The table below presents a reconciliation of United's operating earnings to earnings for the nine months ended September 30, 2003, using accounting principles generally accepted in the United States (GAAP). There were no merger-related charges in the third quarter of 2003, or in 2002.

Table 2 - Operating Earnings to GAAP Earnings Reconciliation*(in thousands)*

	Nine Months Ended September 30,
Merger charges included in expenses	\$ 1,508
Income tax effect of charges	534
After-tax effect of merger-related charges	<u>\$ 974</u>
Net Income Reconciliation	
Operating net income	\$ 28,871
After-tax effect of merger-related charges	(974)
Net income (GAAP)	<u>\$ 27,897</u>
Basic Earnings Per Share Reconciliation	
Basic operating earnings per share	\$ 1.28
Per share effect of merger-related charges	(.04)
Basic earnings per share (GAAP)	<u>\$ 1.24</u>
Diluted Earnings Per Share Reconciliation	
Diluted operating earnings per share	\$ 1.24
Per share effect of merger-related charges	(.04)
Diluted earnings per share (GAAP)	<u>\$ 1.20</u>

Results of Operations

Net income was \$10.4 million for the three months ended September 30, 2003, an increase of \$2.0 million, or 23%, from the same period in 2002. Diluted earnings per share were \$.43 for the three months ended September 30, 2003, compared with \$.38 for the same period in 2002, an increase of 13%. Return on equity for the third quarter of 2003 was 14.90%, compared with 16.56% for the third quarter of 2002. Return on assets for the three months ended September 30, 2003 was 1.06%, compared with 1.12% for the three months ended September 30, 2002.

Year-to-date as of September 30, net operating income for 2003 was \$28.9 million, a 15% increase over \$24.2 million for the same period in 2002. Diluted operating earnings per share were \$1.24 for the nine months ended September 30, 2003, compared with \$1.09 for the same period in 2002, an increase of 14%. Year-to-date operating return on equity was 15.55% as compared with 16.58% for the first nine months of 2002. Operating return on assets for the first nine months of 2003 was 1.06%, compared with 1.12% for the first nine months of 2002.

Net Interest Revenue (Taxable Equivalent)

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and borrowed funds) is the single largest component of total revenue. United actively manages this revenue source to provide an optimal level of revenue while balancing interest rate, credit and liquidity risks. Net interest revenue for the three and nine months ended September 30, 2003 was \$36.3 million and \$101.9 million, respectively, up 20% and 13%, respectively, over last year. The main driver of this increase was loan growth. Average loans increased \$581 million, or 25%, from the third quarter of last year. Excluding the acquisitions of First Central Bank and First Georgia Bank, loan growth was 12%. Year-to-date, average loans increased \$484 million, or 22%, over the same period in 2002. This loan growth was due to the acquisitions of First Central Bank and First Georgia Bank, which added \$315 million to the third quarter 2003 average loan balances, as well as continued high loan demand in this current low rate environment. The quarter-end loan balances increased \$587 million since last September 30th. Of this increase, \$133 million was across markets in north Georgia, \$28 million was in western North Carolina, \$112 million was in the metro Atlanta market, \$88 million was related to the acquisition of First Central Bank and \$222 million was related to the acquisition of First Georgia Bank.

Average interest-earning assets for the third quarter of 2003 increased \$850 million, or 31%, over the same period for 2002. For the first nine months of 2003, average interest-earning assets increased \$694 million, or 26%, over the first nine months of 2002. The increases for both periods reflect the acquisitions, growth in loans, as well as an increase in the investment securities portfolio. The majority of the increase in interest-earning assets was funded by interest-bearing sources as the increase in average interest-bearing liabilities for the quarter and first nine months was approximately \$745 million and \$622 million, respectively, over the same periods in 2002.

The banking industry uses two key ratios to measure relative profitability of net interest revenue. The net interest rate 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 impact of non-interest-bearing deposits and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest revenue as a percent of average total interest-earning assets and takes into account the positive impact of investing non interest-bearing deposits and capital.

For the three months ended September 30, 2003 and 2002, net interest spread was 3.70% and 3.91%, respectively, while net interest margin was 3.97% and 4.31%, respectively. For the nine months ended September 30, 2003 and 2002, net interest spread was 3.71% and 4.04%, respectively, while net interest margin was 4.00% and 4.44%, respectively. The decline in the net interest margin reflects the continuation of the low interest rate environment, which reduces the relative value of non-interest bearing sources of funds. Since United's balance sheet had remained asset sensitive during most of 2002, primarily due to growth in floating rate loans, the declining rate environment had a greater effect on interest-earning assets than on interest-bearing liabilities causing compression in the net interest spread and margin. Combined with a flat yield curve, the low rate environment resulted in reinvestment of maturing fixed rate loans and securities at rates lower than the assets they were replacing. Growth in floating rate loans also contributed to the compression. At September 30, 2003, United had approximately \$1.26 billion in loans indexed to the daily Prime Rate as published in the Wall Street Journal compared with \$920 million a year ago. The effect of the margin compression was partially offset by improvement in asset mix caused by the increase in loans. United has also actively managed liability pricing and mix to offset the reduction in asset yields. Over the last four quarters, net interest margin has stabilized around the 4.00% level.

The average yield on interest-earning assets for the third quarter of 2003 was 5.88%, compared with 7.01% in the third quarter of 2002. For the first nine months of 2003, the average yield on interest-earning assets was 6.10% compared with 7.27% for the same period in 2002. The main drivers of these decreases were loan yields which were down 91 basis points and 103 basis points for the quarter and year-to-date, respectively, as well as yields on taxable securities which were down 176 basis points and 180 basis points comparing third quarter 2003 to the same period in 2002 and the first nine months of 2003 and 2002, respectively. The shift toward floating rate loans contributed to the decline caused by the lower rate environment. In the fourth quarter of 2002, United began purchasing securities to increase net interest revenue and reduce the interest rate sensitivity of the balance sheet. Although the securities purchases have a positive impact on net interest revenue, they contributed partially to the net interest margin compression since they were purchased at a yield lower than the existing portfolio.

The average cost of interest-bearing liabilities for the third quarter and year-to-date 2003 was 2.18% and 2.39%, respectively, a decrease of 92 basis points and 84 basis points, respectively, from the same periods in 2002. The decrease was primarily due to lower rates paid on interest-bearing demand deposits and savings accounts, lower pricing on new and renewed time deposits and lower rates on FHLB advances. United lowered deposit pricing across the board to offset rate reductions initiated by the Federal Reserve in November 2002 and June 2003. Additionally, United continued to experience strong loan growth in 2003 which outpaced the growth in core deposits. Instead of funding with certificates of deposit, United turned to lower cost funding sources such as FHLB advances and brokered time deposits. This resulted in some intentional runoff in non-brokered certificates of deposit over the last three quarters.

The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2003 and 2002.

Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended September 30,

(In thousands, taxable equivalent)

	2003			2002		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾ ⁽²⁾	\$ 2,881,375	\$ 46,520	6.41 %	\$ 2,300,681	\$ 42,470	7.32%
Taxable securities ⁽³⁾	603,031	5,738	3.81	365,199	5,087	5.57
Tax-exempt securities ⁽¹⁾	61,492	1,142	7.43	69,834	1,308	7.49
Federal funds sold and other interest-earning assets	<u>83,921</u>	<u>331</u>	1.58	<u>44,562</u>	<u>211</u>	1.89
Total interest-earning assets	3,629,819	<u>53,731</u>	5.88	2,780,276	<u>49,076</u>	7.01
Non-interest-earning assets:						
Allowance for loan losses	(38,082)			(30,038)		
Cash and due from banks	71,878			76,611		
Premises and equipment	82,687			68,761		
Other assets	141,839			80,899		
Total assets	\$ 3,888,141			\$ 2,976,509		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 801,613	\$ 1,728	.86	\$ 671,576	\$ 3,073	1.82
Savings deposits	136,323	82	.24	99,723	134	.53
Certificates of deposit	1,489,660	9,784	2.61	1,294,296	11,303	3.46
Total interest-bearing deposits	<u>2,427,596</u>	<u>11,594</u>	<u>1.89</u>	<u>2,065,595</u>	<u>14,510</u>	<u>2.79</u>
Federal Home Loan Bank advances	589,924	3,996	2.69	290,542	3,233	4.41
Long-term debt and other borrowings	155,194	1,856	4.74	71,452	1,199	6.66
Total borrowed funds	<u>745,118</u>	<u>5,852</u>	<u>3.12</u>	<u>361,994</u>	<u>4,432</u>	<u>4.86</u>
Total interest-bearing liabilities	3,172,714	<u>17,446</u>	2.18	2,427,589	<u>18,942</u>	3.10
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	399,304			313,061		
Other liabilities	30,333			23,156		
Total liabilities	<u>3,602,351</u>			<u>2,763,806</u>		
Stockholders' equity	<u>285,790</u>			<u>212,703</u>		
Total liabilities and stockholders' equity	\$ 3,888,141			\$ 2,976,509		
Net interest revenue		<u>\$ 36,285</u>			<u>\$ 30,134</u>	
Net interest-rate spread		<u>3.70 %</u>			<u>3.91%</u>	
Net interest margin ⁽⁴⁾		<u>3.97 %</u>			<u>4.31%</u>	

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

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$9.2 million in 2003 and \$13.6 million in 2002 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 relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2003 and 2002.

Table 3 - Average Consolidated Balance Sheets and Net Interest Analysis

For the Nine Months Ended September 30,

(In thousands, taxable equivalent)

	2003			2002		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ^{(1) (2)}	\$ 2,683,970	\$133,176	6.63 %	\$ 2,200,061	\$125,988	7.66%
Taxable securities ⁽³⁾	592,625	17,803	4.01	379,437	16,528	5.81
Tax-exempt securities ⁽¹⁾	63,853	3,561	7.44	70,513	4,006	7.57
Federal funds sold and other interest-earning assets	61,722	855	1.85	57,893	831	1.91
Total interest-earning assets	3,402,170	155,395	6.10	2,707,904	147,353	7.27
Non-interest-earning assets:						
Allowance for loan losses	(35,216)			(28,947)		
Cash and due from banks	71,634			75,412		
Premises and equipment	77,847			67,291		
Other assets	123,936			77,163		
Total assets	\$ 3,640,371			\$ 2,898,823		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 773,647	\$ 6,119	1.06	\$ 621,811	\$ 8,469	1.82
Savings deposits	122,790	287	.31	97,875	398	.54
Certificates of deposit	1,461,174	30,673	2.81	1,262,046	34,355	3.64
Total interest-bearing deposits	2,357,611	37,079	2.10	1,981,732	43,222	2.92
Federal Home Loan Bank advances	508,913	11,326	2.98	288,484	10,282	4.77
Long-term debt and other borrowings	130,039	5,097	5.24	104,379	3,889	4.98
Total borrowed funds	638,952	16,423	3.44	392,863	14,171	4.82
Total interest-bearing liabilities	2,996,563	53,502	2.39	2,374,595	57,393	3.23
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	351,603			297,277		
Other liabilities	32,190			22,921		
Total liabilities	3,380,356			2,694,793		
Stockholders' equity	260,015			204,030		
Total liabilities and stockholders' equity	\$ 3,640,371			\$ 2,898,823		
Net interest revenue		\$101,893			\$ 89,960	
Net interest-rate spread		<u>3.71 %</u>			<u>4.04%</u>	
Net interest margin ⁽⁴⁾		<u>4.00 %</u>			<u>4.44%</u>	

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

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$12.6 million in 2003 and \$9.5 million in 2002 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 impact on net interest revenue for changes in the average outstanding balances (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid on such assets and liabilities. Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 4 - Change in Interest Revenue and Expense on a Tax Equivalent

Basis

(in thousands)

	Three Months Ended September 30, 2003 Compared to 2002 Increase (decrease) due to changes in			Nine Months Ended September 30, 2003 Compared to 2002 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	\$ 9,821	\$ (5,771)	\$ 4,050	\$ 25,409	\$ (18,221)	\$ 7,188
Taxable securities	2,607	(1,956)	651	3,024	(1,749)	1,275
Tax-exempt securities	(155)	(11)	(166)	(373)	(72)	(445)
Federal funds sold and other interest-earning assets	160	(40)	120	28	(4)	24
Total interest-earning assets	<u>12,433</u>	<u>(7,778)</u>	<u>4,655</u>	<u>28,088</u>	<u>(20,046)</u>	<u>8,042</u>
Interest-bearing liabilities:						
Transaction accounts	511	(1,856)	(1,345)	1,749	(4,099)	(2,350)
Savings deposits	38	(90)	(52)	85	(196)	(111)
Certificates of deposit	1,546	(3,065)	(1,519)	4,914	(8,596)	(3,682)
Total interest-bearing deposits	2,095	(5,011)	(2,916)	6,748	(12,891)	(6,143)
Federal Home Loan Bank advances	2,387	(1,624)	763	5,878	(4,834)	1,044
Long-term debt and other borrowings	1,081	(424)	657	997	211	1,208
Total borrowed funds	3,468	(2,048)	1,420	6,875	(4,623)	2,252
Total interest-bearing liabilities	<u>5,563</u>	<u>(7,059)</u>	<u>(1,496)</u>	<u>13,623</u>	<u>(17,514)</u>	<u>(3,891)</u>
Increase (decrease) in net interest revenue	<u>\$ 6,870</u>	<u>\$ (719)</u>	<u>\$ 6,151</u>	<u>\$ 14,465</u>	<u>\$ (2,532)</u>	<u>\$ 11,933</u>

Provision for Loan Losses

The provision for loan losses was \$1.5 million for the third quarter of 2003 and \$4.5 million for the first nine months of 2003, compared with \$1.8 million and \$5.1 million for the same periods in 2002. United continues to experience strong credit quality and a stable low level of non-performing assets. Net loan charge-offs as a percentage of average outstanding loans for the three and nine months ended September 30, 2003 were .15% and .16%, respectively, as compared with .12% for 2002.

The provision for loan losses is based on management's evaluation of losses inherent in the loan portfolio and the corresponding analysis of the allowance for loan losses. Additional discussion on loan quality and the allowance for loan losses is included in the Asset Quality section of this report.

Fee Revenue

Fee revenue for the third quarter and first nine months of 2003, totaled \$10.4 million and \$29.1 million, respectively, compared with \$7.7 million and \$22.0 million, respectively, for the same periods in 2002. Fee revenue for both the third quarter and first nine months of 2003 was approximately 23% of total revenue, compared with 22% and 21% for the third quarter and first nine months of 2002, respectively. United is focused on increasing fee revenue through new products and services. The following table presents the components of fee revenue for the third quarter and first nine months of 2003 and 2002.

Table 5 - Fee Revenue

For the Three Months and Nine Months Ended September 30,
(in thousands, taxable equivalent)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	Change	2003	2002	Change
Service charges and fees	\$ 5,009	\$ 3,576	40 %	\$ 13,270	\$ 9,801	35 %
Mortgage loan and related fees	3,115	1,844	69	8,762	5,087	72
Consulting fees	1,092	1,216	(10)	3,366	3,381	-
Brokerage fees	447	467	(4)	1,315	1,456	(10)
Securities (losses) gains, net	(122)	64	-	(125)	64	-
Other	860	560	54	2,506	2,161	16
Total	<u>\$ 10,401</u>	<u>\$ 7,727</u>	35	<u>\$ 29,094</u>	<u>\$ 21,950</u>	33

Comparability between current and prior year periods is affected by the acquisitions this year of First Central Bank on March 31, and First Georgia Bank on May 1. Earnings for the two acquired companies are included in consolidated earnings after their respective acquisition dates. In the third quarter and first nine months, First Central Bank and First Georgia Bank contributed approximately \$1.5 million and \$2.8 million, respectively, in fee revenue, mostly service charges and fees and mortgage loan and related fees. Excluding the contributions of recent mergers, fee revenue for the quarter and year-to-date grew 15% and 20%, respectively, as compared to last year.

The main driver of the increase in fee revenue this quarter was mortgage loan and related fees of \$3.1 million, up \$1.3 million, or 69% from the same period in 2002. Year-to-date, mortgage fees of \$8.8 million were up \$3.7 million, or 72%, over the first nine months of 2002. Mortgage loan originations for the third quarter and first nine months of 2003 were up \$153 million and \$818 million, respectively, from the same periods in 2002, as mortgage rates fell from their already low levels. Substantially all of these originated residential mortgages were sold into the secondary market, including the right to service these loans.

Service charges on deposit accounts of \$5.0 million, were up \$1.4 million, or 40%, over the third quarter of 2002. For the first nine months of 2003, service charges were up \$3.5 million, or 35%, over the same period in 2002. The increase in service charges and fees was primarily due to the acquisitions and new products and services introduced in 2002, as well as an increase in the number of accounts and transaction activity and growth in ATM fees. Excluding acquisitions, the growth for the third quarter in service charges and fees was approximately 14%.

Other fee revenue of \$860,000 for the third quarter of 2003 increased \$300,000 or 54% from the third quarter of 2002 primarily due to the acquisitions and losses from the sale of other real estate recorded in the third quarter of 2002, which reduced other fee revenue for that period.

Operating Expenses

For the three and nine months ended September 30, 2003, total operating expenses were \$28.7 million and \$81.8 million, respectively, compared with \$22.6 million and \$68.1 million, respectively, for the same periods in 2002. Operating expenses in the third quarter for the two acquisitions accounted for \$3.7 million of this increase, leaving the underlying core expense growth rate (excluding acquisitions) at 11%. The following table presents the components of operating expenses for the three and nine months ended September 30, 2003 and 2002.

Table 6 - Operating Expenses

For the Three Months and Nine Months Ended September 30,

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	Change	2003	2002	Change
Salaries and employee benefits	\$ 17,990	\$ 14,352	25 %	\$ 50,665	\$ 42,786	18 %
Occupancy	2,344	2,047	15	6,640	6,223	7
Communications and equipment	2,310	1,685	37	6,314	4,708	34
Postage, printing and supplies	1,237	870	42	3,354	2,836	18
Professional fees	1,036	881	18	3,007	2,621	15
Advertising and public relations	766	639	20	2,439	2,358	3
Amortization of intangibles	370	85	-	783	255	-
Other	2,659	1,992	33	7,126	6,332	13
	<u>28,712</u>	<u>22,551</u>	27	<u>80,328</u>	<u>68,119</u>	18
Merger-related charges	-	-	-	1,508	-	-
Total	<u>\$ 28,712</u>	<u>\$ 22,551</u>	27	<u>\$ 81,836</u>	<u>\$ 68,119</u>	20

Salaries and benefits for the third quarter of 2003 totaled \$18.0 million, an increase of 25% over the same period in 2002. For the first nine months of 2003, salaries and benefits were up \$7.9 million, or 18%, over the first nine months of 2002. Acquisitions accounted for approximately \$2.2 million and \$3.9 million of the increase for the quarter and nine months, respectively, with the remainder due to normal merit increases and higher incentives related to growth in fee revenue. United's staff level, excluding acquisitions, was down slightly from a year ago.

Communication and equipment costs of \$2.3 million were up \$625,000, or 37%, over the third quarter of 2002. For the first nine months of 2003, communication and equipment costs of \$6.3 million were up \$1.6 million, or 34%, over the same period in 2002. Excluding mergers, the costs for the quarter increased approximately 10% from the third quarter of 2002, mainly due to higher costs for investments in software, telecommunications and other technology equipment over the last year.

Postage, printing and supplies of \$1.2 million for the third quarter of 2003 was up \$367,000, or 42%, from the same period in 2002. Approximately half of the increase was due to the acquisitions during the first half of 2003. The rest of the increase is due to timing of bulk printing and supplies purchases in 2002 that resulted in lower costs for the third quarter.

The \$285,000 increase in intangible costs reflects the increase in amortization of core deposit intangibles that were recorded in connection with the acquisitions during the first half of the year.

Other expenses of \$2.7 million for the quarter were \$667,000, or 33%, higher than the third quarter of 2002. Approximately 45% of the increase was due to the acquisitions in the first half of the year. The remaining increase is primarily due to higher costs associated with United's ATM network resulting from an increase in transactions, costs associated with more active investor relations activities and an increase in non-income taxes and licenses.

The efficiency ratio measures total operating expenses as a percentage of total revenue, excluding the provision for loan losses and net securities gains or losses. Based on operating income, which excludes merger-related charges, United's efficiency ratio for the third quarter was 61.34% as compared with 59.66% for the third quarter of 2002. For the first nine months of 2003, the efficiency ratio was 61.27% compared to 60.90% for the same period in 2002. The efficiency ratio is higher in 2003 primarily due to intangible amortization and other costs related to the acquisitions.

