

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, 1996

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.)

P.O. Box 398, 59 Highway 515
Blairsville, Georgia

30512

(Address of principal executive
offices)

(Zip Code)

(404) 745-2151

(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 XX NO

Common stock, par value \$1 per share: 6,260,280 shares
outstanding as of October 31, 1996

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

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UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

	September 30, 1996	December 31, 1995
	-----	-----
ASSETS	(In Thousands)	
Cash and due from banks	\$ 26,467	20,758
Federal funds sold	12,855	11,230
	-----	-----
Cash and cash equivalents	39,322	31,988
	-----	-----
Securities held to maturity (estimated fair value of \$74,346 and \$79,650)	74,626	78,821
Securities available for sale	70,012	65,046
Mortgage loans held for sale	6,360	12,048
Loans	558,325	444,092
Less: Allowance for loan losses	(7,369)	(6,545)
	-----	-----
Loans, net	550,956	437,547
Premises and equipment	17,615	15,997
Accrued interest receivable	7,667	6,462
Other assets	13,007	11,760
	-----	-----
	\$ 779,565	659,669
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 73,553	62,753
Interest-bearing demand	170,284	114,825
Savings	40,068	38,947
Time	396,432	374,131
	-----	-----
Total deposits	680,337	590,656
Repurchase agreements	2,000	-
Accrued expenses and other liabilities	5,588	3,676
Federal Home Loan Bank advances	31,138	9,001
Long-term debt	10,736	11,309
Convertible subordinated debentures	1,000	1,000
	-----	-----
Total liabilities	730,799	615,642
	-----	-----
Stockholders' equity:		
Preferred Stock	-	-
Common stock, \$1 par value; 10,000,000 shares authorized; 6,260,280 shares issued and outstanding	6,260	6,260
Capital surplus	14,520	14,520
Net unrealized gain (loss) on investment securities available for sale, net of tax	(485)	251
Retained earnings	28,471	22,996
	-----	-----
Total stockholders' equity	48,766	44,027
	-----	-----
	\$ 779,565	659,669
	=====	=====

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Statements of Earnings
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1996	1995	1996	1995
	(In Thousands Except Per Share Data)			
INTEREST INCOME:				
Interest and fees on loans	\$ 13,856	10,525	38,786	29,520
Interest on deposits with other banks	13	14	47	37
Interest on federal funds sold	243	340	660	837
Interest on investment securities:				
U.S. Treasury and U.S. Government agencies	1,499	1,158	4,588	3,128
State, county and municipal	480	458	1,413	1,375
Total interest income	16,091	12,495	45,495	34,897
INTEREST EXPENSE:				
Interest on deposits:				
Demand	1,629	859	3,647	2,587
Savings	263	241	783	740
Time	5,647	5,243	17,214	13,856
	7,539	6,343	21,644	17,183
Long-term debt, subordinated debentures and federal funds purchased	493	446	1,218	1,439
Total interest expense	8,032	6,789	21,644	18,622
Net interest income	8,059	5,706	22,633	16,275
Provision for loan losses	348	326	915	746
Net interest income after provision for loan losses	7,711	5,380	21,718	15,529
NONINTEREST INCOME:				
Service charges and fees	667	481	1,940	1,381
Securities gains, net	2	(1)	17	2
Mortgage loan and related fees	361	475	1,218	1,104
Other noninterest income	215	212	565	611
Total noninterest income	1,245	1,167	3,740	3,098
NONINTEREST EXPENSE:				
Salaries and employee benefits	3,279	2,434	9,380	7,042
Occupancy	775	677	2,402	1,956
Deposit insurance premiums	3	(36)	20	453
Other noninterest expense	1,732	1,244	5,001	3,160
Total noninterest expense	5,789	4,319	16,803	12,611
Earnings before income taxes	3,167	2,228	8,655	6,015
Income taxes	1,013	704	2,930	1,857
NET EARNINGS	\$ 2,154	1,524	5,725	4,158
Net earnings per common share	\$ 0.34	0.26	0.91	0.73
Weighted average shares outstanding	6,260,280	5,815,430	6,260,280	5,665,545