Income Taxes

Income taxes, excluding taxable equivalent adjustments, were \$5.6 million in the third quarter of 2003, compared with \$4.5 million in the third quarter of 2002. The effective tax rate (as a percentage of pre-tax net income) for both third quarter 2003 and 2002 was 35.0%. For the first nine months of 2003, income taxes were \$15.1 million, with an effective tax rate of 35.1%, compared with \$12.7 million, with an effective tax rate of 34.4%, for the same period in 2002. The effective tax rates are lower than the statutory tax rate primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes. The increase in the effective tax rates from 2002 is due to proportionately less tax-exempt revenue in 2003 on a growing revenue base. Additional information regarding income taxes can be found in Note 13 to the Consolidated Financial Statements filed with United's 2002 Form 10-K.

Balance Sheet Review

Total assets at September 30, 2003 were \$3.942 billion, 23% higher than the \$3.211 billion as of December 31, 2002 and 25% higher than the \$3.142 billion as of September 30, 2002. The acquisitions of First Central Bank and First Georgia Bank added approximately \$500 million to total assets. Average total assets for the third quarter of 2003 were \$3.888 billion, up \$912 million from the average assets in the third quarter of 2002. Average total assets for the first nine months of 2003 were \$3.942 billion, up \$800 million from the average assets in the first nine months of 2002.

Loans

The following table presents a summary of United's loan portfolio.

Table 7 - Loans Outstanding*(in thousands)*

	<u>September 30, 2003</u>	<u>December 31, 2002</u>	<u>September 30, 2002</u>
Commercial	\$ 181,938	\$ 140,515	\$ 147,709
Commercial (secured by real estate)	751,919	612,926	607,634
Real estate - construction	878,570	700,007	657,643
Residential mortgage	961,497	793,284	779,187
Installment	144,488	135,066	139,689
Total Loans	<u>\$ 2,918,412</u>	<u>\$ 2,381,798</u>	<u>\$ 2,331,862</u>

As a percentage of total loans:

Commercial	6 %	6 %	6 %
Commercial (secured by real estate)	26	26	26
Real estate - construction	30	29	28
Residential mortgage	33	33	34
Installment	5	6	6
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

At September 30, 2003, total loans were \$2.918 billion, an increase of \$587 million, or 25% from September 30, 2002 and an increase of \$537 million, or 23%, from December 31, 2002. The acquisition of First Central Bank, which closed on March 31, 2003, and First Georgia Bank, which closed on May 1, 2003, added \$88 million and \$222 million, respectively, in balances to the loan portfolio. Average total loans for the third quarter of 2003 were \$2.881 billion, an increase of \$581 million, or 25% over third quarter of 2002. Average total loans for the first nine months of 2003 were \$2.684 billion, up \$484 million from the average loans in the first nine months of 2002. Over the past year, United has experienced strong loan growth in all markets, with particular strength in loans secured by real estate, both residential and non-residential. Substantially all loans are to customers located in Georgia, North Carolina and Tennessee, the immediate market areas of the Banks. This includes customers who have a seasonal residence in the Banks' market areas. Approximately \$221 million of the increase from a year ago occurred in construction and land development loans which is comprised of approximately 80% residential and 20% commercial, including \$65 million from the east Tennessee and coastal Georgia acquisitions. Growth has also been strong in residential real estate loans and commercial loans secured by real estate which grew \$182 million and \$144 million, respectively from September 30, 2002. Residential real estate loans of \$136 million and commercial loans secured by real estate of \$68 million were added through the acquisitions of First Central Bank and First Georgia Bank.

Asset Quality and Risk Elements

United manages asset quality and controls credit risk through close supervision of the loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. United's loan administration function is responsible for monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures at all of the Banks. Additional information on the loan administration function is included in Item 1 under the heading *Loan Review and Non-performing Assets* in United's Annual Report on Form 10-K.

The provision for loan losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable losses. The amount each period 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 economic factors and trends. The evaluation of these factors is performed by the credit administration department through an analysis of the adequacy of the allowance for loan losses.

Reviews of non-performing loans, past due loans and larger credits, designed to identify potential charges to the allowance for loan losses, as well as determine the adequacy of the allowance, are conducted on a regular basis during the year. These reviews are performed by the responsible lending officers, as well as a separate loan review department, and consider such factors as the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors. United also uses external loan review sources as necessary to support the activities of the loan review department and to ensure the independence of the loan review process.

The following table presents a summary of changes in the allowance for loan losses for the three and nine months ended September 30, 2003 and 2002.

Table 8 - Summary of Loan Loss Experience

For the Three and Nine Months Ended September 30, 2003 and 2002

(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Balance beginning of period	\$ 37,353	\$ 29,190	\$ 30,914	\$ 27,124
Allowance from acquisitions	-	-	5,538	-
Loans charged-off	(1,370)	(1,031)	(4,024)	(2,875)
Recoveries	290	341	845	951
Net charge-offs	(1,080)	(690)	(3,179)	(1,924)
Provision for loan losses	1,500	1,800	4,500	5,100
Balance end of period	<u>\$ 37,773</u>	<u>\$ 30,300</u>	<u>\$ 37,773</u>	<u>\$ 30,300</u>
Total loans:				
At period end	\$ 2,918,412	\$ 2,331,862	\$ 2,918,412	\$ 2,331,862
Average	2,881,375	2,300,681	2,683,970	2,200,06
As a percentage of average loans:				
Net charge-offs	.15 %	.12 %	.16 %	.12%
Provision for loan losses	.21	.31	.22	.31
Allowance as a percentage of period end loans	1.29	1.30	1.29	1.30
Allowance as a percentage of non-performing loans	518	334	518	334

Management believes that the allowance for loan losses at September 30, 2003 is adequate to absorb losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Banks, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions.

Non-performing Assets

The table below summarizes United's non-performing assets.

Table 9 - Non-Performing Assets
(in thousands)

	September 30, 2003	December 31, 2002	September 30, 2002
Non-accrual loans	\$ 7,294	\$ 6,732	\$ 9,022
Loans past due 90 days or more and still accruing	-	1	47
Total non-performing loans	7,294	6,733	9,069
Other real estate owned	704	1,286	522
Total non-performing assets	<u>\$ 7,998</u>	<u>\$ 8,019</u>	<u>\$ 9,591</u>
Non-performing loans as a percentage of total loans	.25%	.28%	.39%
Non-performing assets as a percentage of total assets	.20	.25	.31

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days, totaled \$7.3 million at September 30, 2003, compared with \$6.7 million at December 31, 2002 and \$9.1 million at September 30, 2002. There is no concentration of non-performing loans attributable to any specific industry. At September 30, 2003, the ratio of non-performing loans to total loans was .25%, compared with .28% at December 31, 2002 and .39% at September 30, 2002. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled \$8.0 million at September 30, 2003, compared with \$8.0 million at December 31, 2002 and \$9.6 million at September 30, 2002.

United's policy is to place loans on non-accrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current interest revenue. Depending on management's evaluation of the borrower and loan collateral, interest revenue on a non-accrual loan may be recognized on a cash basis as payments are received. There were no commitments to lend additional funds to customers whose loans were on non-accrual status at September 30, 2003.

At September 30, 2003 and 2002, there were \$1.8 million and \$3.8 million, respectively, of loans classified as impaired under the definition outlined in SFAS No. 114. Specific reserves allocated to these impaired loans totaled \$449,000 at September 30, 2003, and \$1,030,000 at September 30, 2002. The average recorded investment in impaired loans for the quarters ended September 30, 2003 and 2002, was \$1.6 million and \$4.0 million, respectively. For the first nine months of 2003, the average recorded investment in impaired loans was \$2.3 million compared with \$4.7 million for the same period in 2002. United's policy is to recognize income on a cash basis for loans classified as impaired under SFAS No. 114. Interest revenue recognized on loans while they were impaired for the third quarter and first nine months of 2003 was \$1,000 and \$11,000, compared with \$3,000 and \$60,000 for the same periods in 2002.

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 and credit 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.

Total average investment securities for the quarter increased 53% from third quarter of 2002, and year-to-date, increased 46% over the first nine months of 2003, as the investment portfolio was expanded to help stabilize the interest rate sensitivity and increase net interest revenue. The acquisitions of First Central Bank and First Georgia Bank added approximately \$50 million to the investment securities portfolio.

The investment securities portfolio consists of U.S. Government and agency securities, municipal securities and U.S. Government sponsored agency mortgage-backed securities. A mortgage-backed security relies on the underlying mortgage pools of 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 may prepay. Decreases in interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, United generally will not be able to reinvest the proceeds from these prepayments in assets that have comparable yields.

Deposits

Total deposits at September 30, 2003 were \$2.790 billion, an increase of \$403 million from September 30, 2002. The acquisitions contributed \$412 million of the increase from the third quarter of 2002. Total non-interest-bearing demand deposit accounts increased \$87 million and interest-bearing demand accounts increased \$113 million. Total time deposits as of September 30, 2003 were \$1.450 billion, an increase of \$165 million from the third quarter 2002. During 2003, United chose not to aggressively pursue certificates of deposit where local market pricing was too high or there was no other customer relationship. As a result, the level of certificates of deposit experienced some attrition during the year in favor of funding from other lower-cost sources. This reduced the overall cost of funds by using more floating rate funding sources. The shift in funding mix did not significantly change United's interest rate risk profile due to the increase in floating rate loans.

Time deposits of \$100,000 and greater totaled \$403 million at September 30, 2003, compared with \$396 million at September 30, 2002. United utilizes "brokered" time deposits, issued in certificates of less than \$100,000, as an alternative source of cost-effective funding. Brokered time deposits outstanding at September 30, 2003 and September 30, 2002 were \$247 million and \$138 million, respectively.

Wholesale Funding

At September 30, 2003, each of the Banks were shareholders in the Federal Home Loan Bank. Through this affiliation, secured advances totaling \$651 million were outstanding at rates competitive with time deposits of like maturities. United anticipates continued utilization of this short and long term source of funds. The FHLB advances outstanding at September 30, 2003 had both fixed and floating interest rates ranging from .48% to 7.81%. Approximately one-half of the FHLB advances mature prior to December 31, 2003. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 10 to the consolidated financial statements filed with United's 2002 Form 10-K.

Interest Rate Sensitivity Management

The absolute level and volatility of interest rates can have a significant impact on United's profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest revenue to changing interest rates, in order to achieve United's overall financial goals. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges.

Net interest revenue is influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by the Asset/Liability Management Committee ("ALCO"). ALCO meets periodically and has responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings and reviewing United's interest rate sensitivity.

One of the tools management utilizes to estimate the sensitivity of net interest revenue to changes in interest rates is an interest rate simulation model. Such estimates are based upon a number of assumptions for various scenarios, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments. The simulation model measures the potential change in net interest revenue over a twelve-month period under six interest rate scenarios. The first scenario assumes rates remain flat ("flat rate scenario") over the next twelve months and is the scenario that all others are compared to in order to measure the change in net interest revenue. The second scenario is a most likely scenario that projects the most likely change in rates over the next twelve months based on the slope of the yield curve. United runs ramp scenarios that assume gradual increases and decreases of 200 basis points each over the next twelve months. United's policy for net interest revenue simulation is limited to a change from the flat rate scenario of less than 10% for the up or down 200 basis point ramp scenarios over twelve months. At September 30, 2003, United's simulation model indicated that a 200 basis point increase in rates over the next twelve months would cause an approximate 1.8% increase in net interest revenue and a 200 basis point decrease in rates over the next twelve months would cause an approximate 3.4% decrease in net interest revenue.

In order to assist in achieving a desired level of interest rate sensitivity, United uses off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost and capital effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. At September 30, 2003, United was a party to interest rate swap contracts under which it pays a variable rate and receives a fixed rate.

The following table presents the interest rate swap contracts outstanding at September 30, 2003.

Table 10 - Interest Rate Swap Contracts

As of September 30, 2003

(in thousands)

Type/Maturity	Notional Amount	Rate Received	Rate Paid ⁽¹⁾	Fair Value
Cash Flow Contracts				
December 31, 2003	\$ 100,000	4.85%	4.00%	\$ 200
October 24, 2005	65,000	5.57	4.00	706
December 17, 2006	30,000	5.99	4.00	530
October 23, 2007	135,000	6.08	4.00	1,750
Total Cash Flow Contracts	\$ 330,000	5.60%	4.00%	\$ 3,186

(1) Based on prime rate at September 30, 2003

Derivative financial instruments are classified as cash flow hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Cash flow hedges consist of interest rate swap contracts that are designated as hedges of daily repricing prime based loans. Under these contracts, United receives a fixed interest rate and pays a floating rate based on the Prime Rate as posted in the Wall Street Journal.

United's policy requires all derivative financial instruments be used only for asset/liability management through the hedging of specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate risk sensitivity is minimal and should not have any material unintended impact on the financial condition or results of operations. In order to mitigate potential credit risk, United requires the counterparties to derivative contracts to pledge securities as collateral to cover the net exposure.

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the 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. 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 United's ability to meet the daily cash flow requirements of the Banks' customers, both depositors and borrowers.

The primary objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive liabilities, so that United can also meet the investment requirements of its shareholders as market interest rates change. Daily monitoring of the sources and use of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities. Mortgage loans held for sale totaled \$14.3 million at September 30, 2003, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. Other short-term investments such as federal funds sold are additional sources of liquidity.

The liability section of the balance sheet provides liquidity through interest-bearing and noninterest-bearing deposit accounts. Federal funds purchased, FHLB advances and securities sold under agreements to repurchase are additional sources of liquidity and represent United's incremental borrowing capacity. 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.

As disclosed in United's Consolidated Statements of Cash Flows, net cash provided by operating activities was \$57.8 million for the nine months ended September 30, 2003. The major contributors in this category were net income of \$27.9 million, a decrease in mortgage loans held for sale of \$14.1 million, and an increase in accrued expenses and other liabilities of \$8.9 million, partially offset by an increase in other assets of \$8.5 million. Net cash used by investing activities of \$252.9 million consisted primarily of \$299.8 million used to purchase investment securities and a net increase in loans totaling \$229.9 million, partially offset by proceeds from sales, maturities and calls of investment securities of \$256.3 million and net cash received from acquisitions of \$28.8 million. Net cash provided by financing activities consisted primarily of a net increase in FHLB advances of \$154.6 million, a net increase in federal funds purchased and repurchase agreements of \$57.7 million and proceeds from issuance of subordinated debt of \$34.5 million. In the opinion of management, the liquidity position at September 30, 2003 is sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Stockholders' equity at September 30, 2003 was \$289.7 million, an increase of \$74.3 million from September 30, 2002. Accumulated other comprehensive income (loss) is not included in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive income, stockholders' equity increased \$76.8 million, or 37% from September 30, 2002, of which \$20.65 million was the result of shares exchanged for the acquisition of First Central Bank and \$29.3 million was the result of shares exchanged for the acquisition of First Georgia Bank. Dividends of \$1.7 million, or \$.075 per share, were declared on common stock during the third quarter of 2003, an increase of 20% from the amount declared in 2002. On an operating basis, the dividend payout ratios for the third quarters of 2003 and 2002 were 17% and 16%, respectively, while dividend payout ratios for the first nine months of 2003 and 2002 were 18% and 17%, respectively. United has historically retained the majority of its earnings in order to provide a cost effective source of capital for continued growth and expansion. However, in recognition that cash dividends are an important component of shareholder value, management has instituted a dividend program that provides for increased cash dividends when earnings and capital levels permit.

During 2002, United's Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company's common stock through the end of 2002 for general corporate purposes. Since that date, the Board of Directors increased the authorization to 1,500,000 and extended the program to December 31, 2004. Through September 30, 2003, a total of 874,000 shares have been purchased under this program.

On March 18, 2002, United began trading on the NASDAQ National Market under the symbol UCBI. Previously, the stock was listed on the over-the-counter market on the Pink Sheets. The closing price for the period ended September 30, 2003 was \$27.71. Below is a quarterly schedule of high and low stock prices for 2003 and 2002. Prior to March 18, 2002, prices are based on information available to United at that time.

Table 11 - Stock Price Information

	2003		2002	
	High	Low	High	Low
First quarter	\$ 27.00	\$ 22.00	\$ 28.60	\$ 19.00
Second quarter	27.00	23.06	30.00	23.96
Third quarter	30.03	24.51	29.55	23.15
Fourth quarter			27.00	21.73

The following table presents the quarterly cash dividends declared in 2003 and 2002 and the respective payout ratios as a percentage of basic operating earnings per share, which excludes merger-related charges.

Table 12 - Dividend Payout Information

	2003		2002	
	Dividend	Payout %	Dividend	Payout %
First quarter	\$.075	19(1)	\$.0625	17
Second quarter	.075	17(1)	.0625	16
Third quarter	.075	17	.0625	16
Fourth quarter			.0625	16

(1) Dividend payout ratios for the first and second quarters of 2003 were 20% and 18%, respectively, when calculated using GAAP earnings per share.

The Board of Governors of the Federal Reserve System has issued guidelines for the implementation of risk-based capital requirements by U.S. banks and bank holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulators, associated with various categories of assets, both on and off balance sheet. Under the guidelines, capital strength is measured in two tiers which are used in conjunction with risk adjusted assets to determine the risk based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier I capital. To be considered well capitalized under the guidelines, a 10% total risk-based capital ratio is required, of which 6% must be Tier I capital.

The following table shows United's capital ratios, as calculated under regulatory guidelines, at September 30, 2003 and 2002.

Table 13 - Capital Ratios
(in thousands)

	Well Capitalized	2003		2002	
		Actual Amount	Regulatory Minimum	Actual Amount	Regulatory Minimum
Tier I Leverage:					
Amount		\$ 255,582	\$ 114,777	\$ 228,203	\$ 88,910
Ratio	5.00%	6.68%	3.00%	7.70%	3.00%
Tier I Risk Based:					
Amount		\$ 255,582	\$ 119,258	\$ 228,203	\$ 92,214
Ratio	6.00%	8.57%	4.00%	9.90%	4.00%
Total Risk Based:					
Amount		\$ 362,494	\$ 238,515	\$ 259,918	\$ 184,427
Ratio	10.00%	12.16%	8.00%	11.27%	8.00%

United's Tier I capital, which excludes other comprehensive income, consists of stockholders' equity and qualifying capital securities less goodwill and deposit-based intangibles, totaled \$256 million at September 30, 2003. Tier II capital components include supplemental capital items such as a qualifying allowance for loan losses and qualifying subordinated debt. Tier I capital plus Tier II capital components is referred to as Total Risk-based capital and was \$362 million at September 30, 2003. The capital ratios, as calculated under the guidelines, were 8.57% and 12.16% for Tier I and Total Risk-based capital, respectively, at September 30, 2003.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required for the highest-rated bank holding companies which are not undertaking significant expansion programs, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. Financial institutions with a leverage ratio exceeding 5% are considered to be well capitalized. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies. United's leverage ratios at September 30, 2003 and 2002 were 6.68% and 7.70%, respectively.

The capital ratios of United and the Banks currently exceed the minimum ratios as defined by federal regulators. United monitors these ratios to ensure that United and the Banks remain above regulatory minimum guidelines.

During September 2003, United issued \$35 million in subordinated step-up notes due September 30, 2015. The subordinated notes qualify as Tier II capital under risk-based capital guidelines. The notes bear interest at a fixed rate of 6.25% through September 30, 2010, and at a rate of 7.50% thereafter until maturity or earlier redemption. The notes are callable at par on September 30, 2010, and September 30 of each year thereafter until maturity. Proceeds will be used for general corporate purposes.

Impact of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature with relatively little investment in fixed assets or inventories. Inflation has an important impact on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the impact of inflation on financial results depends on United's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. United has an asset/liability management program to manage United's interest rate sensitivity position. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in United's quantitative and qualitative disclosures about market risk as of September 30, 2003 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2002. The interest rate sensitivity position at September 30, 2003 is included in management's discussion and analysis on page 23 of this report.

Item 4. Controls and Procedures

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the company's disclosure controls and procedures as of September 30, 2003. Based on, and as of the date of, that evaluation, United's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by United under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in the internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Part II. Other Information

Item 1. Legal Proceedings– None

Item 2. Changes in Securities and Use of Proceeds– None

Item 3. Defaults upon Senior Securities– None

Item 4. Submission of Matters to a Vote of Securities Holders – None

Item 5. Other Information– None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- | | |
|------|--|
| 10.1 | Branch Purchase and Assumption Agreement between United Community Banks and RBC Centura Bank dated as of August 13, 2003. |
| 31.1 | Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K

A current report on Form 8-K dated July 22, 2003, was filed with the Securities and Exchange Commission under item 12 "results of operations and financial condition" of such form, furnishing materials for the second quarter 2003 earnings announcement to be conducted by Jimmy C. Tallent, President and Chief Executive Officer and Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc. on July 22, 2003.

A current report on Form 8-K dated September 24, 2003, was filed with the Securities and Exchange Commission under item 9 "regulation FD disclosure" of such form, noting the issuance of a news release on September 24, 2003, announcing the completion by United Community Banks, Inc. of a private placement of \$35 million in subordinated step-up notes.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANKS, INC.

/s/ Jimmy C. Tallent

Jimmy C. Tallent
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Rex S. Schuette

Rex S. Schuette
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Alan H. Kumler

Alan H. Kumler
Senior Vice President and
Controller
(Principal Accounting Officer)

Date: November 13, 2003

BRANCH PURCHASE AND ASSUMPTION AGREEMENT

dated as of

August 13, 2003

between

RBC CENTURA BANK
as Seller,

and

UNITED COMMUNITY BANK
as Purchaser

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EXHIBITS

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SCHEDULES

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BRANCH PURCHASE AND ASSUMPTION AGREEMENT, dated as of August 13, 2003, among United Community Bank, a North Carolina state-chartered bank ("PURCHASER") and RBC CENTURA BANK, a North Carolina state-chartered bank ("SELLER").

RECITALS

A. SELLER. Seller is a bank chartered under the laws of the State of North Carolina and is a member primarily of the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation (the "FDIC") with its main office located in Rocky Mount, North Carolina.

B. PURCHASER. Purchaser is a bank organized under the laws of the State of North Carolina with its principal office located in Murphy, North Carolina.

C. THE TRANSACTION. Purchaser desires to assume and purchase from Seller, and Seller desires to assign and sell to Purchaser, certain of Seller's liabilities and assets, currently held and allocated by Seller to its branch offices located at 54 Mitchell Avenue, Bakersville, North Carolina (the "BAKERSVILLE BRANCH"), at 200 Linville Street, Newland, North Carolina (the "NEWLAND BRANCH") and at 129 Rodney Orr Bypass, Robbinsville, North Carolina (the "ROBBINSVILLE BRANCH" and together with the Bakersville Branch and the Newland Branch, collectively, the "BRANCHES" and individually, a "BRANCH").

NOW, THEREFORE, in consideration of their mutual promises and obligations and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1

CERTAIN DEFINITIONS

1.1 CERTAIN DEFINITIONS. As used in this Agreement, the terms below shall have the meanings set forth.

"ACCRUED EXPENSES" means the accrued and unpaid expenses appearing as a Liability on a Closing Statement or a Final Closing Statement.

"ACCRUED INTEREST" with respect to (i) Deposits at any date means interest which is accrued on such Deposits to such date and not yet posted to such deposit accounts or paid to the depositor and (ii) Loans at any date means interest which is accrued on such Loan to such date and not yet paid.

"ADJUSTMENT DATE" means a date, which shall be a Business Day as soon as practicable after the Closing Date but in no event later than thirty (30) calendar days after the Closing Date, as agreed to by the parties in accordance with Section 3.2.

"AFFILIATE" of a person means any person directly or indirectly controlling or controlled by or under direct or indirect common control with such person.

"AGREEMENT" means this Branch Purchase and Assumption Agreement, including all schedules, exhibits and addenda as modified, amended or extended from time to time.

"ALLOCATION" has the meaning specified in Section 2.3.

"APPLICABLE EMPLOYEES" has the meaning specified in Section 8.6(a).

"ASSETS" means the (i) Furniture, Fixtures and Equipment, (ii) Improvements, (iii) Cash on Hand, (iv) Prepaid Expenses, (v) Real Property, (vi) Records, (vii) Loans, the servicing rights thereto and the collateral for the Loans, (viii) Seller's benefits and rights under Safe Deposit Agreements, (ix) Seller's benefits and rights under Assumed Contracts; and (x) any fee or expense adjustment required in accordance with Section 2.2; PROVIDED, HOWEVER, Assets do not include any deferred Tax assets, refunds for Taxes relating to the period prior to the Closing Date and prepaid Taxes. The allocation provisions of Section 8.2 shall apply for the purposes of determining to what extent any Taxes, deferred Tax assets and Tax refunds relate to the period prior to the Closing Date. PROVIDED, FURTHER, Assets do not include any credit card receivables or accounts.

"ASSUMED CONTRACTS" means all service or similar contracts, including personal property leases, in effect as of the Closing Date, that relate to the Branches and the Assets at the Branches and that Purchaser will assume as of the Closing pursuant to Section 7.4.

"ASSUMED DEPOSITS" means all Deposits existing on the Closing Date, together with all Accrued Interest thereon as of the Closing Date, but excluding any Deposits excluded pursuant to Section 2.6, 2.8 and 4.12 or excluded by mutual agreement of Seller and Purchaser.

"ATM" means any automated teller machine owned or leased by Seller and located at the Branches.

"BANK MERGER ACT" means Section 18(c) of the Federal Deposit Insurance Act, as amended.

"BIF" has the meaning specified in Recital A.

"BRANCH" or "BRANCHES" means the branches of Seller located at the addresses specified in Recital C.

"BUSINESS DAY" means a day on which Seller and Purchaser are open for business in the State of North Carolina which is not a Saturday, Sunday or legal holiday recognized generally by commercial banks in the State of North Carolina.

"CASH ON HAND" means, as of any date, all petty cash, vault cash, teller cash and prepaid postage maintained at the Branches, including at ATMs.

"CLOSE OF BUSINESS" means 2:00 p.m. on the Closing Date.

"CLOSING" and "CLOSING DATE" means one or more closings of the sale, purchase and assumption provided for herein to be held at such time(s) and date(s) as provided for in Article 3 hereof.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMMISSIONER" means the Commissioner of Banks of the State of North Carolina.

"DELIVERY RECORDS" means all Records other than transaction tickets and records for closed accounts, but may be copies of original Records.

"DEPOSITS" means, as of any date, all deposit liabilities of Seller booked, maintained or primarily serviced at the Branches, which constitute "deposits" for purposes of the Federal Deposit Insurance Act, 12 U.S.C. ss. 1813, including all uncollected items included in depositors' balances

(including Overdrafts that Purchaser has accepted or is obligated to accept as provided in Section 7.10(h)), any Accrued Interest and any IRAs assigned to Purchaser under Section 2.6, together with Seller's rights and responsibilities under any customer agreement evidencing or relating thereto, but excluding (i) deposits specifically securing, pursuant to express terms of loan documents, loans or other extensions of credit by Seller where such loans or other extensions of credit are not being transferred under this Agreement, (ii) deposits held in accounts for which Seller acts as fiduciary (other than IRAs assigned to Purchaser under Section 2.6); (iii) deposits subject to legal process as shown on Records, (iv) deposits which have been reported as abandoned property under the abandoned property laws of any jurisdiction, (v) deposits held in any IRA where the account holder has notified Seller or Purchaser of his, her or its objection to Purchaser acting as custodian of such IRA, (vi) deposits held in the name of Seller or any of its affiliated entities as depositor, (vii) deposits represented by official checks, travelers checks, money orders, or certified checks of Seller, and (viii) accounts designated as "closed" on the books and records of Seller. Deposits also shall include any dealer reserve associated with Loans, whether or not the dealer reserve or similar accounts is maintained or primarily serviced at the Branches. A list of the Deposits as of the date of this Agreement are attached hereto as SCHEDULE 1.1A. This list will be updated as of the Closing Date and will be used in determining the Assumed Deposits.

"DISPUTE RESOLVER" means an independent accounting firm or other independent consultant mutually acceptable to the Seller and the Purchaser. All determinations under this Agreement made by a Dispute Resolver shall be binding upon Purchaser and Seller.

"EMPLOYEES" means any employee employed by Seller on the Closing Date at the Branches, other than those employees identified in SCHEDULE 1.2.

"ENCUMBRANCES" means all mortgages, claims, charges, liens, encumbrances, easements, limitations, restrictions, commitments, security interests, pledges or other similar charges or liabilities, whether accrued, absolute, contingent or otherwise, except for statutory liens for ad valorem tax payments securing payments not yet due.

"ENVIRONMENTAL LAW" has the meaning set forth in Section 7.12(e).

"ERISA" has the meaning assigned in Section 5.9.

"FDIC" means the Federal Deposit Insurance Corporation.

"FEDERAL FUNDS RATE" on any day means the per annum rate of interest (rounded upward to the nearest 1/100 of 1%) which is the weighted average of the rates on overnight federal funds transactions arranged on such day or, if such day is not a banking day, the previous banking day, by federal funds brokers computed and released by the Federal Reserve Bank of Richmond (or any successor) in substantially the same manner as such Federal Reserve Bank currently computes and releases the weighted average it refers to as the "Federal Funds Effective Rate" at the date of this Agreement.

"FINAL CLOSING STATEMENT" means the Statement, as of the Adjustment Date, delivered by Seller to Purchaser in accordance with SCHEDULE 1.1 and Section 3.2(c), setting forth the Assets and Liabilities.

"FINAL SETTLEMENT PAYMENT" has the meaning specified in Section 3.2(c).

"FURNITURE, FIXTURES AND EQUIPMENT" means all furniture, fixtures, and equipment, including ATMs accepted by Purchaser, trade fixtures, telephone

systems, security equipment, safe deposit boxes (exclusive of contents), vaults and supplies (excluding any items consumed or disposed of, but including new items acquired or obtained, in the ordinary course of business of the Branches through the Closing Date) that are located at the Branches, but excluding signage or other advertising or blank paper stock, forms, or supplies bearing Seller's corporate logos, trade names, or trademarks and computers and computer software.

"GAAP" means United States generally accepted accounting principles as in effect from time to time.

"HAZARDOUS MATERIAL" has the meaning set forth in Section 7.12(f).

"IMPROVEMENTS" means all improvements to the Real Property in respect of the Branches which shall have been purchased, installed or constructed and used in connection with the operation or maintenance of such Branches.

"IRA" means an "individual retirement account" or similar Deposit account established in accordance with the provisions of Section 408 of the Code for which Seller acts as custodian or trustee but as to which Seller may not exercise investment discretion.

"IRS" means the Internal Revenue Service.

"INFORMATION" shall have the meaning specified in Section 7.2(b).

"LIABILITIES" means the (i) Assumed Deposits and all terms and agreements relating to the Assumed Deposits, (ii) Seller's obligations with respect to the Loans, the servicing of the Loans and the collateral for the Loans, (iii) Seller's obligations under Assumed Contracts, (iv) Seller's obligations under the Safe Deposit Agreements, including any prepaid rent thereunder, (v) Seller's obligations to provide customer services from and after the Closing Date in connection with the Assets and the Assumed Deposits, (vi) all other liabilities of Seller with respect to the operations of the Branches, including accounts payable and Accrued Expenses, recorded as liabilities on the books of the Branches as of the Closing Date; (vii) any fee or expense adjustment required in accordance with Section 2.2, and (viii) liabilities that arise from the operation of the Branches after the Closing Date; PROVIDED, HOWEVER, that Liabilities shall not include any Liability for Taxes for any period prior to the Closing Date nor any other Liability of Seller not specifically assumed hereunder. The allocation provisions of Section 8.2 shall apply for purposes of determining to what extent a liability for Taxes is with respect to a period prior to the Closing Date.

"LOAN DOCUMENTS" means all material Records with respect to a Loan, including, without limitation, applications, notes, security agreements, deeds of trust, mortgages, assignment of leases, loan agreements, including building and loan agreements, guarantees, sureties and insurance policies (including title insurance policies), flood hazard certifications, and all modifications, waivers and consents relating to any of the foregoing. Loan Documents also includes all underwriting files, financing statements, collateral files and documentation and escrow account agreements.

"LOANS" means all loans (including loan commitments, but excluding the interest of any participants in such Loans) which are recorded on the books of the Branches at the Close of Business, including Overdraft Loans, but excluding those loans listed on SCHEDULE 1.4 as "Excluded Loans." A list of Loans as of the date of this Agreement is attached hereto as SCHEDULE 1.4A, and it will be updated as of the Closing Date. Loans shall also exclude (i) loans in

non-accrual status on Seller's books, loans in which the collateral securing the same has been repossessed or as to which collection efforts have been instituted or claim and delivery or foreclosure proceedings have been filed, or loans as to which insurance on the loan collateral has been force-placed; (ii) mortgage loans not designated to the Branches, and those mortgage loans designated to the Branches but centrally-serviced by Seller; (iii) loans ninety (90) days or more past due as to principal or interest; (iv) loans which have been classified adversely by any governmental authority or regulatory agency or placed by Seller on any internal "watch list" or similar list of loans causing concern; (v) loans in connection with which the obligor has filed a petition for relief under the United States Bankruptcy Code, or otherwise has indicated an inability or refusal to pay the Loan as it becomes due, prior to the Closing; (vi) letters of credit, or loans in which Seller participates with another lender, except as specifically offered by Seller and accepted by Purchaser; (vii) loans to borrowers known by Seller to be deceased, as reflected in Records relating to such loans; (viii) loans rejected by Purchaser pursuant to Section 2.7; and (ix) loans excluded pursuant to Section 2.8.

"LOAN VALUE" means, with respect to a Loan and as of a date, the unpaid principal balance of any such Loan plus Accrued Interest thereon, net of the interest in such Loan of any participant, as of such date, and excluding accumulated but unpaid late charges as of such date.

"LOSSES" means losses, liabilities, damages (including forgiveness or cancellation of obligations), expenses, costs, legal fees and disbursements, collectively.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on the condition, financial or otherwise, or results of operations of the Branches, or on the ability of Seller or Purchaser to consummate timely the transactions contemplated hereby. Notwithstanding the foregoing, a Material Adverse Effect shall not be deemed to exist as a result of general economic conditions or conditions generally affecting the industry in which the Branches operate, or changes thereto (it being agreed that such items shall never be considered material).

"OVERDRAFT" means the amount by which any Deposit account at the Branches is overdrawn as of the Closing Date on account of checks, drafts or other items that have been presented against such account for payment against insufficient funds and that, under applicable rules of the Federal Reserve Bank or other check collection rules or procedures, cannot be returned and charged back as a matter of right to the presenting or collecting bank.

"OVERDRAFT LOANS" means unsecured overdraft Loans, including negotiable order of withdrawal line of credit accounts, relating to the Assumed Deposits, as of the Close of Business, plus accrued interest, which do not exceed the applicable credit limit by more than 10% of that limit and are linked to an open account.

"PRELIMINARY CLOSING STATEMENT" means the statement reflecting the Assets and Liabilities as of the end of the third Business Day prior to the Closing Date, which statement shall be prepared by Seller, in consultation with Purchaser, substantially in the format of Schedule 1.1.

"PREPAID EXPENSES" means the prepaid expenses appearing as an asset in respect of the Branches on a Closing Statement or a Final Closing Statement, as the case may be, that (i) have been recorded in accordance with GAAP, (ii) are not intercompany or interoffice accounts and (iii) provide future benefit to the business conducted at the Branches.

"PURCHASE PRICE" has the meaning specified in Section 2.1(b).

"REAL PROPERTY" means the real properties owned by Seller and identified by the street addresses set forth in Recital C above and the buildings thereon, including any Improvements thereon and all fixtures not

included in the property described in the definition of Furniture, Fixtures and Equipment, and if the context so requires, Real Property can mean just one or more, but less than all of the Real Property.

"RECORDS" means all records and original documents in Seller's possession (including records maintained electronically) which pertain to and are utilized by Seller to administer, reflect, monitor, evidence or record information respecting the business or conduct of the Branches (including transaction tickets through the Closing Date and all records for closed accounts located in the Branches) and all such records and original documents respecting (i) the Assumed Contracts, (ii) the Assets, (iii) the Assumed Deposits and (iv) the Loans, the servicing rights to the Loans and the collateral for the Loans (including the Loan Documents).

"REGULATORY APPROVALS" means all approvals, permits, authorizations, waivers or consents of governmental or regulatory agencies or authorities necessary or appropriate to permit consummation of the transactions contemplated herein and includes, without limitation, the following: (i) approval of cognizant regulatory agencies under the Bank Merger Act; (ii) approvals of the Commissioner under applicable law; and (iii) expiration of the waiting period provided for in the Bank Merger Act without commencement of any action challenging Purchaser's acquisition of the Branches hereunder by the United States Department of Justice or any other person.

"SAFE DEPOSIT AGREEMENTS" means any agreements, including rental agreements, related to the safe deposit boxes, if any, located in the Branches.

"SETTLEMENT PAYMENT" means a payment made pursuant to Section 2.1(c).

"TAX RETURNS" means all returns or other reports required to be filed with respect to any Taxes, including information returns.

"TAX or TAXES" refers to all federal, state, local, or foreign income, gross receipts, windfall profits, severance, property, production, sales, use, excise, transfer, license, franchise, employment, withholding or similar taxes or amounts required to be withheld and paid over to any government in respect of any tax or governmental fee or charge, including any interest, penalties, or additions to tax on the foregoing.

"TRANSACTION ACCOUNT" means any account at the Branches in respect of which deposits are withdrawable in practice upon demand or upon which third party drafts may be drawn by the depositor, including checking accounts, negotiable order of withdrawal accounts and money market deposit accounts.

"TRANSFERRED EMPLOYEE" has the meaning specified in Section 8.6(a).

"WELFARE PLANS" has the meaning specified in Section 8.6(d).

1.2 ACCOUNTING TERMS. To the extent that any accounting terms used in this Agreement are not defined in Section 1.1 or elsewhere herein, they shall be defined under GAAP.

1.3 USE AND APPLICATION OF TERMS. In using and applying the various terms, provisions and conditions in this Agreement, the following shall apply: (1) the terms "hereby", "hereof", "herein", "hereunder", and any similar words, refer to this Agreement; (2) words in the masculine gender mean and include correlative words of the feminine and neuter genders and words importing the singular numbered meaning include the plural number, and vice versa; (3) words importing persons include firms, companies, associations, general partnerships, limited partnerships, limited liability partnerships, limited liability limited

partnerships, limited liability companies, trusts, business trusts, corporations and other legal organizations, including public and quasi-public bodies, as well as individuals; (4) the use of the terms "including" or "included in", or the use of examples generally, are not intended to be limiting, but shall mean, without limitation, the examples provided and others that are not listed, whether similar or dissimilar; (5) the phrase "costs and expenses", or variations thereof, shall include, without limitation, reasonable attorneys' fees and fees of legal assistants, and reasonable fees of accountants, engineers, surveyors, appraisers and other professionals or experts - and all references to attorneys' fees or fees of legal assistants, or fees of accountants, engineers, surveyors, appraisers or other professionals or experts shall mean reasonable fees; (6) as the context requires, the word "and" may have a joint meaning or a several meaning and the word "or" may have an inclusive meaning or an exclusive meaning; (7) any reference contained in this Agreement to specific statutes or laws shall include any successor statutes or laws, as the case may be; and (8) this Agreement shall not be applied, interpreted and construed more strictly against a person because that person or that person's attorney drafted this Agreement.

ARTICLE 2

THE TRANSACTIONS

2.1 TRANSFER AND CONSIDERATION.

(a) Subject to the terms and conditions set forth in this Agreement, at the Closing, Purchaser shall (i) purchase the Assets and (ii) assume the Liabilities, and Seller shall sell, assign, transfer, convey and deliver to Purchaser, free and clear of all Encumbrances (except as described in Section 5.4), all of Seller's right, title and interest in and to the Assets and the Liabilities.

(b) The purchase price for the Assets shall be an amount (the "PURCHASE PRICE") computed as follows:

(i) An amount equal to 10.7% of the average daily balance (excluding Accrued Interest) of Assumed Deposits for the period commencing thirty (30) calendar days prior to and inclusive of the day prior to the Closing Date and ending on the day prior to the Closing Date for the Bakersville Branch and the Newland Branch; PLUS

(ii) An amount equal to 7% of the average daily balance (excluding Accrued Interest) of Assumed Deposits for the period commencing thirty (30) calendar days prior to and inclusive of the day prior to the Closing Date and ending on the day prior to the Closing Date for the Robbinsville Branch, which payment will be inclusive of the net book value of the Robbinsville Real Estate and the Robbinsville Furniture, Fixtures and Equipment; PLUS

(iii) The aggregate amount of Cash on Hand as of the Closing Date; PLUS

(iv) The aggregate net book value of the Assets (other than Cash on Hand, Loans and the Robbinsville Real Estate and Robbinsville Furniture, Fixtures and Equipment), as reflected on the books of Seller as of the Closing Date; PLUS

(v) The aggregate Loan Value of the Loans as of the Closing Date.