See accompanying notes to consolidated financial statements. -4-

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

For the Nine Months Ended
September 30,

	1996	1995
	-----	-----
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 5,725	4,158
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, amortization and accretion	1,636	1,280
Provision for loan losses	915	746
Gain on sale of investment securities	(17)	(2)
Change in assets and liabilities:		
Interest receivable	(1,205)	(1,170)
Interest payable	(174)	611
Other assets	(163)	(719)
Accrued expenses and other liabilities	1,513	(114)
Change in mortgage loans held for sale	5,688	(119)
	-----	-----
Net cash provided by operating activities	13,918	4,671
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired from acquisitions	2,685	8,508
Proceeds from maturities and calls of securities held to maturity	12,531	5,900
Purchases of securities held to maturity	(8,413)	(13,175)
Proceeds from sales of securities available for sale	12,185	9,800
Proceeds from maturities and calls of securities available for sale	21,038	6,776
Purchases of securities available for sale	(39,486)	(45,340)
Net change in interest-bearing deposits with other banks	-	299
Net increase in loans	(95,136)	(52,792)
Proceeds from sales of other real estate	54	69
Purchase of bank premises and equipment	(1,562)	(1,981)
	-----	-----
Net cash used in investing activities	(96,104)	(81,936)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in demand and savings deposits	57,368	19,231
Net change in time deposits	8,838	78,336
Net increase in federal funds purchased and repurchase agreements	2,000	(8,300)
Proceeds from long-term debt	-	539
Repayments of long-term debt	(573)	7,346
Proceeds from FHLB advances	22,375	(630)
Repayments of FHLB advances	(238)	(7,571)
Proceeds from sale of common stock, net of costs	-	2434
Dividends paid	(250)	(279)
	-----	-----
Net cash provided by financing activities	89,520	91,106
	-----	-----
Net increase in cash and cash equivalents	7,334	13,841
Cash and cash equivalents at beginning of period	31,988	14,570
	-----	-----
Cash and cash equivalents at end of period	\$ 39,322	28,411
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 23,036	18,011
Income taxes	\$ 2,750	1,645
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in dividends payable	\$ -	110
Transfers of loans to other real estate owned	\$ 388	195
Change in unrealized gain (loss) on securities available for sale	\$ (1,162)	302

See accompanying notes to consolidated financial statements. -5-

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES

Notes to Consolidated Financial Statements

The accompanying consolidated financial statements have not been audited. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods.

The accounting principals followed by United Community Banks, Inc. ("United") and its bank subsidiaries and the methods of applying these principals conform with generally accepted accounting principals and with general practices within the banking industry. Certain principals which significantly affect the determination of financial position, results of operation and cash flows are summarized below and in United's annual report on Form 10-K for the year ended December 31, 1995.

(1) Basis of Presentation

The consolidated financial statements include the accounts of United and its wholly-owned subsidiaries, Union County Bank (UCB), Citizens Bank (Citizens), Peoples Bank (Peoples), Towns County Bank (Towns) and White County Bank (White) . All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items in prior period's financial statements have been reclassified to conform with the current financial statement presentation.

The consolidated financial information furnished herein reflects all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations and financial position for the periods covered herein and are normal and recurring in nature. For further information, refer to the consolidated financial statements and footnotes included in United's annual report on Form 10-K for the year ended December 31, 1995.

(2) Earnings Per Share

Net earnings per common share are based on the weighted average number of common shares outstanding during each period. The assumed conversion of the convertible subordinated debentures and exercise of stock options do not result in material dilution. All share and per share data have been adjusted to reflect the October 1995, five-for-one split, effected in the form of a stock dividend, paid on November 6, 1995.