(c) On the Closing Date, Seller shall transfer to Purchaser cash in an amount (the "SETTLEMENT PAYMENT") equal to the excess of (i) the sum of (A) the Assumed Deposits plus (B) the Accrued Expenses, over (ii) the Purchase Price as calculated based on the Preliminary Closing Statement.

2.2 ADJUSTMENT OF EXPENSES AND FEES. All operating expenses and fees accrued or pre-paid prior to the Closing Date, including, without limitation, rents, utility payments, and FDIC assessments, but not including those related to Taxes

(except as provided in Section 8.2 below), relating to the Branches, transferred at Closing, shall be pro-rated between the parties. To the extent that Seller has prepaid expenses that are expenses allocable to Purchaser pursuant to this Section 2.2, such expenses shall appear as an Asset on the Closing Statement and the Final Closing Statement. To the extent that expenses have been accrued and not paid by Seller or prepaid by customers prior to the Closing Date, they shall appear as a Liability on the Closing Statement and the Final Closing Statement.

2.3 ALLOCATION OF CONSIDERATION. Purchaser and Seller agree that the consideration payable hereunder at the Closing shall be allocated among the Assets, tangible and intangible, on the basis of an allocation (the "ALLOCATION") to be reasonably determined by Purchaser and Seller in accordance with applicable Treasury regulations and the Code. Purchaser and Seller agree (i) to timely file a mutually acceptable appropriate IRS form in accordance with the Allocation and (ii) that the Allocation shall be binding on Purchaser and Seller for all tax reporting purposes, except that either party may change any such report in the event of a dispute with any taxing authority or take any other step to settle or resolve such a dispute; PROVIDED, HOWEVER, that a party shall not make any such change without first obtaining the consent of the other party, which consent will not be unreasonably withheld or delayed.

2.4 TRADE AND SERVICE MARKS. Notwithstanding anything to the contrary in this Agreement, Purchaser shall not acquire hereunder any right to the use of any trade name, trade mark or service mark, if any, of Seller or any of its Affiliates.

2.5 SALE AND TRANSFER OF SERVICING AND ESCROWS.

(a) The Loans shall be sold on a servicing released basis. As of the Closing Date, all rights, obligations, liabilities and responsibilities with respect to the servicing of the Loans on and after the Closing Date will be assumed by Purchaser. Seller shall be discharged and indemnified by Purchaser from all liability with respect to servicing of the Loans on and after the Closing Date, and Purchaser shall be indemnified by Seller from all liability with respect to servicing the Loans prior to the Closing Date.

(b) As of the Closing Date, Purchaser will assume, and agrees to undertake and discharge, any and all obligations of the holder and servicer of any Loans that are mortgage Loans, if any, as such obligations may relate to the escrow, maintenance of escrow and payments from escrow of moneys paid by or on account of the applicable mortgagor. On or before the fifth (5th) Business Day after the Closing Date, Seller shall remit by wire transfer of immediately available funds to Purchaser any and all funds held in escrow that were collected and received pursuant to a mortgage Loan for the payment of taxes, assessments, hazard insurance premiums, primary mortgage insurance policy premiums, if applicable, or comparable items prior to the Closing Date plus any Accrued Interest. Seller makes no warranties or representations of any kind or nature as to the sufficiency of such sum to discharge any obligations with respect to mortgage Loans.

2.6 ASSUMPTION OF IRA ACCOUNT DEPOSITS.

(a) With respect to Assumed Deposits in IRAs, Seller will use reasonable efforts and will cooperate with Purchaser in taking any action reasonably necessary or appropriate to accomplish or accompany the appointment of Purchaser (or an Affiliate of Purchaser designated by Purchaser) as successor custodian or the delegation to Purchaser (or an Affiliate of Purchaser) of Seller's authority and responsibility as custodian of all such IRA deposits except self-directed IRA deposits, including, but not limited to, sending to the depositors thereof appropriate notices, cooperating with Purchaser (or such Affiliate) in soliciting consents from such depositors, executing assignments reasonably satisfactory to Purchaser, and filing any appropriate applications with applicable regulatory authorities. If any such delegation is made to Purchaser (or such Affiliate), Purchaser (or such Affiliate) will perform all of the duties so delegated and comply with the terms of Seller's agreement with the depositor of the IRA deposits affected thereby.

(b) If, notwithstanding the foregoing, as of the Closing Date, Purchaser shall be unable to retain deposit liabilities in respect of an IRA or the account holder has notified Seller or Purchaser of the account holder's objection to Purchaser acting as custodian or trustee of such IRA, such deposit liabilities shall be excluded from Assumed Deposits for purposes of this Agreement.

2.7 PURCHASER'S RIGHT TO REJECT LOANS.

(a) During the period beginning on the date of this Agreement and ending on the tenth (10th) Business Day after such date in the case of Loans carried on the books of Seller as of the date of this Agreement (the "Review Period") and, with respect to new Loans associated with the Branches and made after the date of this Agreement, during a subsequent five (5) Business Day period beginning on a mutually-agreed date at least forty five (45) calendar days prior to the Closing Date (the "Supplemental Review Period"), Seller shall

afford to the officers and authorized representatives of Purchaser, subject to Seller's normal security requirements, access to all necessary Loan Documents relating to such Loans in order that Purchaser may have full opportunity to make reasonable investigations of the Loans, the Loan Documents and the Loan collateral. With respect to the Supplemental Review Period, Seller shall provide

a listing of new Loans upon Purchaser's request and any such supplemental review shall be completed at least thirty-five (35) calendar days before the Closing. Notwithstanding the foregoing, Seller shall not be required to provide access to or disclose information where such access or disclosure would violate or prejudice the legal rights of any customer or employee or attorney-client privilege or would be contrary to law, rule, regulation or any legal or regulatory order or process or any fiduciary duty or binding agreement entered into prior to the date of this Agreement. Following the Closing and during a five (5) Business Day period beginning on the date on which Seller has delivered to Purchaser all Loan Documents pertaining to Loans transferred to Purchaser at the Closing as provided in Section 4.9 below, together with a listing of those Loans transferred to Purchaser at the Closing which were made by Seller subsequent to the beginning of the Supplemental Review Period and prior to Closing, Purchaser shall have the right to review the Loan Documents relating to Loans made within that period and to any other Loans with respect to which Seller withheld any Loan Documents or information from Purchaser prior to the Closing pursuant to the preceding sentence (the "Post-Closing Review Period").

(b) No later than five (5) Business Days following the expiration of the Review Period, the Supplemental Review Period, or the Post-Closing Review Period, as applicable, Purchaser shall notify Seller in writing of the existence of any of the following defects relating to the Loans (any such Loan being called an "Identified Loan"):

(i) Loan Documents, which are material to the enforceability of a Loan, have been lost or are missing;

(ii) a Loan was not originated or has not been administered in compliance in all material respects with applicable laws or the Loan Documents pertaining to such Loan are not legal, valid and binding or do not contain the true signature of an obligor; or

(iii) Seller's rights in any collateral are not perfected or enforceable, or the priority of such rights are not as reflected on Seller's Records; PROVIDED, HOWEVER, that the absence of any such right of Seller in the collateral securing such a Loan must have a material impact on the ability to recover full payment of the Loan.

(c) Following receipt of any such notice with respect to defects identified during the Review Period or the Supplemental Review Period, and at any time prior to the date of notification to the customers of the assignment of the Loans pursuant to applicable law, Seller may in its sole discretion attempt to cure any such defect described in Section 2.7(b)(i) through (iii) to Purchaser's reasonable satisfaction. If Seller is unable or unwilling to cure such defect to Purchaser's reasonable satisfaction, Purchaser shall have the right to reject such Identified Loan in which case such Identified Loan will be excluded from this Agreement. Promptly following its receipt of any such notice with respect to defects identified during the Post-Closing Review Period, Seller will repurchase each Identified Loan from Purchaser at its net book value on Purchaser's books on the date of repurchase.

2.8 LOAN ACCOUNTS SECURED BY DEPOSIT ACCOUNTS. In the event that a loan account at one of the Branches is specifically secured by a Deposit or security account that is assigned by Seller to another of Seller's branches, or where a Deposit account at one of the Branches secures a loan account assigned by Seller to another of Seller's branches, such loan account, Deposit account and/or security account shall not be an Assumed Deposit or a Loan.

ARTICLE 3

CLOSING PROCEDURES

3.1 CLOSING DATE AND PLACE; NOTIFICATIONS. The closing of the transactions provided for herein (the "CLOSING") will be held at the offices of Seller at 1417 Centura Highway, Rocky Mount, North Carolina 27804, or at another place agreed to by the parties, on or before October 31, 2003 (the "CLOSING DATE"), unless all Regulatory Approvals are not yet received despite the best efforts of Purchaser and Seller or unless a later date and time are agreed to by the parties. Notwithstanding anything contained in this Agreement to the contrary, Seller agrees that, if Purchaser receives all necessary Regulatory Approvals related to its purchase of Assets and assumption of Liabilities related to some of the Branches prior to its receipt of necessary Regulatory Approvals related to all of the Branches, and if it reasonably appears that necessary Regulatory Approvals related to the remaining Branches will not be obtained by a time that would permit a Closing related to all of the Branches to occur on or before October 31, 2003, then, at Purchaser's option exercised by written notice to Seller, separate Closings of the transactions related to each of the Branches shall be held. In the event of separate Closings, the Closing of the transactions related to Branches for which Regulatory Approvals are first received shall occur as soon as reasonably practical following Purchaser's receipt of those necessary Regulatory Approvals, its giving of the above written notice, and the satisfaction of all other conditions to Closing described herein that are related to those Branches, and the Closing of the transactions related to the remaining Branches shall occur at a later date as provided herein. In that event, this Agreement shall be deemed to be separate agreements with respect to each separate Closing and the provisions of this Agreement that apply in the case of transactions related to all Branches shall apply separately to each Branch and to each Closing, and the provisions that apply only to the transactions related to one of the Branches shall apply only to that Branch and the Closing of the transactions related to that Branch. Following the Closing of the transactions related to some but not all of the Branches, this Agreement shall remain in full force and effect separately with respect to the remaining Branches, and neither Purchaser's inability to obtain any necessary Regulatory Approval with respect to the transactions related to the remaining Branches, the inability of either party to satisfy any other conditions to the Closing of the transactions related to the remaining Branches, nor either party's breach of or termination of this Agreement with respect to the transactions related to the remaining Branches, shall have any effect on the transactions or obligations of the parties hereunder related to the Branches for which Regulatory Approvals have been obtained.

3.2 PROCEDURE AT THE CLOSING; ADJUSTMENTS.

(a) No later than one (1) Business Day prior to the Closing Date, Seller shall deliver to Purchaser the Preliminary Closing Statement prepared in the format set forth on SCHEDULE 1.1 and based on figures as of the end of the third (3rd) Business Day immediately preceding the Closing Date. At the Closing, the parties shall deliver the documents referred to in Sections 9.1(d), 9.2(d) and 9.3. On the Closing Date, Seller shall deliver to Purchaser the required Settlement Payment.

(b) The sales, purchases, transfers, assumptions, leases and other acts made or taken at the Closing will be made or taken to be effective as of the Close of Business although the Settlement Payment may be paid at any time on the Closing Date. Seller shall be responsible for the Branches and the operation thereof until the Close of Business. The Close of Business shall be the relevant cutoff time for purposes of the proration described in Section 2.2, and any amounts to be paid in accordance with Section 2.2 shall be paid contemporaneously with the Final Settlement Payment on the Adjustment Date.

(c) Within thirty (30) calendar days after the Closing, Seller shall deliver to Purchaser the Final Closing Statement. The Purchase Price and Settlement Payment shall be recalculated in accordance with Section 2.1 based on such Final Closing Statement. The "FINAL SETTLEMENT PAYMENT" shall be (i) paid on the Adjustment Date by Seller to Purchaser in the amount by which (A) the Assumed Deposits and the Accrued Expenses exceed (B) the Purchase Price and the Settlement Payment or (ii) paid on the Adjustment Date by Purchaser to Seller in the amount by which (A) the Purchase Price and the Settlement Payment exceed (B) the Assumed Deposits and Accrued Expenses, each as on the Final Closing Statement. In either case, interest at the Federal Funds Rate from the Closing Date to, but excluding, the Adjustment Date shall be included in the Final Settlement Payment. The Final Closing Statement shall become final and binding on Purchaser and Seller on the earlier of (i) the date it is approved by Purchaser by written notice to Seller or (ii) at 5:00 p.m. North Carolina time on the tenth (10th) Business Day after it is delivered by Seller to Purchaser unless, within such ten (10) Business Day period, Purchaser gives written notice to Seller of its actual or potential disagreement with respect to any item included in such Final Closing Statement. Seller and Purchaser shall use their reasonable best efforts to resolve the disagreement or concern during the ten (10) Business Day period following receipt by Seller of such notice. If the disagreement or concern is not resolved during such ten (10) Business Day period, the dispute shall be referred to a Dispute Resolver, and such Final Closing Statement shall be modified, if required, by the Dispute Resolver and thereupon such Final Closing Statement shall become final and binding. Purchaser and Seller shall share equally the cost of any Dispute Resolver.

(d) The Adjustment Date shall occur within four (4) Business Days after the Final Closing Statement becomes final and binding pursuant to subsection (c) of this Section. The Final Settlement Payment shall be made in cash as provided in Section 3.2(e). The Final Settlement Payment shall, for all purposes, be considered an adjustment to the Purchase Price.

(e) All payments to be made hereunder by one party to the other shall be made by wire transfer of immediately available funds on or before 4:00 p.m. local time on the date of payment to an account specified by the receiving party at least two (2) calendar days prior to the date of payment.

(f) If any instrument of transfer contemplated herein shall be recorded in any public record before the Closing and thereafter the Closing is not completed, then at the request of such transferring party the other party will deliver (or execute and deliver) such instruments and take such other action as such transferring party shall reasonably request to revoke or record such purported transfer.

ARTICLE 4

TRANSITIONAL MATTERS

4.1 CERTAIN PROCEDURES. Seller and Purchaser shall cooperate with each other and shall use their reasonable efforts to cause the timely transfer of information concerning the Deposits and the Loans which is maintained on Seller's data processing systems in accordance with a working agreement to be developed and mutually agreed upon by Purchaser and Seller within forty-five (45) calendar days of the date of this Agreement (the "Working Agreement"). Within five (5) Business Days after the date of this Agreement, Seller and Purchaser shall each designate appropriate and qualified personnel to be responsible for this cooperation of the parties in developing and implementing the Working Agreement, and to act as an initial contact for responding to questions and requests for information. The parties acknowledge that the goal of the Working Agreement, and its implementation, is to enable Purchaser to obtain and confirm data prior to the Closing Date so that such back office conversion is completed and Purchaser is processing all data relating to the operations of the Branches on the Business Day after the Closing Date. Within twenty (20) calendar days of the date of this Agreement, appropriate personnel of Seller and Purchaser shall meet to discuss products and data mapping.

Following execution of this Agreement, Purchaser will pick up from Seller at Seller's Operations Center in Rocky Mount, North Carolina, three sets of electronic data files, corresponding layouts, and applicable balancing reports, with respect to the Deposits and loans proposed to be Loans. The first set will be created after a night's processing as soon as possible following the date of this Agreement. The second set will be created after a night's processing approximately seven weeks prior to the Closing Date. The third set will be the live conversion set and will be created after processing on the night of the Closing Date and will be delivered to Purchaser no later than noon on the day following the Closing Date, or as of another time set forth in a plan of conversion. This third set will be accompanied by a backup set.

In connection with its processing on the night of the Closing, Seller will produce interim statements on any Deposit or Loan account normally receiving a statement.

4.2 CUSTOMERS.

(a) Prior to Closing, (i) Seller and Purchaser jointly will notify the customers of the Branches of the transactions contemplated hereby and (ii) each of Seller and Purchaser shall provide, or join in providing where appropriate, with the cooperation of the other party, all notices to such customers and other persons that Seller or Purchaser, as the case may be, is required to give by any regulatory authority having jurisdiction or under applicable law, including but not limited to any notice required by the Real Estate Settlement Procedures Act of 1974, as amended, or the terms of any other agreement between Seller and any customer in connection with the transactions contemplated hereby. All costs and expenses of any notice or communication sent or published under this Agreement by Purchaser or Seller shall be the responsibility of the party sending such notice or communication and all costs and expenses of any joint notice or joint communication shall be shared equally by Seller and Purchaser.

(b) Anything herein to the contrary notwithstanding, but subject to the provisions of Section 7.9, neither Purchaser nor Seller shall object to the use by depositors of the Assumed Deposits of checks and similar instruments issued to or ordered by such depositors on or prior to the Closing Date, which instruments may bear Seller's name, or any logo, trademark, service mark, trade name or other proprietary mark of Seller. As provided in Section 7.9, Seller and Purchaser will agree on a mutually acceptable method to notify customers who use, and to transfer funds and authorization relating to, direct deposit and direct debit arrangements related to the Assumed Deposits.

4.3 ASSUMPTION OF OBLIGATIONS. Upon the Closing Date, Purchaser shall assume and thereafter fully and timely discharge the duties and obligations of Seller relating to all periods from and after the Closing Date with respect to the Assumed Deposits, Assumed Contracts and other Liabilities as may arise under applicable laws, regulations, agreements and rules of automated clearing houses and other payment systems which relate thereto, and in accordance with the terms of account agreements or other agreements with depositors applicable to such accounts as such terms and agreements are in effect on the Closing Date, except such terms as, under applicable law and agreement, may be changed after the Closing Date.

4.4 MAINTENANCE OF RECORDS. Through the Closing Date, Seller will maintain the Records in accordance with safe and sound banking practices and in a manner consistent with past practice, which, with respect to financial accounting matters, is understood by Seller to be generally in accordance with GAAP. Purchaser may upon reasonable notice, at its own expense and during normal business hours, make such copies of and excerpts from the Records as it may deem desirable. All Records, whether held by Purchaser or Seller, shall be maintained for such periods following the Closing as are required by law, unless the parties shall, applicable law permitting, agree in writing to a different period. From and after the Closing Date, (a) each of the parties shall permit the other reasonable access to any applicable Records in its possession relating to matters arising on or before the Closing Date and (b) the Purchaser shall permit the Seller reasonable access (which may include insisting on appropriate legal process) to any applicable Records in its possession relating to matters arising after the Closing Date, in either case, reasonably necessary in connection with any request for information, claim, action, litigation or other proceeding involving the party requesting access to such Records or in connection with any legal obligation owed by such party to any present or former depositor or other customer.

4.5 INTEREST REPORTING AND WITHHOLDING.

(a) Unless otherwise agreed by the parties, Seller will report to applicable taxing authorities and holders of Assumed Deposits, with respect to the period from January 1 of the year in which the Closing occurs through the Closing Date, all interest credited to, withheld from and any early withdrawal penalties imposed upon the Assumed Deposits. Purchaser will report to the applicable taxing authorities and holders of Assumed Deposits, with respect to all periods from the day after the Closing Date, all such interest credited to, withheld from and early withdrawal penalties imposed upon such Assumed Deposits. Any amounts required by any governmental agencies to be withheld from any of the Assumed Deposits through the Closing Date will be withheld by Seller in accordance with applicable law or appropriate notice from any governmental agency and will be remitted by Seller to the appropriate agency on or prior to the applicable due date. Any such withholding required to be made subsequent to the Closing Date shall be withheld by Purchaser in accordance with applicable law or appropriate notice from any governmental agency and will be remitted by Purchaser to the appropriate agency on or prior to the applicable due date.

(b) Unless otherwise agreed by the parties, Seller shall be responsible for delivering to payees all IRS notices with respect to information reporting and tax identification numbers required to be delivered for the period through the Closing Date which occur with respect to the Assumed Deposits. Purchaser shall be responsible for delivering to payees all such IRS notices required to be delivered for the period from the day after the Closing Date.

(c) Unless otherwise agreed by the parties, Seller will make all required reports to applicable Tax authorities and to obligors on Loans purchased on the Closing Date, with respect to the period from January 1 of the

year in which the Closing occurs through the Closing Date, concerning all interest and points received by the Seller. Purchaser will make all required reports to applicable Tax authorities and to obligors on Loans purchased on the Closing Date, with respect to all periods from the day after the Closing Date, concerning all such interest and points received.

4.6 NEGOTIABLE INSTRUMENTS. Seller will destroy or remove any supply of Seller's money orders, official checks, gift checks or any other negotiable instruments, including travelers' checks, located at the Branches on the Closing Date.

4.7 LEASING OF FURNITURE, FIXTURES AND EQUIPMENT. Seller shall use reasonable efforts to renew or extend on a month-to-month basis, any lease relating to Furniture, Fixtures or Equipment, that is currently in effect but that would otherwise expire on or prior to the Closing Date and will promptly notify Purchaser if it is unable to do so.

4.8 ATM/DEBIT CARDS.

(a) Seller will provide Purchaser with a list of ATM access/debit cards issued by Seller to depositors of any Assumed Deposits, and a data processing record in a format reasonably agreed to by the parties containing all addresses therefor, no later than forty-five (45) calendar days after the date of this Agreement. At or promptly after the Closing, Seller will provide Purchaser with a revised data processing record. Seller shall render ATM/Debit cards issued by Seller inactive as of the Closing. Purchaser shall reissue ATM access/debit cards to depositors of any Assumed Deposits prior to the Closing Date, which cards shall be effective as of the Closing Date.

(b) Seller will not be required to disclose to Purchaser customers' PINs or algorithms or logic used to generate PINs.

4.9 DELIVERY OF THE LOAN DOCUMENTS.

(a) In connection with the sale hereunder, as soon as reasonably practicable after the Closing Date, Seller shall deliver to Purchaser or its designee the Loan Documents actually in the possession of Seller, including electronic Records, or at Purchaser's election, Purchaser shall pick up the Loan Documents from Seller at the places where Seller currently maintains the Loan Documents. Seller makes no representation or warranty to Purchaser regarding the condition of the Loan Documents or any single document included therein, or Seller's interest in any collateral securing any Loan, except as specifically set forth herein. Seller shall have no responsibility or liability for the Loan Documents from and after the time such files are delivered by Seller to an independent third party designated by Purchaser for shipment to Purchaser, the cost of which shall be the sole responsibility of Purchaser.

(b) Promptly upon the execution of this Agreement, Purchaser shall provide Seller the exact name to which the Loans are to be endorsed, or whether any Loans should be endorsed in blank. Seller shall complete such endorsements and deliver the Loan Documents within thirty (30) calendar days after Closing and thereafter Seller will honor in a timely manner any further reasonable requests by Purchaser relative to additional endorsements, assignments or similar matters with respect to the Loan Documents; PROVIDED, HOWEVER, with respect to specific Loan Documents, Seller may require additional time to effectively transfer title thereto and Purchaser shall not hold Seller liable for any reasonable delays in the delivery of such Loan Documents; and FURTHER PROVIDED, HOWEVER, that Seller shall be given immediate access to any Loan Documents reasonably requested to address a Loan delinquency, payoff, customer inquiry, or similar contingency. Purchaser further acknowledges and agrees that Seller may execute or endorse any Loan Document by way of facsimile signature, other than documents which must be recorded in public registries or other documents on which Purchaser deems it necessary or advisable to have original signatures.

4.10 COLLATERAL ASSIGNMENTS AND FILING. As reasonably requested by Purchaser, Seller shall take all such reasonable actions to assist Purchaser in obtaining the valid perfection of a first priority lien or security interest in the collateral, if any, securing each Loan sold on the Closing Date in favor of Purchaser or its designated assignee as secured party. Any such action shall be at the sole expense of Purchaser, and Purchaser shall reimburse Seller for all reasonable actual costs of third-party services incurred in connection therewith, provided any such costs that exceed \$1,000 in the aggregate are approved in advance by Purchaser.

4.11 TRAINING. Seller shall permit Purchaser to train employees of the Branches before Closing with regard to Purchaser's operations, policies and procedures at Purchaser's sole cost and expense, and Purchaser shall reimburse Seller for all employee overtime compensation costs related to periods of time during which the employees are trained. This training may, as mutually agreed upon by Seller and Purchaser, take place at the Branches and may take place during business hours; provided, however, that any training that occurs shall be conducted in a manner not disruptive to operations of the Branches.

4.12 COLLATERAL FOR PUBLIC FUNDS DEPOSITS. At least thirty (30) Business Days prior to the Closing, Seller shall provide Purchaser with a listing of any pledge of collateral by Seller with respect to any deposit proposed to be an Assumed Deposit that constitutes public funds or otherwise requires collateral. Purchaser shall use its best efforts to make arrangements acceptable to such customer prior to the Closing Date to replace Seller's collateral with collateral belonging to Purchaser. If such deposit cannot be collateralized in a manner acceptable to the deposit customer, it shall not become an Assumed Deposit.

4.13 TELEPHONE NUMBERS. Except for toll-free numbers and call center numbers, Seller shall take all steps reasonably necessary to enable Purchaser, after the Closing, to continue to use the telephone numbers used at the Branches on the date of this Agreement.

4.14 CHANGE OF NAME. Seller shall remove from the Branches all items that are not being transferred to Purchaser under this Agreement, including but not limited to signage (which, at the election of Purchaser, shall include all structures supporting such signage) that bears Seller's logos, trade names, or trademarks, on or prior to the Closing, at Seller's own expense. Seller shall have the option to remove and retain, or provide to Purchaser, signage apparatus at the Branches that does not bear Seller's logos, trade names, or trademarks. Seller shall give notice to Purchaser, at least twenty (20) calendar days before Closing, of its decision so as to allow Purchaser to make plans for signage.

4.15 CREDIT INSURANCE. Seller will remit all proceeds it receives on account of credit insurance on the Loans to Purchaser, and Seller will use its best efforts to assign policies of credit insurance associated with the Loans to Purchaser. Purchaser will remit any insurance premiums paid to it in connection with the Loans to appropriate credit insurance company.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants as follows:

5.1 CORPORATE ORGANIZATION AND AUTHORITY. Seller is a bank duly organized, validly existing and in good standing under the laws of the State of North Carolina and has the requisite power and authority to conduct the business now being conducted at the Branches, to accept and maintain the Assumed Deposits and to own the Assets. Seller is a member of BIF and its Deposits maintained at

the Branches are insured by BIF, subject to applicable FDIC coverage limitations. Seller has the requisite corporate power and authority and has taken all corporate action necessary in order to execute and deliver this Agreement and to consummate the transactions contemplated hereby. This Agreement is a valid and binding agreement of Seller enforceable against Seller in accordance with its terms subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

5.2 NO CONFLICT; LICENSES AND PERMITS; COMPLIANCE WITH LAWS AND REGULATIONS. The execution, delivery and performance of this Agreement by Seller does not, and will not, (i) violate any provision of its charter or by-laws or (ii) subject to the receipt of the Regulatory Approvals, violate or constitute a breach of, or default under, any law, rule, regulation, judgment, decree, ruling or order of any court, government or governmental agency to which Seller is subject or under any agreement or instrument of Seller, or to which Seller is subject or is a party or by which Seller is otherwise bound, or to which any of the Assets, Assumed Deposits, or Assumed Contracts (except for any required consents under Assumed Contracts in respect of the transactions herein contemplated) or the Branches are subject, which violation, breach, contravention or default referred to in this clause would have a Material Adverse Effect, individually or in the aggregate. Seller has all material licenses, franchises, permits, certificates of public convenience, orders and other authorizations of all foreign, federal, state and local governments and governmental authorities necessary for the lawful conduct of its business at the Branches as now conducted and all such licenses, franchises, permits, certificates of public convenience, orders and other authorizations are valid and in good standing and are not subject to any suspension, modification or revocation or proceedings related thereto.

5.3 APPROVALS AND CONSENTS. Except as required to obtain the Regulatory Approvals, no notices, reports or other filings are required to be made, as of the date hereof, by Seller with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained, as of the date hereof, by Seller from, any governmental or regulatory authorities in connection with the execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated hereby.

5.4 TITLE TO ASSETS. Except as set forth in SCHEDULE 5.4, Seller has good and marketable fee title to the Assets, free and clear of all Encumbrances; PROVIDED, HOWEVER, that this representation does not cover the Real Property.

5.5 UTILITIES COMPLETE. To Seller's knowledge, all utility services, including sewer, water, gas and electric power and telephone service, as applicable, are available to the Branches.

5.6 CONDEMNATION PROCEEDINGS. Seller has not received any notice of any condemnation or eminent domain proceedings or negotiations for the purchase of the Real Property in lieu of condemnation, and to Seller's knowledge, no condemnation or eminent domain proceedings or negotiations have been commenced or threatened in connection with the Branches.

5.7 CONTRACTS. Each Assumed Contract constitutes a valid and binding obligation of the Seller and there does not exist, with respect to Seller's obligations thereunder, any material default, or event or condition which constitutes, or after notice or passage of time or both would constitute, a material default on the part of Seller under any Assumed Contract. Each lease relating to Furniture, Fixtures and Equipment used in a Branch is current and all rents, expenses and charges payable by Seller have been paid or accrued in accordance with the terms thereof.

5.8 FIDUCIARY OBLIGATIONS. Other than in respect of IRAs, Seller has no trust or fiduciary relationship or obligations in respect of any of the Assumed Deposits or in respect of any other Assets or Liabilities.

5.9 EMPLOYEES. Seller has complied, and is currently in compliance, in all material respects with applicable law (including, without limitation, the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), rules and regulations relating to the employment of labor, including without limitation those relating to wages, hours, unfair labor practices, employment discrimination and payment of social security and similar taxes with respect to Employees.

5.10 LITIGATION AND LIABILITIES. SCHEDULE 5.10 sets forth each action, suit, proceeding or investigation pending, or to Seller's knowledge, threatened against Seller at law, in equity or otherwise, in, before or by any court or governmental agency or authority, related to the Assets, the Assumed Deposits or the Branches. There is no action, suit, proceeding or investigation pending or, to Seller's knowledge, threatened against Seller at law, in equity or otherwise, in, before, or by any court or governmental agency or authority related to the Assets, the Assumed Deposits or the Branches and which, individually or in the aggregate, could have a Material Adverse Effect.

5.11 REGULATORY MATTERS. There are no pending, or, to the knowledge of Seller, threatened, disputes or controversies between Seller and any federal, state or local governmental authority (i) with respect to the Branches or (ii) that, individually or in the aggregate, reasonably could be expected to have a Material Adverse Effect. Except for the possibility that a Branch purchase may not be approved due to competitive issues relating to deposit concentration in the relevant market, Seller is unaware of any reason why the Regulatory Approvals and, to the extent necessary to consummate the transaction described herein, any other approvals, authorization or filings, registrations and notices cannot be obtained.

5.12 BROKERS' FEES. Except for Trident Securities, Seller has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement.

5.13 COMPLIANCE WITH LAWS. Seller's business at the Branches has been conducted in material compliance with all federal, state and local laws, regulations and ordinances applicable thereto, including without limitation, informational reporting, truth in lending, truth in savings and consumer credit laws and regulations, currency transaction reporting and Environmental Laws, except for any failure to comply that would not, individually or in the aggregate, result in a Material Adverse Effect.

5.14 ABSENCE OF CERTAIN CHANGES, ETC. Except in connection with the transaction contemplated hereby, since December 31, 2002, Seller's business at the Branches has been conducted only in, and there has not been any material transaction other than according to, the ordinary and usual course of such business and (a) there has not been any material adverse change in the condition (financial or otherwise), properties, business or results of operations of the Branches, or any development or combination of developments (other than those related to general economic conditions or conditions generally affecting the industry and/or areas in which the Branches operate) which, individually or in the aggregate, is reasonably likely to result in any such change; PROVIDED THAT, Seller makes no representation or warranty that there will be no material adverse change in the level of Deposits prior to the Closing Date or that there will be any certain level of Deposits on the Closing Date, or (b) except as the parties may otherwise agree in writing, there has not been any material change by Seller in accounting principles, practices or methods that would affect the items reflected in the Closing Statement or the Final Closing Statement, except as may be required by changes in GAAP.

5.15 BOOKS AND RECORDS. Since December 31, 2002, the books, accounts and records of the Branches have been maintained in accordance with safe and sound banking practices and in a manner consistent with past practice, which, as they relate to financial accounting, is in accordance with GAAP.

5.16 LOANS. With respect to each Loan:

(a) Such Loan was solicited and originated in material compliance with all applicable requirements of federal, state, and local laws and regulations in effect at the time of such solicitation and origination; and there was no fraud on the part of the Seller with respect to the origination of any Loan;

(b) To Seller's knowledge, each note evidencing a Loan and any related security instrument (including, without limitation, any guaranty or similar instrument) constitutes a valid and legally binding obligation of the obligor thereunder enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfers, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(c) The collateral for each secured Loan is (i) the collateral described in the related Loan Documents and (ii) subject to a valid, enforceable and perfected lien with the priority reflected in the Loan Documents;

(d) Such Loan was made substantially in accordance with Seller's standard underwriting and documentation guidelines, which are generally consistent with prudent and customary industry standards, as in effect at the time of its origination and has been administered substantially in accordance with the Loan Documents and Seller's standard loan servicing procedures, which are generally consistent with prudent and customary industry standards, as in effect from time to time;

(e) Except as set forth in SCHEDULE 5.16(E), immediately prior to the Closing the Seller will be the sole owner of each Loan, free and clear of any Encumbrance.

5.17 NO OTHER REPRESENTATIONS OR WARRANTIES. Except for the representations and warranties expressly contained in this Agreement, none of the Seller, any Affiliate of Seller or any other person has made or makes any other express or implied representation or warranty, either written or oral, on behalf of the Seller.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants as follows:

6.1 CORPORATE ORGANIZATION AND AUTHORITY. Purchaser is a bank duly organized, validly existing and in good standing under the laws of the State of North Carolina. Purchaser has the requisite corporate power and authority and has taken all corporate action necessary in order to execute and deliver this Agreement, to consummate the transactions contemplated hereby, to accept and maintain the Assumed Deposits, to own the Assets and to operate the Branches.

This Agreement is a valid and binding agreement of Purchaser enforceable against Purchaser in accordance with its terms subject, as to enforcement, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles. Purchaser is a member of BIF and its deposits are insured by the FDIC, subject to applicable FDIC coverage limitations.

6.2 NO CONFLICT; LICENSES AND PERMITS; COMPLIANCE WITH LAWS AND REGULATIONS. The execution, delivery and performance of this Agreement by Purchaser does not, and will not, violate any provision of its charter or by-laws or, subject to the receipt of the Regulatory Approvals, violate or constitute a breach or contravention of or default under any law, rule, regulation, order, judgment, decree or filing of any government, governmental authority or court to which Purchaser is subject or under any agreement or instrument of Purchaser, or by which Purchaser is otherwise bound, which violation, breach, contravention or default, individually or in the aggregate, (i) could be expected to result in a Material Adverse Effect or (ii) could impair the validity or consummation of this Agreement or the transactions contemplated hereby. On the Closing Date Purchaser shall have all material licenses, franchises, permits, certificates of public convenience, orders and other authorizations of all foreign, federal, state and local governments and governmental authorities necessary for the lawful conduct of its business at the Branches and all such licenses, franchises, permits, certificates of public convenience, orders and other authorizations will be valid and in good standing and not subject to any suspension, modification or revocation or proceedings related thereto.

6.3 APPROVALS AND CONSENTS. Except as required to obtain the Regulatory Approvals, no notices, reports or other filing are required to be made by Purchaser with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by Purchaser from, any governmental or regulatory authorities in connection with the execution and delivery of this Agreement by Purchaser and the consummation of the transactions contemplated hereby by Purchaser.

6.4 BROKERS' FEES. Purchaser has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement.

6.5 REGULATORY MATTERS.

(a) There are no pending, or, to the knowledge of Purchaser, threatened, disputes or controversies between Purchaser or any of its Affiliates and any federal, state or local governmental authority that, individually or in the aggregate, reasonably could be expected to have a Material Adverse Effect. Except for the possibility that a Branch purchase may not be approved due to competitive issues relating to deposit concentration in the relevant market, Purchaser is unaware of any reason why the Regulatory Approvals and, to the extent necessary to consummate the transaction described herein, any other approvals, authorization or filings, registrations and notices cannot be obtained.

(b) Purchaser has at least a "satisfactory" rating under the Community Reinvestment Act of 1977, and is (and on a pro forma basis giving effect to the transaction contemplated by this Agreement will be) at least "adequately capitalized," as defined for purposes of the Federal Deposit Insurance Act.

(c) Purchaser is not a party to any written order, decree, agreement or memorandum of understanding with, or commitment letter or similar submission to, any federal or state governmental agency or authority charged with the supervision or regulation of depository institutions or engaged in the insurance of deposits nor has Purchaser been advised by any such regulatory authority that such authority is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, commitment letter or submission, in each case which order, decree, agreement, memorandum of understanding, commitment letter or submission (i) could reasonably be expected to result in a Material Adverse Effect or (ii) could impair the validity or consummation of this Agreement or the transactions contemplated hereby.

6.6 FINANCING AVAILABLE. Not later than the Closing Date, Purchaser will have available sufficient cash or other liquid assets or financing pursuant to binding agreements or commitments which may be used to fund the transactions contemplated by this Agreement; and Purchaser's ability to consummate the transactions contemplated by this Agreement is not contingent on raising any equity capital, obtaining specific financing, consent of any lender or any other matter.

6.7 LITIGATION AND UNDISCLOSED LIABILITIES. There are no actions, suits or proceedings pending or, to Purchaser's knowledge, threatened against Purchaser, or obligations or liabilities (whether or not accrued, contingent or otherwise) or facts or circumstances that could reasonably be expected to result in any claims against or obligations or liabilities of Purchaser that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

6.8 NO OTHER REPRESENTATIONS OR WARRANTIES. Except for the representations and warranties expressly contained in this Agreement, none of the Purchaser, any Affiliate of Purchaser or any other person has made or makes any other express or implied representation or warranty, either written or oral, on behalf of the Purchaser.

ARTICLE 7

COVENANTS OF THE PARTIES

7.1 ACTIVITY IN THE ORDINARY COURSE.

(a) From the date hereof to and including the Closing Date, Seller shall conduct the business of the Branches in the ordinary and usual course consistent with past practices and standards, and Seller shall not, without the prior written consent of Purchaser:

(i) Permit the Branches to engage or participate in any material transaction or incur or sustain any material obligation except in the ordinary course of Branch business;

(ii) Offer interest rates or terms on any category of Deposits or loans at the Branches which are not determined in a manner consistent with past practice and procedure and which, in any event, are materially either over or under what would be considered market rates (i.e., rates generally offered by similarly situated banks in the municipalities and immediately surrounding areas of the branches) at the time of the offer;

(iii) Except as expressly contemplated herein, transfer to or from the Branches to or from any of Seller's other operations or branches any Assets or Deposits, except upon the unsolicited request of a depositor or customer in the ordinary course of business or if such deposit is pledged as security for a loan or similar obligation that is not an Asset;

(iv) Except in the ordinary course of business, sell, transfer, assign, encumber or otherwise dispose of or enter into any contract, agreement or understanding to sell, transfer, assign, encumber or dispose of any Asset;

(v) Make or agree to make any material improvements to the Branches or the Real Property except with respect to commitments for such made on or before the date of this Agreement and disclosed on SCHEDULE 7.1 or normal maintenance purchased or made in the ordinary course of business;

(vi) Terminate the operations of the Branches or file any application to relocate or close the Branches;

(vii) Enter into any commitment, agreement, understanding or other arrangements to transfer, assign, encumber or otherwise dispose of the Branches, except in a manner consistent with Seller's obligations under this Agreement; or

(viii) except for those employees of the Branches listed on SCHEDULE 1.2, transfer any employee employed at one of the Branches to any other branch of Seller, nor will Seller permit any employee of one of the Branches to post for positions outside such Branch, nor will Seller grant any increase in the salary or wages of any of the employees of the Branches other than normal increases at times and amounts consistent with Seller's past practices.

(b) Between the date of this Agreement and the Closing Date, neither Seller nor Purchaser shall, and each shall cause its respective officers, directors, agents and employees not to, take any action that is intended to induce, or is reasonably likely to induce, the transfer of banking business from the Branches; PROVIDED, HOWEVER, that nothing in this paragraph shall limit the right of either party to advertise or market its products in the ordinary course of business.

(c) From the date hereof until twelve (12) months after (i) the Closing Date or (ii) the date of termination of this Agreement, whichever is applicable (the "Non-Solicitation Period"), Seller agrees that it will not solicit any individual that Seller knows is an employee of Purchaser who is employed in a Branch or whose place of employment is within the traditional and primary market area of a Branch. Likewise, except as explicitly contemplated hereby with respect to the Transferred Employees, Purchaser agrees that during the Non-Solicitation Period, Purchaser will not solicit for employment any individual that Purchaser knows is an employee of Seller in a Branch or whose place of employment is within the traditional and primary market area of a Branch. The parties agree, however, that general recruiting advertisements not targeted specifically at the other's employees shall not be considered a solicitation under this Section 7.1(c). Seller also agrees that for a period of twenty-four (24) months after the Closing Date (or if more than one, the first) it will not open or otherwise operate either directly or through a subsidiary a branch banking facility in the municipal limits of any of the cities or towns in which any of the Branches are now located, or within a distance of five (5) miles of each of such municipal limits ("Restricted Area"), PROVIDED, HOWEVER, if Seller, or any of its subsidiaries or affiliates, merges with or into or acquires or is acquired by another bank or financial institution that operates or maintains either directly or indirectly a branch banking facility or facilities in the Restricted Area, the continued operation or maintaining of that branch or those branches by Seller or any other person shall not constitute a breach by Seller or any other person of Seller's agreement as set forth in this part of Section 7.1(c).