(3) Acquisition of Branch Offices

On May 25, 1995, United executed a Purchase and Assumption Agreement to acquire certain assets and deposit liabilities of the Franklin and Waynesville, North Carolina branch offices of Nations Bank, N.A. These branch offices had total assets of \$14.8 million, total loans of \$11.1 million and total deposits of \$26.1 million as of October 19, 1995, the date of closing.

On June 6, 1996, United executed a Purchase and Assumption Agreement to acquire certain assets and deposit liabilities of the Cornelia, Georgia branch office of the First National Bank of Commerce. This branch office had total assets of \$36 million, total loans of \$31 million and total deposits of \$24 million as of September 30, 1996, the date of closing.

(4) Recently Issued Accounting Standards

During 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard became effective January 1, 1996, and will require United to disclose the fair value of employee stock options granted in 1995 and subsequent years. Since United will not be required to record the options at fair market value, management does not expect this new standard to have a material impact on the consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

OVERVIEW

Net earnings for the nine months ended September 30, 1996 increased to \$5.7 million or 38 percent over net earnings for the first nine months of 1995. Net earnings per common share for the first nine months also increased 25 percent from the same period in 1995 to \$.91. Net interest income increased 39 percent for the nine months ended September 30, 1996 over the same period of 1995 to \$23.6 million. For the first half of 1996, the provision for loan losses increased 23 percent to \$915.000 for the nine month period. Noninterest income and expense rose 21 percent and 33 percent respectively over the first three quarters of 1995.

NET INTEREST INCOME

Net interest income for the nine months ended September 30, 1996 increased \$6.4 million over the first three quarters of 1995. This increase was the result of a \$10.6 million, or 30 percent increase in interest income, offset by a \$4.2 million increase in interest expense. The increase in interest income was primarily due to an increase in average earning assets of \$146 million.

Interest expense for the nine months ended September 30, 1996, increased \$4.2 million, or 23 percent from the prior year, due primarily to a 29% increase in average core deposits, offset slightly by a decrease in the average yield on source of funds from 4.93% to 4.68%.

NET INTEREST MARGIN

The difference between the overall interest income on earning assets and the interest expense paid on all funding sources, including noninterest bearing deposits, is referred to as the net interest margin. For the first three quarters of 1996 the net interest margin was 4.64 percent compared to 4.32 percent for the same period in 1995. This 32 basis point increase resulted from a stable rate environment as well as a favorable change in the core deposit mix.

NONINTEREST INCOME AND EXPENSE

Noninterest income for the first nine months of 1996 increased \$642 thousand, or 21 percent over the same period in 1995. Service charges on deposits increased over \$559 thousand, or 40 percent during the first nine months, principally as a result of an increased number of deposit accounts being serviced. This increase is a result of continued growth and the White County and the Citizens' branch banking acquisitions. Mortgage loan and related fees increased \$114 thousand, or 10% as a result of declining rate environment for a majority of the first nine months of 1996. Gains on investment securities sold during the first three quarter of 1996 were not material.

Noninterest expenses increased \$4.2 million during the first nine months of 1996 over the same period in 1995. Salaries and employee benefits increased \$2.3 million, or 33 percent, for the first three quarters. The increase in salaries and benefits was the result of an additional 72 employees compared to the same period in 1995. The number of employees increased primarily as a result of the White County acquisition as well as the branch banking facilities acquired by Citizens as discussed earlier. Net occupancy expense increased \$446 thousand due primarily to an increase in the depreciation and other occupancy expenses associated with the increased number of banking facilities. FDIC deposit insurance premiums decreased \$433 thousand as a result of the recalculated FDIC assessment. Other noninterest expense, including stationary and supplies and advertising , increased \$1.8 million during the first three quarters of 1996.

INCOME TAXES

Income tax expense increased during the first three quarters of 1996 compared to the same period in 1995 by \$1.1 million. The effective tax rates for the nine months ended September 30, 1996 and 1995 were 35 percent and 30 percent, respectively. The increases are due primarily to the combined efforts of increased levels of pretax income, and a lower mix of tax-exempt securities held in the investment portfolio. Management expects the trend of an increasing effective tax rate to continue.