7.2 ACCESS AND CONFIDENTIALITY.

(a) Between the date of this Agreement and the Closing Date, Seller shall afford to Purchaser and its officers, employees, agents and representatives full access to the properties, books, records, contracts, documents, files (including Loan files) and other information of or relating to

the Branches, the Assets, the Assumed Contracts and the Assumed Deposits upon reasonable advance notice during normal business hours; PROVIDED, HOWEVER, that any inspection shall be conducted in a manner that does not unreasonably interfere with Seller's normal business operations or its relations with its customers. Seller shall cause its personnel to be reasonably available during normal business hours, to an extent not disruptive of ongoing operations, to provide information and assistance in connection with Purchaser's investigation of matters relating to the Branches, the Assets, the Assumed Contracts and the Assumed Deposits and to familiarize Purchaser with basic policies and operational procedures of Seller relating to the Branches. Seller shall furnish Purchaser with such additional financial and operating data and other information about its business operations at the Branches as may be reasonably necessary for the orderly transfer of the business operations of the Branches.

(b) Subject to Section 12.4 hereof, each party to this Agreement shall hold, and shall cause its respective directors, officers, employees, agents, consultants and advisors to hold, in strict confidence (unless disclosure to a bank regulatory authority is necessary in connection with any Regulatory Approval or unless compelled to disclose by judicial or administrative process or, in the written opinion of its counsel, by other requirements of law or the applicable requirements of any regulatory agency or relevant stock exchange) all discussions and information related to the Branches (or, if required under a contract with a third party, concerning such third party) and, with respect to Purchaser, all non-public records, books, contracts, instruments, computer data, system requirements and other data and information (collectively, "INFORMATION") furnished to it by Seller or Seller's representatives pursuant to this Agreement (except to the extent that such Information can be shown to have been (i) previously known by such party on a non-confidential basis, (ii) in the public domain through no fault of such party or (iii) later lawfully acquired from other sources by the party to which it was furnished and such other source is not subject to a confidentiality restriction with regard to such Information), and neither party shall release or disclose such Information to any other person, except, upon the same conditions of confidentiality, its auditors, attorneys, financial advisors, bankers, other consultants and advisors and, to the extent permitted above, bank regulatory authorities.

(c) This Section shall not prohibit disclosure of Information required by applicable law to be disclosed, but such additional disclosure shall be limited to that actually required by law, and the party making disclosure shall give the other party as much notice as is practicable of such obligation (except where prohibited by applicable law) so that the other party may seek a protective order or other similar or appropriate relief, and also shall undertake in good faith to have the Information disclosed treated confidentially by the party to whom the disclosure is made.

(d) Notwithstanding any other express or implied agreement, arrangement or understanding to the contrary, Purchaser and Seller may disclose to any third party (i) the tax treatment and tax structure of this Agreement; (ii) any fact that may be relevant to understanding the tax treatment and the tax structure of this Agreement; and (iii) any materials that are provided to Purchaser and/or Seller relating to the tax treatment and tax structure of this Agreement. Purchaser and Seller may, however, keep confidential any information relating to the tax treatment and tax structure of this Agreement to the extent required to be kept confidential to comply with applicable federal and state securities laws.

7.3 REGULATORY APPROVALS. As soon as practicable after the date of this Agreement and no later than five (5) Business Days after the date of this Agreement, Purchaser shall prepare and file any applications to federal or state regulatory authorities for approvals necessary, including all Regulatory Approvals, to consummate the transactions contemplated by this Agreement. Seller shall cooperate fully and promptly with Purchaser in connection with Purchaser's applications, and will prepare and file any such applications required by regulatory authorities to be filed by Seller. Purchaser shall use its reasonable

best efforts to obtain each such approval as promptly as practicable, and Purchaser and Seller will cooperate in connection therewith and provide the other with copies of any applications relating thereto prior to filing, other than material filed in connection therewith under a claim of confidentiality.

7.4 ASSUMED CONTRACTS.

(a) Seller agrees to provide to Purchaser as soon as reasonably possible, but no later than thirty (30) calendar days after the date hereof, a conformed copy of all potential Assumed Contracts, to be in effect as of the Closing Date. Within ten (10) calendar days thereafter, Purchaser shall notify Seller of all such contracts that are to be Assumed Contracts. Purchaser shall have no obligation or liability to any person under any contract that is not an Assumed Contract.

(b) Seller shall use reasonable efforts (such efforts not to include making payments to third parties), and Purchaser shall cooperate to, obtain from any parties to any Assumed Contracts any required consents to the assignment of the Assumed Contracts to Purchaser, under the existing terms and conditions contained in the Assumed Contracts on the Closing Date; PROVIDED, HOWEVER, that Seller shall not obtain any consent that imposes a condition, commitment or requirement that would, after consultation with Purchaser and in Purchaser's reasonable judgment, adversely affect the operations of the Branches. Any such Assumed Contract for which consent has not been obtained as of the Closing Date shall not be an Assumed Contract and the Seller shall have no obligation to continue attempting to obtain such consent. For any contract for which a required consent is not obtained and satisfactory alternatives are not available, Purchaser shall have the right to terminate this Agreement if the Purchaser reasonably believes such contract is material to the operations of the Branches.

7.5 DELIVERY OF RECORDS AT CLOSING. At or prior to the Closing, Purchaser shall pick up from Seller at Seller's Operations Center in Rocky Mount, North Carolina all Delivery Records as well as all the data which is reasonably necessary for the conversion of the Assumed Deposits to Purchaser's data processing system; provided, however, that Seller and Purchaser each shall pay for their own expenses incurred in the conversion.

7.6 FURTHER ASSURANCES. Purchaser and Seller agree to use all reasonable efforts to satisfy or cause to be satisfied as soon as practicable their respective obligations hereunder and the conditions precedent to the Closing. Each of Seller and Purchaser will execute, acknowledge and deliver such instruments and take such other actions as the other party may reasonably require in order to carry out the intent of this Agreement. Seller will duly execute and deliver such assignments, bills of sale, deeds, acknowledgment and other instruments of conveyance and transfer as shall at any time be necessary or appropriate to vest in Purchaser the full legal and equitable title to the Assets being sold hereunder, free and clear of all Encumbrances, except as set forth on SCHEDULE 5.4. For a reasonable period of time after the Closing Date, each party will promptly deliver to the other all mail and other communications which are properly addressable or deliverable to the other as a consequence of the transactions pursuant to this Agreement; and without limitation of the foregoing, on and after the Closing Date, Seller shall promptly forward any mail, communications or other material relating to the Assumed Deposits or the Assets, to such employees of Purchaser at such addresses as may from time to time be specified by Purchaser in writing.

7.7 INSURANCE; RISK OF LOSS. Seller shall maintain the Assets in customary repair, order, and condition, reasonable wear and tear and damage by fire or other unavoidable casualty excepted. Until the effectiveness of the Closing, Seller shall maintain insurance on the Assets consistent with its historical practices and all risk of loss shall be on the Seller. Seller shall remain in substantial compliance with any obligations it has under the Assumed Contracts or otherwise relating to maintenance of and insurance upon the Assets. As of the Closing, Seller shall discontinue its insurance coverage maintained in connection with the Assets and risk of loss thereafter shall be on the Purchaser.

7.8 NOTICES OF DEFAULT. Seller and Purchaser shall each promptly give written notice to the other upon becoming aware of the impending or threatened occurrence of any event which could reasonably be expected to cause or constitute a breach of any of their respective representations, warranties, covenants or agreements contained in this Agreement.

7.9 NEW ACCOUNT NUMBERS AND CHECKS. Purchaser agrees, at its cost and expense, (1) to assign new account numbers to depositors of Assumed Deposits, (2) to notify such depositors, on or before the Closing Date, in a form and on a date reasonably and mutually acceptable to Seller and Purchaser, of Purchaser's assumption of the Deposit, and (3) to furnish such depositors with checks on the forms of Purchaser and with instructions to utilize Purchaser's checks and to destroy unused check, draft and withdrawal order forms of Seller. Purchaser shall not provide checks to depositors more than ten (10) calendar days prior to the Closing Date. If Purchaser so elects, Purchaser may offer to buy from such depositors their unused Seller check, draft and withdrawal order forms. In addition, Seller will notify its affected customers by letter of the pending assignment of Assumed Deposits to Purchaser, which notice shall be at Seller's cost and expense and shall be in a form and mailed at a time reasonably and mutually agreeable to Seller and Purchaser.

7.10 SETTLEMENT OPERATIONS AFTER CLOSING. Seller and Purchaser hereby agree that, except as provided below, for a period of ninety (90) calendar days after the Closing Date, or such shorter period as agreed to in writing by the parties, or, only with the prior written consent of Seller, for such longer period as Purchaser may reasonably determine to be necessary:

(a) Seller agrees that it will transfer, convey, and assign to Purchaser all deposits received by Seller after the Closing for credit to any of the Assumed Deposit accounts, and all payments received by Seller after the Closing for application to or on account of any of the Assets.

(b) Seller agrees to notify Purchaser of the return to it of any items deposited in, or cashed at, the Branches prior to the Closing Date and shall expeditiously forward any such items to Purchaser. If Purchaser cannot recover on such returned items after making a good faith effort to do so, Seller shall reimburse Purchaser for such return items upon assignment of such items by Purchaser to Seller. Purchaser's good faith effort shall include collection efforts consistent with Purchaser's existing collection policies in effect from time to time but shall not include institution of any legal action with respect to such recovery.

(c) To the extent permitted by law and the applicable Deposit contracts, Purchaser agrees that it will honor all properly payable checks, drafts, withdrawal orders and similar items drawn on Seller's forms against Assumed Deposits which are presented to Purchaser by mail, over its counters, or through clearing houses.

(d) Provided that such items have been timely delivered to Purchaser by Seller, Purchaser shall pay the items referred to in Section 7.10(c). Seller shall make such checks and drafts available for pickup by Purchaser at EDS's Charlotte Item Processing Center no later than 10:00 a.m. on the Business Day following the day they were processed by Seller. Purchaser shall promptly reimburse Seller on a daily basis for the amount of all such checks and drafts paid by Seller. Seller shall be under no obligation with respect to any such checks or drafts after their delivery, including late returns, if the items are made available to Purchaser in the agreed upon manner. Purchaser shall not return any such checks or drafts to Seller, but shall handle any returns directly with the depository bank or other parties in the clearing process.

(e) As of the Closing Date, Purchaser, at its expense, will notify all Automated Clearing House ("ACH") originators of the transfers and assumptions

made pursuant to the Agreement; provided, however, that Seller may, at its option, notify all such originators itself (on behalf of Purchaser). For a period of one hundred twenty (120) calendar days beginning on the Closing Date, Seller will honor all ACH items related to accounts assumed under this Agreement which are mistakenly routed or presented to Seller. Seller will make no charge to Purchaser for honoring such items, and will electronically transmit such ACH data to Purchaser on a daily basis. If Purchaser cannot receive an electronic transmission, Seller will make available daily to Purchaser at Seller's operations Center receiving items from the Automated Clearing House tapes containing such ACH data. Any ACH items presented to Purchaser by Seller which are not posted by the Purchaser shall be the responsibility of the Purchaser to return through its normal ACH return process. Items mistakenly routed or presented after the one hundred twenty (120) calendar day period should be returned to the presenting party. Seller and Purchaser shall make arrangements to provide for the daily settlement with immediately available funds by Purchaser of any ACH items honored by Seller, and Seller shall be held harmless and indemnified by Purchaser for acting in accordance with this arrangement to accept ACH items. Seller agrees to settle any and all ATM transactions effected on or before the Closing Date, but processed after the Closing Date, as soon as practicable. Purchaser and Seller agree to remit the total net balance of such transactions to Seller or Purchaser, as the case may be, on the same date the transactions are settled. In instances where a depositor of a Deposit made an assertion of error regarding an account constituting an Assumed Deposit pursuant to the Electronic Funds Transfer Act and Federal Reserve Board Regulation E, and Seller, prior to the Closing, recredited the disputed amount to the relevant account during the conduct of the error investigation, Purchaser agrees to comply with a written request from Seller to debit such account in a stated amount and remit such amount to Seller, to the extent of the balance of funds available in the accounts.

(f) Seller shall provide Purchaser with a listing of each stop payment order (but not the orders themselves) in effect as to a Deposit or Loan on the Closing Date. Purchaser shall honor all stop payment orders relating to the Deposits or the Loans initiated prior to the Closing and reflected in the magnetic tape made available by Seller to Purchaser on the Closing Date. In the event that Purchaser shall make any payment in violation of a stop payment order initiated prior to the Closing but not reflected in stop payment documents and the magnetic tape made available by Seller to Purchaser prior to such payment, then Seller shall indemnify, hold harmless and defend Purchaser from and against all claims, losses and liabilities, including reasonable attorneys' fees and expenses, arising out of any such payment. In the event that Purchaser shall make any payment in violation of a stop payment order initiated prior to the Closing that is reflected in stop payment documents and the magnetic tape made available by Seller to Purchaser prior to such payment, then Purchaser shall indemnify, hold harmless and defend Seller from and against all claims, losses and liabilities, including reasonable attorneys' fees and expenses, arising out of any such payment.

(g) After the Closing Date, Purchaser hereby agrees to accept, assume and process any and all "charge-back items" received subsequent to the Closing Date but arising prior thereto against MasterCard and/or Visa debit card Assumed Deposit accounts, as covered under Visa charge-back regulations. "Charge-back items" shall include, but not be limited to, disputed items, purchases over limit, fraudulent use of card, late presentations of sales slips, unrepresented credit on sales returns and other adjustments as specified under the rules and regulations of MasterCard and/or Visa. If Purchaser cannot recover on any such charge-back items after making a good faith effort to do so, Seller shall reimburse Purchaser for such items upon assignment of such items by Purchaser to Seller. Purchaser's good faith effort to recover on any such items shall not require that Purchaser take any legal action against any person.

(h) All overdrawn Deposit accounts will be assigned to Purchaser at Closing and the Overdrafts represented thereby will be included in the Assets purchased by the Purchaser at Closing. Purchaser will use good faith efforts

consistent with its normal collection practices to collect the Overdrafts; Purchaser's good faith efforts to collect Overdrafts shall not require, however, that it institute any legal action against any person. Seller will reimburse Purchaser for any Overdrafts deemed uncollectable by Purchaser following such good faith collection efforts and an assignment of the rights to pursue such Overdrafts to Seller. Seller agrees that, following the date of this Agreement, Seller will not alter or change any business practice at the Branches related to overdrawn Deposit accounts.

(i) Purchaser and Seller agree that all amounts required to be remitted by either such party to the other party hereto pursuant to this Section shall be settled on a daily basis. Any amounts to be paid by Seller to Purchaser shall be netted daily against any amounts to be paid by Purchaser to Seller, such that only one amount, representing the net amount due, shall be transferred on a daily basis by the party with the higher amount of remittances for such day in immediately available funds. Seller shall provide Purchaser with a daily net settlement figure for all such transactions from the immediately preceding Business Day by 12:00 noon Eastern Time on each Business Day and the party obligated to remit any funds thereunder shall do so in immediately available funds by wire transfer by 2:00 p.m. Eastern Time on such day or by any other method of payment agreed upon by the parties; any such settlement shall be provisional pending receipt or review by the parties of the physical items relating to such settlement; the next daily settlement to reflect any adjustments resulting from a parties receipt and examination of the physical items.

7.11 COVENANT OF SELLER NOT TO SOLICIT. Seller hereby agrees that for a period of one year from the Closing Date, Seller shall not specifically target and solicit customers of the Branches whose Deposits or Loans are being assumed or purchased by Purchaser; provided, however, that nothing in this Section 7.11 shall (i) restrict general mass mailings, telemarketing calls, statement stuffers, advertisements or other similar communications whether in print, on radio, television, the Internet, or by other means that are directed to the general public or to a group of customers who may include customers of the Branches, provided that such group is defined by criteria other than primarily as customers of the Branches or customers who reside in the traditional and primary market area of the Branches, (ii) otherwise prevent Seller from taking such actions as may be required to comply with applicable federal or state laws, rules or regulations or from servicing or communicating with the then-current customers of Seller, including customers of Seller with whom Seller maintains account relationships either centrally or at other branches.

7.12 REAL PROPERTY MATTERS.

(a) Seller agrees to deliver to Purchaser, as soon as reasonably possible after the execution of this Agreement, not to exceed ten (10) Business Days from the date of this Agreement, copies of all (i) title information in possession of Seller, including, but not limited to, title insurance policies, attorneys' opinions on title, surveys, covenants, deeds, notes and mortgages and easements relating to the Real Property, and (ii) reports, surveys, notices, correspondence or other information known to Seller and reasonably retrievable by Seller, or in Seller's possession, which relate to the environmental condition of the Real Property or existing or potential violations of laws or regulations relating to the environment. Such delivery shall constitute no warranty by Seller as to the accuracy or completeness thereof or that Purchaser is entitled to rely thereon.

(b) At its option and expense, Purchaser may cause to be conducted within forty-five (45) calendar days after the date of this Agreement (the "Study Period") (i) a title examination, physical survey, zoning compliance review, and structural inspection of the Real Property and Improvements thereon (the "Property Examination") and (ii) site inspections, regulatory analyses, and Phase 1 environmental assessments of the Real Property, together with such other studies and analyses as Purchaser shall deem necessary or desirable (collectively, the "Environmental Survey"); provided, however, that, without the

prior written consent of Seller, Purchaser shall not conduct any soil, surface water or ground water sampling ("Intrusive Testing").

(c) If in the course of the Property Examination or Environmental Survey Purchaser discovers a "Material Defect" (as defined in Subsection (d) below) with respect to the Real Property, Purchaser will give prompt written notice thereof to Seller (but in any event prior to 5:00 p.m. on the last day of the Study Period) describing the facts or conditions constituting the Material Defect and the measures which Purchaser reasonably believes are necessary to correct such Material Defect. If Purchaser fails to give such written notice of a Material Defect to Seller within the Study Period, Purchaser shall be deemed to have waived the right to assert the existence of any Material Defect for which notice was not so provided. If Purchaser provides Seller with written notice of a Material Defect within the Study Period, Seller and Purchaser shall promptly discuss and seek to reach agreement as to an acceptable cure or other resolution of the asserted Material Defect. Seller shall respond to Purchaser's notice before 5:00 p.m. on the twentieth (20th) Business Day after its receipt advising Purchaser whether Seller elects to cure the Material Defect. Absent such a response, Seller shall be deemed to have declined to cure such Material Defect. If Seller elects to cure, then Seller shall proceed with such cure and shall complete such cure within forty-five (45) calendar days thereafter or such additional period as shall be agreed upon by Seller and Purchaser, provided that completion of the cure shall be a condition to Purchaser's obligation to close.

If Seller elects not to cure or is not able to cure any Material Defect with respect to the Real Property and Purchaser and Seller are otherwise unable to agree on how the Material Defect will be addressed in order to effect Closing on the Real Property, or if Seller does not consent to any Intrusive Testing reasonably proposed by Purchaser, then Purchaser shall have the option exercisable upon written notice to Seller delivered at least ten (10) Business Days prior to the Closing to (i) waive the Material Defect; or (ii) purchase the Assets (other than the Real Property) and assume the Deposits associated with the affected Branch, but lease such Real Property "as is" without any representation or warranty or any liability for existing environmental damage, maintenance, taxes or insurance for a period of up to twelve (12) months, on a month-by-month basis, at a reasonable cost and with reasonable terms to be agreed upon by Seller and Purchaser, in order to allow for relocation of the business of such Branch to another facility.

(d) For purposes of this Agreement, a "Material Defect" with regard to the Property Examination shall include:

(i) the existence of any lien (other than the lien of real property taxes not yet due and payable), encumbrance, easement, covenant, or other restriction, title imperfection or title irregularity, or the existence of any facts or condition that constitutes a breach of Seller's representations and warranties contained in Section 5.4 and 5.6 above, in any such case that Purchaser reasonably believes will materially affect its use of the Real Property for the purpose of the operation of a branch bank or materially affects the value or marketability of the Real Property;

(ii) the encroachment by an improvement on the Real Property onto other property or onto any easement, a violation of any setback requirement, the encroachment of an improvement on any other property onto the Real Property, or the existence of a zoning restriction that does not permit use of the Real Property as a branch banking facility without grandfathering or variance and without site plan review or the construction of any additional improvements; or

(iii) the existence of any structural defect or state of disrepair in the improvements on the Real Property (including any equipment, fixtures or other components related thereto) that Purchaser reasonably believes would cost at least \$20,000.00 with respect to any one Branch.