PROVISION AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

The provision for loan losses for the nine months ended September 30, 1996 increased 23 percent to \$915 thousand from the \$746 thousand reported for the same period in 1995. Management considers the size and character of the loan portfolio, changes in nonperforming and past due loans, historical loan loss experience, the existing risk of individual loans, concentrations of loans to specific borrowers and existing and prospective economic conditions when determining the adequacy of the allowance for loan losses. The allowance for loan losses at September 30, 1996 was \$7.4 million compared to \$6.5 million at December 31, 1995. The ratio of the allowance for loan losses to loans outstanding at September 30, 1996 was 1.32 percent compared to 1.48 percent at December 31, 1995. The reduction in the ratio reflects the improvement in the quality of United's loan portfolio. It is management's belief that the allowance for loan losses is adequate to absorb probable loss in the portfolio.

NONPERFORMING ASSETS AND PAST DUE LOANS

Nonperforming assets, comprised of nonaccrual loans, other real estate owned and loans for which payments are more than 90 days past due, decrease \$1.3 million to \$ 850 thousand at September 30, 1996 from \$2.2 million at December 31, 1995. In addition, Nonperforming assets as a percentage of total loans and other real estate owned improved to .15 percent at September 30, 1996 from .48 percent at December 31, 1995.

United regularly monitors selected accruing loans for which general economic conditions or changes within a particular industry could cause the borrowers financial difficulties. This continuous monitoring of the loan portfolio and the related identification of loans with a high degree of credit risk are essential parts of United's credit management. Management continues to emphasize maintaining a low level of nonperforming assets and returning current nonperforming assets to an earning status.

At September 30, 1996, management was unaware of any known trends, events or uncertainties that will have or that are reasonably likely to have a material effect on United's liquidity, capital resources or operations.

Financial Condition

OVERVIEW

Total assets at September 30, 1996 were \$780 million representing a \$120 million or a 18 percent increase from December 31, 1995 and a \$158 million or a 25 percent increase from September 30, 1995. The growth from prior year is primarily attributed to an increase in market share of approximately \$109 million and \$49 from acquisitions.

ASSETS AND FUNDING

At September 30, 1996, earning assets totaled \$722 million, an increase of \$111 million from December 31, 1995. The earning assets mix improved slightly in the first nine months with loans representing 77% of the total earning assets as compared to 73% percent at December 31, 1995.

Interest bearing deposits at September 30, 1996 increased \$79 million from December 31, 1995, while non-interest bearing deposits increased over \$11 million since December 31, 1995. At September 30, 1996, deposits accounted for 87 percent of United's funding, from 90 percent at December 31, 1995.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled \$14 million for the nine months ended September 30, 1996. For the three quarters of 1996, net cash used from investing activities of \$96 million consisted of proceeds from maturities of investments securities of \$34 million, proceeds from sales of investment securities of \$12 million, cash acquired from acquisitions of \$3 million and offset by cash outflows of \$47 million in investment securities purchases, a \$95 million increase in loans outstanding and purchase

of bank premises and equipment of \$1.5 million. Net cash provided by financing activities consisted largely of \$66 million increase in deposit and time accounts, \$22 million from additional FHLB advances, and were offset slightly by payments of \$811 thousand on United's long-term debt and FHLB repayments.

Total stockholders' equity at September 30, 1996, was 6.26 percent of total assets compared to 6.67 percent at December 31, 1995. The slight decrease since year end 1995 reflects the asset growth of \$120 million and the change of \$736 thousand in the unrealized loss in United's available for sale investment portfolio offset by retained earnings from the first nine months of 1996.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

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.