For purposes of this Section 7.12, a "Material Defect" with regard to the Environmental Survey shall include the existence of facts or circumstances relating to the Branch demonstrating that any action, including the discharge, disposal, release, or emission by any person of any "Hazardous Material" (as defined below) detected in, on or under the Real Property in a concentration that violates any applicable Environmental Law (as defined below), has been taken or not taken or a condition or event likely has occurred or exists, with respect to the Real Property, which constitutes or would constitute a material violation of any Environmental Law as to which Purchaser reasonably believes, based on the advice of legal counsel or other consultants, that Purchaser could become responsible or liable for assessment, removal, remediation, monetary damages, or civil, criminal or administrative penalties or other corrective action and in connection with which the amount of expense or liability which it could incur or for which it could become responsible or liable following consummation of the transactions contemplated by this Agreement at any time or over any period of time could equal or exceed \$20,000 with respect to any one Branch.

(e) For purposes of this Agreement, "Environmental Laws" shall include all federal, state, and local statutes, regulations, ordinances, orders, decrees, and similar provisions having the force or effect of law relating to or imposing liability, responsibility, or standards of conduct applicable to environmental, health, or safety conditions and/or releases of Hazardous Materials affecting the Real Property, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act; the Superfund Amendment and Reauthorization Act; the federal Insecticide, Fungicide and Rodenticide Act; the Hazardous Materials Transportation Act; the Resource Conservation and Recovery Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Oil Pollution Act; the Coastal Zone Management Act; the North Carolina Oil Pollution and Hazardous Substances Control Act; the North Carolina Solid Waste Management Act; and the North Carolina Water and Air Resources Act; including any amendments thereto from time to time.

(f) For purposes of this Agreement, "Hazardous Material" means any materials, substances, wastes, chemical substances, or mixtures presently listed, defined, designated, or classified as hazardous, toxic, or dangerous, or otherwise regulated, under any Environmental Law, whether by type or quantity, including, but not limited to, any pesticides, pollutants, contaminants, toxic chemicals, oil or other petroleum products or byproducts, asbestos or materials containing asbestos, polychlorinated biphenyls, urea formaldehyde foam insulation, lead or lead-containing paint, radon, or radioactive material.

7.13 DEFECTS IN ASSETS. Purchaser will be given the opportunity to conduct such other investigations and inspections of the other Assets to be transferred, including but not limited to the Furniture, Fixtures and Equipment, Prepaid Expenses, Assumed Contracts, and Records, as Purchaser may reasonably deem appropriate; provided, however, that Purchaser must conduct any such review within forty-five (45) calendar days from the date of this Agreement or, in the case of items that become Assets after such review, within a reasonable time following identification of such Assets and before the Closing. If Purchaser reasonably determines in good faith that any such Asset is unsuitable for Purchaser's use or of materially less value than its net book value, Purchaser shall have no obligation to accept, assume, or pay for such Assets and such Assets shall be excluded from the Assets and the Closing Statement or the Final Closing Statement shall be adjusted accordingly.

ARTICLE 8

TAX AND EMPLOYEE MATTERS

8.1 TAX REPRESENTATIONS. Seller represents and warrants to Purchaser as follows:

(a) With respect to the Assumed Deposits, Seller is in material compliance with the law and IRS regulations relative to (i) obtaining from depositors of the Assumed Deposits executed IRS Forms W-8 and W-9 and (ii) reporting of interest.

(b) There are no liens for Taxes allocated to or imposed on Seller on any of the Assets and to the knowledge of Sellers there is no basis for the assertion of any such liens, other than normal and recurring ad valorem tax liens and sales and use taxes on assets being sold.

(c) Seller has paid when due Taxes in respect of the Assets.

(d) No tax is required to be withheld by Purchaser from the Purchase Price or Settlement Payment as a result of the transfers contemplated by this Agreement pursuant to the Code or any other provision of federal, state or local Tax law.

8.2 ALLOCATION BETWEEN PRE AND POST CLOSING PERIODS. Whenever it is necessary under this Agreement to allocate Taxes (including a liability for Taxes or prepaid Tax) between periods prior to and after the Closing Date (or determine the amount of prepaid Taxes) such Taxes shall be apportioned by assuming that the Branches had a taxable year or period which ended at the close of the Closing Date, except that any property Taxes or exemptions, allowances or deductions that are calculated on an annual basis shall be apportioned based on time. Appropriate payments shall be made between the Purchaser and the Seller whenever necessary to effectuate the proper allocation of any Tax liability or prepaid Tax under this Agreement.

8.3 TRANSFER TAXES. Notwithstanding anything herein to the contrary, all excise, sales, use, transfer, documentary, stamp or similar Taxes that are payable or that arise as a result of the consummation of the transactions contemplated by this Agreement will be borne by Seller and any recording or filing fees with respect thereto will be borne by the Purchaser.

8.4 ASSISTANCE AND COOPERATION. After the Closing Date, each of Seller and Purchaser shall:

(a) Assist the other party in preparing any Tax Returns which such other party is responsible for preparing and filing in accordance with this Article 8;

(b) Cooperate fully in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns with respect to the Assets or income therefrom, the Liabilities or payments in respect thereof, or the operation of the Branches;

(c) Make available to the other and to any taxing authority as reasonably requested all relevant information, records, and documents relating to Taxes with respect to the Assets or income therefrom, the Liabilities or payments in respect thereof, or the operation of the Branches;

(d) Provide timely notice to the other in writing of any pending or proposed tax audits (with copies of all relevant correspondence received from any taxing authority in connection with any Tax audit or information request) or

assessments with respect to the Assets or the income therefrom, the Liabilities or payments in respect thereof, or the operation of the Branches for taxable periods for which the other may have a liability under this Article 8;

(e) Furnish the other with copies of all relevant correspondence received from any taxing authority in connection with any tax audit or information request with respect to any taxable period referred to in subsection (d) above; and

(f) The party requesting assistance or cooperation shall bear the other party's out-of-pocket expenses in complying with such request to the extent that those expenses are attributable to fees and other costs of unaffiliated third-party service providers; provided, that such other party shall obtain a quotation from any such third-party service providers prior to engagement and obtain approval thereof from the party requesting assistance.

8.5 NOTICES, ETC. Without limiting the provisions of Section 8.4, the notification and contest provisions of Section 11.1 shall apply to claims for indemnification under Sections 8.1 through 8.3; PROVIDED, HOWEVER, that notice of claim for indemnification pursuant to Sections 8.1 through 8.3 shall be given prior to the expiration of the applicable statute of limitations (as extended) for the assertion of the claims for taxes by the relevant tax authority. The representations of Section 8.1 shall similarly survive until the expiration of the relevant limitations period for the assertion of claims by the relevant tax authority.

8.6 EMPLOYEES AND EMPLOYEE BENEFITS.

(a) Purchaser shall offer employment, within a reasonable commuting distance from the Branch to which each Applicable Employee is assigned, in positions requiring comparable skills and abilities (with no reduction in base salary or weekly or hourly rate of pay) to all Applicable Employees (as defined below). Such offer shall be effective on the Closing Date in the case of an Applicable Employee actively employed at the Closing, or upon the return of any such Applicable Employee to active employment in the case of any other Applicable Employee. For purposes of this Agreement, "APPLICABLE EMPLOYEES" means (i) all active Employees on the Closing Date, including Employees on temporary leave for purposes of jury or annual two-week national service/military duty, Employees on vacation and Employees on a regularly scheduled day off from work, and (ii) Employees who on the Closing Date are on maternity or paternity leave, educational leave, military leave with veteran's reemployment rights under federal law, leave under the Family Medical Leave Act of 1993, approved personal leave, short-term disability leave or medical leave, PROVIDED, HOWEVER, that no such Employee shall be guaranteed reinstatement to active employment if he is incapable of working in accordance with the policies, practices and procedures of the Purchaser or if his return to employment is contrary to the terms of his leave; and FURTHER PROVIDED, HOWEVER that Purchaser shall not be required to offer employment to any Applicable Employee whose employment would not be permitted under applicable law and regulation. Each Applicable Employee who accepts Purchaser's offer of employment shall be a "TRANSFERRED EMPLOYEE" for purposes of this Agreement effective upon the later of the Closing Date or the return of such Applicable Employee to active employment. A Transferred Employee's employment with Purchaser shall be on an "at-will" basis, and nothing in this Agreement shall be deemed to constitute an employment agreement with any such person or to obligate Purchaser to employ any such person for any specific period of time or in any specific position or to restrict Purchaser's right to terminate the employment of any such person at any time and for any reason satisfactory to it.

(b) With respect to each Applicable Employee who declines Purchaser's offer of employment, Seller shall be responsible for all severance costs associated with terminating the employment of such employee in accordance with the Seller's severance policies and practices. Purchaser will provide to any

Transferred Employee who it terminates without cause at any time within one year following the Closing Date, severance pay in an amount equal to the product of (i) an amount equal to the salary at termination of such Terminated Employee for ten (10) working days and (ii) the Terminated Employee's cumulative years of service with Seller and Purchaser. Purchaser's determination of the presence or absence of cause under this Section 8.6(b) shall be conclusive absent bad faith, and its calculations of severance pay shall be conclusive absent manifest error.

(c) Subject to Section 8.6(f), on and after the Closing Date and for purposes of eligibility, vesting, vacation entitlement and severance benefits under any "employee benefit plan," as defined in Section 3(3) of ERISA, and any other employee benefit arrangement or payroll practice, including, without limitation, any bonus plan, equity or equity-based compensation, or deferred compensation arrangement, stock purchase, severance pay, sick leave, vacation pay, paid time off, salary continuation for disability, hospitalization, medical insurance, life insurance, scholarship program, any "employee pension plan", as defined in Section 3(2) of ERISA, each Transferred Employee shall receive full credit from Purchaser for all prior service properly credited under a comparable plan or arrangement of Seller. Purchaser shall not be required to credit any Transferred Employee with prior service for purposes of benefit accrual under any pension plan, profit sharing plan, savings plan, or other deferred compensation plan. The schedule referred to in Section 8.6(g) below shall list such service of each Transferred Employee and may be conclusively relied upon by Purchaser in crediting service in accordance with this Section.

(d) Each Transferred Employee shall cease to be covered by the employee welfare benefit plans, including plans, programs, policies and arrangements which provide medical and dental coverage, life and accident insurance, disability coverage, and vacation and severance pay (collectively, "WELFARE PLANS") of Seller and all other benefit and compensation plans of Seller on the date the Transferred Employee becomes a Transferred Employee or on such later date specified under the terms of an applicable Welfare Plan or other plan of Seller.

(e) Purchaser agrees to (i) provide coverage for Transferred Employees and their beneficiaries under its medical, dental and health plans as of the later of the Closing Date or the date an Applicable Employee becomes a Transferred Employee, (ii) subject to the approval of Purchaser's third party insurance carrier, waive any waiting periods and preexisting condition limitations or exclusions (except to the extent the waiting period or exclusion would have been applicable under Seller's health insurance plan) under such plans, (iii) cause such plans to honor any expenses incurred by the Transferred Employees and their beneficiaries under similar plans of the Seller during the portion of the calendar year in which the Closing Date occurs for purposes of satisfying applicable deductible, co-insurance and maximum out-of-pocket expenses, and (iv) permit Transferred Employees to participate in Purchaser's retirement or 401(k) plans immediately following the Closing Date.

(f) Seller shall not pay out to Transferred Employees vacation pay benefits earned but not yet used as of the Closing Date. Purchaser shall provide Transferred Employees with credit under Purchaser's vacation pay plan for the earned but not yet used vacation pay benefits accrued since January 1, 2003 and attributable to each Transferred Employee as set forth on the written schedule referred to in Section 8.6(g) provided prior to the Closing by Seller to Purchaser. Liability for such amounts shall be borne by Purchaser; Seller shall have no liability for such vacation pay benefits. Notwithstanding the foregoing provisions of this Section, Seller shall pay out to the Transferred Employees, and Purchaser shall not have liability for, any vacation pay benefits earned prior to January 1, 2003.

(g) Attached as Schedule 8.6(g) is a report listing each employee employed at the Branches as of the date the report is prepared to include name,

position, exempt or nonexempt status, date of hire and total years of service, present salary, date of last salary increase, employment status (permanent or temporary, full-time or part-time, active or leave recipient and type of leave) and other information required by Sections 8.6(c) and 8.6(f) above. Seller represents and warrants to Purchaser that the report and all information delivered in connection with this Section 8.6(g) will be complete and accurate in all material respects. The report will be updated within twenty (20) calendar days of Closing. Purchaser shall maintain in confidence the information on the employees and shall use it only for legitimate business purposes in connection with its purchase of the Branches under this Agreement.

ARTICLE 9

CONDITIONS TO CLOSING

9.1 CONDITIONS TO OBLIGATIONS OF PURCHASER. Unless waived in writing by Purchaser, the obligation of Purchaser to consummate the transactions contemplated by this Agreement to be consummated at the Closing is conditioned upon fulfillment, at or before the Closing, of each of the following conditions:

(a) All consents, approvals and authorizations required to be obtained prior to the Closing from governmental and regulatory authorities in connection with the performance and consummation of the transactions contemplated hereby, including the Regulatory Approvals, shall have been made or obtained, and shall remain in full force and effect, all waiting periods applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated and all required regulatory filings shall have been made.

(b) No court or governmental or regulatory authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which would result in a Material Adverse Effect, and no proceeding seeking the enactment of such a judgment, decree, injunction or other order shall have been announced or commenced.

(c) Each of the representations and warranties of Seller contained in this Agreement shall be true in all material respects when made and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date (except that representations and warranties that are made as of a specific date need be true in all material respects only on and as of such date); each of the covenants and agreements of Seller to be performed on or prior to the Closing Date shall have been duly performed in all material respects.

(d) Purchaser shall have received each of the following documents:

(i) Resolutions of Seller's Board of Directors, certified by its Secretary or Assistant Secretary, authorizing the signing and delivery of this Agreement and all related documents and the consummation of the transactions contemplated hereby and thereby;

(ii) A certificate from the Secretary or Assistant Secretary of Seller as to the incumbency and signatures of officers;

(iii) A certificate signed by a duly authorized officer of Seller stating that the conditions set forth in Sections 9.1(a), (b) and (c) have been satisfied;

(iv) A Bill of Sale and Instrument of Assignment and Assumption, signed by the Seller, substantially in the form of EXHIBIT A hereto, pursuant to which the Assets other than the Real Property shall be transferred to Purchaser "AS IS", "WHERE IS" and with all faults, except as provided in this Agreement;

(v) A special warranty deed with appropriate documentary stamps affixed conveying the Real Property to the Purchaser subject to all Material Defects and other matters of record in the public registries of the counties in which each parcel of Real Property is located, other than those Material Defects which Seller cures or agrees to cure as provided in Section 7.12(c), together with such other instruments and documents as may be reasonably required by Purchaser's title insurance company in order to meet its requirements to issue a commercial title insurance policy with respect to the Real Property PROVIDED, HOWEVER, Seller shall not be required to make any representations or warranties in connection therewith beyond those representations and warranties made by Seller in this Agreement; and Seller shall have filed or recorded (or provided to Purchaser for filing and recording) any and all documents necessary to duly vest an equitable title in the Real Property in Purchaser;

(vi) Such other bills of sale, assignments of management, maintenance, service or servicing contracts, security deposits under leases, guaranties, warranties, utilities security deposits, and such other instruments and documents as Purchaser may reasonably require as necessary for transferring, assigning and conveying to Purchaser good, marketable and insurable title to the Assets free and clear of any Encumbrances, and permitting assumption of Liabilities by Purchaser;

(vii) The Delivery Records;

(viii) An original, fully executed counterpart of each written Assumed Contract in effect on the Closing Date and, subject to Section 7.4, such consents as shall be required pursuant to the terms of any Assumed Contracts in connection with the assignments of such Assumed Contracts to Purchaser;

(iv) A complete set of keys of the Branches, including but not limited to keys for all vaults and automated teller machines, appropriately tagged for identification and any vault manuals or specifications with respect to vaults and automated teller machines, if any;

(x) The Closing Statement and the required Settlement Payment, if any;

(xi) Seller's resignation as trustee or custodian, as applicable, with respect to each IRA included in the Assumed Deposits, and designation of the Purchaser as successor trustee or custodian with respect thereto, subject to Section 2.6;

(xii) All documentation required to exempt Seller from the withholding requirement of Section 1445 of the Code, consisting of an affidavit from Seller to Purchaser that Seller is not a foreign person and providing Seller's U.S. taxpayer identification number; and

(xiii) An assignment in recordable form reflecting the transfer and assignment to Purchaser of deeds of trust, mortgages, assignments of rents and profits and other real property related Loan Documents recorded in the real property records in applicable public registries (e.g. real property records in the offices of Registers of Deeds in North Carolina).

(e) The following events or conditions shall be absent or shall not have occurred:

(i) Subject to Sections 5.14 and 7.1(b) above, there shall not have occurred any material adverse change in the business of the Branches, and no circumstances shall exist which, with the passage of time or otherwise, likely will result in any such material adverse change;

(ii) There shall not have been any significant damage to or destruction of the improvements located on the Real Property which (1) is not covered by property insurance (or a payment from Seller) in an amount necessary to fully repair such damage or destruction or replace the property destroyed with property of like kind and quality, including coverage for a temporary facility during the repair period, and the proceeds of which have been either used for such repair or replacement or assigned to Purchaser or (2) would materially interfere with its use as a bank branch; and

(iii) In the event that Seller has agreed to cure a Material Defect as provided in Section 7.12 above, such Material Defect shall have been corrected in the manner agreed upon by Purchaser and Seller.

(f) The form and substance of all legal matters described in this Agreement or related to the transactions contemplated by this Agreement shall be reasonably acceptable to Purchaser's legal counsel.

9.2 CONDITIONS TO OBLIGATIONS OF SELLER. Unless waived in writing by Seller, the obligation of Seller to consummate the transactions contemplated by this Agreement to be consummated at the Closing is conditioned upon fulfillment, at or before the Closing, of each of the following conditions:

(a) All consents, approvals, permits and authorizations required to be obtained prior to the Closing from governmental and regulatory authorities in connection with the performance and consummation of the transactions contemplated hereby, including the Regulatory Approvals, shall have been made or obtained and shall remain in full force and effect; and all waiting periods applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated and all required regulatory filings shall have been made.

(b) No court or governmental or regulatory authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and would result in a Material Adverse Effect, and no proceeding seeking the enactment of such a judgment, decree, injunction or other order that would have a Material Adverse Effect shall have been announced or commenced.

(c) Each of the representations and warranties of Purchaser contained in this Agreement shall be true in all material respects when made and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date (except that representations and warranties that are made as of a specific date need be true in all material respects only on and as of such date); each of the covenants and agreements of Purchaser to be performed on or prior to the Closing Date shall have been duly performed in all material respects.

(d) Seller shall have received each of the following documents, which shall be delivered in a manner agreed to between Purchaser and Seller and shall be in form and substance reasonably satisfactory to Seller:

(i) Resolutions of Purchaser's Board of Directors or an authorized committee thereof, certified by its Secretary or Assistant Secretary, authorizing the signing and delivery of this Agreement and all related documents and the consummation of the transactions contemplated hereby and thereby;

(ii) A certificate of the Secretary or Assistant Secretary of Purchaser as to the incumbency and signatures of officers;

(iii) A certificate signed by a duly authorized officer of Purchaser stating that the conditions set forth in Sections 9.2(a), (b) and (c) have been fulfilled;

(iv) A Bill of Sale and Instrument of Assignment and Assumption, signed by the Purchaser, substantially in the form of EXHIBIT A hereto;

(v) Purchaser's acceptance of its appointment as successor trustee or custodian, as applicable, of the IRA accounts included in the Assumed Deposits and assumption of the fiduciary obligations of the trustee or custodian with respect thereto, subject to Section 2.6.

(e) The form and substance of all legal matters described in this Agreement or related to the transactions contemplated by this Agreement shall be reasonably acceptable to Seller's legal counsel.

9.3 OTHER DOCUMENTS. The parties agree to execute and deliver such other documents as the parties determine are reasonably necessary to consummate the transactions contemplated by this Agreement.

ARTICLE 10

TERMINATION

10.1 TERMINATION. This Agreement may be terminated at any time prior to the Closing Date:

(a) By the mutual written consent of Purchaser and Seller;

(b) By Seller or Purchaser, in the event of a material breach by the other of any representation, warranty or agreement contained herein which is not cured or cannot be cured within thirty (30) calendar days after written notice of such breach has been delivered to the breaching party; PROVIDED, HOWEVER, that termination pursuant to this Section 10.1(b) shall not relieve the breaching party of liability for such breach or otherwise;

(c) Notwithstanding any other provision of this Agreement, by Seller or Purchaser, in the event that the Closing has not occurred by December 31, 2003 unless the failure to so consummate by such time is due to a breach of this Agreement by the party seeking to terminate; or

(d) By Seller or Purchaser at any time after the denial or revocation of any Regulatory Approval, unless such denial or revocation was caused by the failure of the party seeking to terminate to act in a timely manner with respect to such Regulatory Approval or such party's negligence or willful misconduct or by the breach of this Agreement.

10.2 EFFECT OF TERMINATION. In the event of termination of this Agreement and abandonment of the transactions contemplated hereby pursuant to Section 10.1, no party hereto (or any of its directors, officers, employees, agents or Affiliates) shall have any liability or further obligation to any other party, except as provided in Section 7.2(b), and except that nothing herein will relieve any party from liability for any breach of this Agreement.

ARTICLE 11

INDEMNIFICATION

11.1 INDEMNIFICATION.

(a) Subject to Section 11.1(c) below, Seller shall indemnify and hold harmless Purchaser and any person directly or indirectly controlling Purchaser from and against any and all Losses which Purchaser may suffer, incur or sustain arising out of or attributable to (i) any breach of any representation or warranty made by Seller pursuant to this Agreement, (ii) any breach of any agreement to be performed by Seller pursuant to this Agreement, (iii) any third party claim, penalty asserted, legal action or administrative proceeding based upon any action taken or omitted to be taken by Seller prior to the Closing or resulting from any transaction or event occurring prior to the Closing, relating in any such case to the Branches, the Assets, the Assumed Deposits or the Assumed Contracts, or (iv) any liabilities, obligations or duties of Seller that are not Liabilities but are related to the Branches, the Assets, the Assumed Deposits or the Assumed Contracts.

(b) Subject to Section 11.1(d) below, Purchaser shall indemnify and hold harmless Seller and any person directly or indirectly controlling Seller from and against any and all Losses which Seller may suffer, incur or sustain arising out of or attributable to (i) any breach of any representation or warranty made by Purchaser pursuant to this Agreement, (ii) any breach of any agreement to be performed by Purchaser pursuant to this Agreement, (iii) any third party claim, penalty asserted, legal action or administrative proceeding based upon any action taken or omitted to be taken by Purchaser or resulting from any transaction or event occurring after the Closing, relating in any such case to the operation of the Branches, the Assets, the Assumed Deposits or the Assumed Contracts or (iv) any of the Liabilities assumed by Purchaser at the Closing.

(c) Seller shall not have any liability whatsoever under Section 11.1(a)(i) and (ii) for any Loss until the aggregate of all Losses for which Seller would be liable under Section 11.1(a)(i) and (ii) (excluding for this purpose each and every individual Loss that is less than \$100) exceeds on a cumulative basis an amount equal to \$10,000, and then only to the extent of any such excess. The maximum liability of Seller under Section 11.1(a)(i) and (ii) shall be 50% of the Purchase Price.

(d) Purchaser shall not have any liability whatsoever under Section 11.1(b)(i) and (ii) for any Loss until the aggregate of all Losses for which Purchaser would be liable under Section 11.1(b)(i) and (ii) (excluding for this purpose each and every individual Loss that is less than \$100) exceeds on a cumulative basis an amount equal to \$10,000, and then only to the extent of any such excess. The maximum liability of Purchaser under Section 11.1(b)(i) and (ii) shall be 50% of the Purchase Price.

(e) To exercise its indemnification rights under this Section 11.1 as the result of an assertion against it of any claim or potential liability for which indemnification is provided, the indemnified party shall promptly notify the indemnifying party of the assertion of such claim, discovery of any such potential liability or the commencement of any action or proceeding in respect of which indemnity may be sought hereunder; PROVIDED that notice of an original claim for indemnification must be given prior to the expiration of thirty-six (36) months from the Closing Date, after which time the right to such indemnification will expire; PROVIDED FURTHER, that, with respect to claims arising from a breach of representation or warranty made in Article 8, the provisions of Section 8.5 regarding the time by which notice must be given shall govern. Notwithstanding the foregoing, notice of any claim for indemnification arising out of a third party lawsuit or other similar legal action shall be made within ten (10) calendar days after the indemnified party receives the summons and complaint or similar documents in connection therewith, provided, however, that a party's failure to timely give such notice shall not affect its right to indemnification in connection therewith except to the extent the indemnifying party is prejudiced as a result of such failure to timely give such notice. The indemnified party shall advise the indemnifying party of all facts relating to such assertion within the knowledge of the indemnified party, and shall afford the indemnifying party the opportunity, at the indemnifying party's sole cost and expense, to defend against such claims for liability. In any such action or proceeding, the indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at its own expense unless the indemnifying party and the indemnified party mutually agree to the retention of such counsel.

(f) The indemnified party shall have the right to settle or compromise any claim or liability subject to indemnification under this Section 11.1, and to be indemnified from and against all Losses resulting therefrom, unless the indemnifying party, within sixty (60) calendar days after receiving written notice of the claim or liability in accordance with Section 11.1(e) above, notifies the indemnified party that it intends to defend against such claim or liability and undertakes such defense, or, if required in a shorter time than sixty (60) calendar days, the indemnifying party makes the requisite response to such claim or liability asserted.

(g) An indemnified party shall, subject to its reasonable business needs, use reasonable efforts to minimize the amount of any Losses for which indemnification is sought from the indemnifying party hereunder.

(h) Notwithstanding any other provision of this Agreement: The indemnified party shall have the right to participate in such defense at its own expense. If the indemnified party reasonably determines in its judgment that the counsel selected by the indemnifying party is not capable of properly defending the third party claim or would have a conflict of interest in doing so, then the indemnified party may employ separate counsel to represent or defend it in any such third party claim and the indemnifying party shall pay the reasonable fees and disbursements of such separate counsel. The indemnifying party shall consult with the indemnified party at reasonable intervals, upon the indemnified party's reasonable request for such consultation, with respect to such third party claims. The indemnifying party shall have no right in connection with any such defense or the resolution of any such third party claim to impose any cost, restriction, limitation or condition of any kind that compromises the indemnified party hereunder.

(i) Except for claims based on fraud, the indemnification provisions of this Article 11 shall be the sole and exclusive monetary remedies of Seller and Purchaser with respect to any matters for which indemnification is provided in this Article 11 and shall preclude any indemnified party from seeking any other monetary remedy in respect of any such matters.

11.2 AS-IS SALE; WAIVER OF WARRANTIES. EXCEPT AS SET FORTH IN THIS AGREEMENT, Purchaser expressly acknowledges that the Assets and Liabilities are

being sold and accepted on an "AS IS, WHERE IS" basis, and are being accepted without any representation or warranty other than as set forth herein. As part of Purchaser's agreement to purchase and accept the Assets and Liabilities AS IS, WHERE IS, and not as a limitation on such agreement, TO THE FULLEST EXTENT PERMITTED BY LAW AND EXCEPT AS SET FORTH IN THIS AGREEMENT, PURCHASER HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES AND RELEASES ANY AND ALL ACTUAL OR POTENTIAL RIGHTS PURCHASER MIGHT HAVE AGAINST SELLER REGARDING ANY FORM OF WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND OR TYPE, RELATING TO THE ASSETS AND LIABILITIES. SUCH WAIVER AND RELEASE IS, TO THE FULLEST EXTENT PERMITTED BY LAW AND EXCEPT AS SET FORTH IN THIS AGREEMENT, ABSOLUTE, COMPLETE, TOTAL AND UNLIMITED IN EVERY WAY. SUCH WAIVER AND RELEASE INCLUDES TO THE FULLEST EXTENT PERMITTED BY LAW AND EXCEPT AS SET FORTH IN THIS AGREEMENT, BUT IS NOT LIMITED TO, A WAIVER AND RELEASE OF EXPRESS WARRANTIES (EXCEPT THOSE SET FORTH IN THIS AGREEMENT), IMPLIED WARRANTIES, WARRANTIES OF FITNESS FOR A PARTICULAR USE, WARRANTIES OF MERCHANTABILITY, WARRANTIES OF HABITABILITY, STRICT LIABILITY RIGHTS AND CLAIMS OF EVERY KIND AND TYPE, INCLUDING BUT NOT LIMITED TO CLAIMS REGARDING DEFECTS WHICH WERE NOT OR ARE NOT DISCOVERABLE, ALL OTHER EXTANT OR LATER CREATED OR CONCEIVED OF STRICT LIABILITY OR STRICT LIABILITY TYPE CLAIMS AND RIGHTS.

ARTICLE 12

MISCELLANEOUS

12.1 SURVIVAL. The parties' respective representations and warranties contained in this Agreement shall survive until expiration of the times prescribed for claims for indemnification under Article 11, and thereafter neither party may claim any damage for breach thereof. The covenants contained in this Agreement shall survive until the end of the time period stated in such covenant, and for purposes of the following sections, shall survive indefinitely: Sections 2.3, 2.4, 3.2, 4.3, 7.2(b) and 11.1.

12.2 ASSIGNMENT. Neither this Agreement nor any of the rights, interests or obligations of either party hereunder may be assigned by either of the parties hereto without the prior written consent of the other party.

12.3 BINDING EFFECT. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Except as expressly provided in Section 11.1, the parties hereto intend that nothing in this Agreement, express or implied, is intended to or shall confer upon any other person, including, without limitation, any employee or former employee of Seller, any legal or equitable right, benefit or remedy of any nature whatsoever, including without limitation, any rights of employment or benefits for any specified period, under or by reason of this Agreement.

12.4 PUBLIC NOTICE. From and after the date hereof until the Closing Date, neither Purchaser nor Seller shall directly or indirectly, make, or cause to be made, any press release for general circulation, public announcement or disclosure or issue any notice or communication generally to employees with respect to any of the transactions contemplated hereby without the prior consent of the other party, which consent shall not be unreasonably withheld or delayed. Consent shall be deemed granted by the party from which it is sought unless such party objects within two (2) Business Days after receipt of the proposed press release or other announcement from the party requesting consent. Seller and Purchaser shall cooperate reasonably to produce public announcements to be

released simultaneously within five (5) calendar days after the date of this Agreement. Nothing herein shall limit the right of Seller's or Purchaser's parent, after the initial press release regarding the transaction, to refer to this transaction in any document required to be filed with the Securities and Exchange Commission or in its annual report to shareholders. Nothing in this Agreement shall limit the right of either party to make any disclosure required by law, subject to the provisions of Section 7.2(c) or (d).

12.5 NOTICES. All notices, requests, demands, consents and other communications given or required to be given under this Agreement and under the related documents shall be in writing and delivered to the applicable party at the address indicated below:

If to Seller: RBC Centura Bank
1417 Centura Highway
Rocky Mount, NC 27804

Attention: John Fleming, Assistant General Counsel
Facsimile No. 252-454-8283

If to Purchaser: C/o United Community Banks, Inc.
63 Highway 515
P.O. Box 398
Blairsville, GA 30514

Attention: Thomas C. Gilliland, General Counsel
Facsimile No. 706-745-8960

With copies to: Kilpatrick Stockton LLP
1100 Peachtree Street
Suite 2800
Atlanta, GA 30309

Attention: Richard R. Cheatham
Facsimile No. 404-541-3151

or, as to each party at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. Any notices shall be in writing, including telegraphic or facsimile communication, and may be sent by registered or certified mail, return receipt requested, postage prepaid, or by fax, or by overnight delivery service. Notice shall be effective upon actual receipt thereof.

12.6 INCORPORATION. All Exhibits and Schedules attached hereto and to which reference is made herein are incorporated by reference as if fully set forth herein and shall be part of the defined term "Agreement".

12.7 GOVERNING LAW. This Agreement and the legal relations between the parties shall be governed by and interpreted in accordance with the laws of the State of North Carolina applicable to contracts made and to be performed entirely within the State of North Carolina.

12.8 ENTIRE AGREEMENT. This Agreement contains the entire understanding of and all agreements between the parties hereto with respect to the subject matter hereof and supersedes any prior or contemporaneous agreement or understanding, oral or written, pertaining to any such matters which agreements or understandings shall be of no force or effect for any purpose. Following the execution of this Agreement, representatives of Purchaser and Seller may prepare

an operating agreement, conversion plan, or similar document relating to the methods of consummating the transactions contemplated by this Agreement, but no such document shall amend this Agreement or waive any of its provisions unless it (a) explicitly describes a "waiver" or "amendment" and refers to the particular provision of this Agreement being waived or amended, and (b) is executed in the manner provided in Section 12.11. Unless there is an effective amendment or waiver under the standards of this Section 12.8, the provisions of this Agreement shall prevail if there is any inconsistency between this Agreement and any operating agreement, conversion plan, or similar document relating to the methods of consummating the transactions contemplated by this Agreement.

12.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

12.10 HEADINGS. The headings used in this Agreement are inserted for purposes of convenience of reference only and shall not limit or define the meaning of any provisions of this Agreement.

12.11 WAIVER AND AMENDMENT. The waiver of any breach of any provision under this Agreement by any party shall not be deemed to be a waiver of any preceding or subsequent breach under this Agreement. No such waiver shall be effective unless in writing. This Agreement may not be amended or supplemented in any manner except by mutual agreement of the parties and as set forth in a writing signed by the parties hereto or their respective successors in interest.

12.12 EXPENSES. Except as specifically provided otherwise in this Agreement, each party shall bear and pay all costs and expenses, including without limitation brokerage and legal fees, which it incurs, or which may be incurred on its behalf in connection with the preparation of this Agreement and consummation of the transactions described herein, and the expenses, fees, and costs necessary for any approvals of the appropriate regulatory authorities.

12.13 SEVERABILITY. If any provision of this Agreement or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

12.14 THIRD PARTY BENEFICIARIES. Except as specifically provided in Article 11 with respect to indemnification, no provision of this Agreement shall be deemed to create any third party beneficiary right in anyone not a party to this Agreement, including any employee or former employee of Seller (including any beneficiary or dependent thereof). Nothing contained in this Agreement shall be construed to affect or limit any right Purchaser or its affiliates may have after the Closing with respect to the terms and conditions of employment of any Transferred Employees (including, but not limited to, provisions of employee benefits different from those provided through the employee benefit plans) or to terminate the employment of a Transferred Employee at any time or to modify the benefits provided to employees through any employee benefit plan.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

RBC CENTURA BANK

By: /s/ Terry S. Earley
Name: Terry S. Early
Title: Vice President

UNITED COMMUNITY BANK

By: /s/ Guy W. Freeman
Name: Guy W. Freeman
Title: Executive Vice President

Exhibit A

BILL OF SALE AND INSTRUMENT OF
ASSIGNMENT AND ASSUMPTION

THIS BILL OF SALE AND INSTRUMENT OF ASSIGNMENT AND ASSUMPTION is dated as of _____, 2003, between UNITED COMMUNITY BANK, a bank organized under the laws of _____ ("Purchaser") and RBC CENTURA BANK, a bank organized under the laws of North Carolina ("Seller").

W I T N E S S E T H:

WHEREAS, Purchaser and Seller are parties to a certain Branch Purchase and Assumption Agreement, dated as of _____, 2003 (the "Purchase and Assumption Agreement");

WHEREAS, pursuant to the Purchase and Assumption Agreement, Seller has agreed to sell the Assets to Purchaser, and Purchaser has agreed to purchase the Assets and to assume the Liabilities and Accrued Expenses, as such terms are defined in the Purchase and Assumption Agreement;

WHEREAS, the Assets include the Furniture, Fixtures and Equipment, Improvements, Cash on Hand, Prepaid Expenses, Real Property, Records, Seller's benefits and rights under Safe Deposit Agreements and Seller's benefits and rights under Assumed Contracts (as such terms are defined in the Purchase and Assumption Agreement); the Liabilities include, among other things, the Assumed Deposits and all terms and agreements relating to the Assumed Deposits, Seller's obligations under the Assumed Contracts, Seller's obligations under the Safe Deposit Agreements, and Seller's obligation to provide customer service from and after the Closing Date in connection with the Assets or the Assumed Deposits (as such terms are defined in the Purchase and Assumption Agreement); and

WHEREAS, Accrued Expenses means the accrued and unpaid expenses appearing as a liability in a Closing Statement or a Final Closing Statement (as such terms are defined in the Purchase and Assumption Agreement);

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth, each of Purchaser and Seller agrees as follows:

1. ASSIGNMENT OF ASSETS. Effective as of the date hereof, Seller does hereby sell, convey and assign unto Purchaser upon the terms and conditions set forth in the Purchase and Assumption Agreement, all of Seller's right, title and interest in, to and under the Assets (other than the Real Property) and Purchaser hereby accepts the foregoing assignment of the Assets (other than the Real Property).

2. ASSUMPTION OF LIABILITIES AND ACCRUED EXPENSES. Effective as of the date hereof, Purchaser does hereby assume, and agrees to timely pay, defend, discharge and perform in accordance with their terms all Liabilities and Accrued Expenses, as such terms are defined in the Purchase and Assumption Agreement.

3. AS IS, WHERE IS. Except as provided in the Purchase and Assumption Agreement, this Bill of Sale and Instrument of Assignment and Assumption is made such that Purchaser accepts the Assets and assumes the Liabilities without warranty or representation, express or implied, or recourse to, the Seller, and such Assets are delivered "AS IS", "WHERE IS" and with all faults, except as provided in the Purchase and Assumption Agreement.

4. GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the State of North Carolina applicable to contracts made and to be performed entirely with the State of North Carolina.

5. COUNTERPARTS. This Agreement may be executed in one or more counterparts all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been signed on behalf of each of the parties hereto as of the day and year first above written.

RBC CENTURA BANK

By: _____
Name: _____
Title: _____

UNITED COMMUNITY BANK

By: _____
Name: _____
Title: _____

CLOSING STATEMENT

ASSETS	\$	
- - - - -		
Cash on Hand	\$	
Prepaid Expenses (excluding interoffice/intercompany items)	\$	
Furniture, Fixtures, Equipment and Improvements	\$	
Real Property	\$	
Loan Value	\$	
Safe Deposit Agreements	\$	
Assumed Contracts	\$	
Other Assets	\$	
TOTAL	\$	
LIABILITIES		
Assumed Deposits		\$
Plus Accrued Interest on Assumed Deposits		\$
TOTAL ASSUMED DEPOSITS	\$	
Assumed Safe Deposit Agreements	\$	
Assumed Contracts	\$	
Accrued Expenses	\$	
Other Liabilities	\$	
TOTAL	\$	

COMPUTATION OF SETTLEMENT PAYMENT

Assumed Deposits	\$
Accrued Expenses	\$ _____
TOTAL	\$ _____

Less Purchase Price	
11% of Assumed Deposits for Bakersville Branch and Newland Branch	\$
7% of Assumed Deposits for Robbinsville Branch	\$
Cash on Hand	\$
Net Book Value of Assets, other than Cash on Hand and Loans	\$
Loan Value	\$

	\$ _____
Adjustment for Allocation of Expenses and Fees (perss.2.2)	\$ _____
	\$ _____

LIST OF DEPOSITS

See attached

EXCLUDED EMPLOYEES

None

EXCLUDED LOANS

To follow per terms of Agreement

LOANS

See attached

TITLE TO ASSETS

None

LITIGATION

None

OWNERSHIP OF LOANS

N/A

COMMITMENTS FOR MATERIAL IMPROVEMENTS

None

EMPLOYEES

See attached

Exhibit 31.1

I, Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Jimmy C. Tallent
Jimmy C. Tallent
President and Chief Executive Officer

Date: November 13, 2003

Exhibit 31.2

I, Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Rex S. Schuette
Rex S. Schuette
Executive Vice President and Chief Financial Officer

Date: November 13, 2003

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of United Community Banks, Inc. ("United") on Form 10-Q for the period ending September 30, 2003 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jimmy C. Tallent, President and Chief Executive Officer of United, and I, Rex S. Schuette, Executive Vice President and Chief Financial Officer of United, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of United.

By: /s/ Jimmy C. Tallent
Jimmy C. Tallent
President and Chief Executive Officer

By: /s/ Rex S. Schuette
Rex S. Schuette
Executive Vice President and
Chief Financial Officer

Date: November 13, 2003