By: /s/ Jimmy C. Tallent
Jimmy C. Tallent, President
(Principal Executive Officer)

Date: November 8, 1996

By: /s/ Christopher J. Bledsoe
Christopher J. Bledsoe
Chief Financial Officer
(Principal Financial Officer)

Date: November 8, 1996

RESTATED ARTICLES OF INCORPORATION

OF

UNITED COMMUNITY BANKS, INC.

I.

The name of the corporation is United Community Banks, Inc.

II.

The corporation is organized pursuant to the provisions of the Georgia Business Corporation Code.

III.

The corporation shall have perpetual duration.

IV.

The corporation is a corporation for profit and is organized for the following general purposes: to be a bank holding company; to carry on any lawful businesses or activities relating thereto; and to engage in any lawful act or activity for which corporations may be organized under the Georgia Business Corporation Code.

V.

The corporation shall have authority to issue 10,000,000 shares of common stock, \$1.00 par value (the "Common Stock") and 10,000,000 shares of preferred stock, \$1.00 par value (the "Preferred Stock"). Subject to the provisions of any applicable law or the Bylaws of the corporation (as from time to time amended) with respect to fixing the record date for the determination of shareholders entitled to vote, and except as otherwise provided by any applicable law or the by the resolution or resolutions of the Board of Directors providing for the issue of any series of Preferred Stock, the holders of the Common Stock shall have and possess exclusive voting power and rights for the election of directors and for all other purposes, with each share being entitled to one vote.

The Board of Directors is hereby expressly authorized to issue, at any time and from time to time, shares of Preferred Stock in one or more series. The number of shares within such series shall be designated by the Board of Directors in one or more resolutions, and the shares of each series so designated shall have such preferences with respect to Common Stock and other series of Preferred Stock, and such other rights, restrictions or limitations with respect to voting, dividends, conversion, exchange, redemption and any other matters, as may be set forth in one or more resolutions adopted by the Board of Directors. To the extent required by law, Articles of Amendment setting forth any such designations, preferences, rights, restrictions or limitations shall be filed with the Georgia Secretary of State prior to the issuance of any shares of such series.

The authority of the Board of Directors with respect to the establishment of each series of Preferred Stock shall include, without limiting the generality of the foregoing, determination of the following matters which may vary between series:

(a) The number of shares constituting that series and the distinctive designation of that series;

(b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payments of dividends on shares of that series;

(c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and if so, the terms of such voting rights;

(d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) Whether the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary

under different conditions;

(f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and if so, the terms and amount of such sinking fund;

(g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding-up of the corporation, and the relative rights of priority, if any, of payment of shares of that series; and

(h) Any other relative preferences, rights, restrictions or limitations of that series, including but not limited to any obligations of the corporation to repurchase shares of that series upon the occurrence of specified events.

VI.

No holder of any of the shares of any class of the corporation shall be entitled as of right to subscribe for, purchase, or otherwise acquire any shares of any class of the corporation which the corporation proposes to issue or any rights or options which the corporation proposes to grant for the purchase of shares of any class of the corporation or for the purchase of any shares, bonds, securities, or obligations of the corporation which are convertible into or exchangeable for, or which carry any rights, to subscribe for, purchase, or otherwise acquire shares of any class of the corporation and any and all of such shares, bonds, securities, or obligations of the corporation, whether now or hereafter authorized or created, may be issued, or may be reissued if the same have been reacquired and if their reissue is not prohibited, and any and all of such rights and options may be granted by the Board of Directors to such individuals and entities, and for such lawful consideration, and on such terms, as the Board of Directors in its discretion may determine, without first offering the same, or any thereof, to any said holder.

VII.

The corporation shall not commence business until it shall have received at least \$500.00 in payment for the issuance of shares of its stock.

VIII.

In addition to, but not in limitation of, the general powers conferred by law, the corporation shall have the power to make distributions to its shareholders out of its capital surplus, to purchase its own shares out of its unreserved and unrestricted capital surplus available therefor, and to carry on any lawful business.

9-MOS
DEC-31-1996
JAN-01-1996
SEP-30-1996
26,467
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7,370