UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 1998

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)

(706) 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: 7,393,605 shares outstanding as of November 16, 1998

PART I Financial Information

Item 1. Financial Statements

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

	September 30, 1998	December 31, 1997
	(In Thousands)	
ASSETS		
Cash and due from banks	$ 42,313	$ 60,414
Federal funds sold	13,585	8,420
Cash and cash equivalents	55,898	68,834
Securities held to maturity (estimated fair value of $ 63,443 and $70,845)	61,590	69,559
Securities available for sale (amortized cost of $208,964 and $145,522)	208,917	143,894
Mortgage loans held for sale	6,296	3,962
Loans, net of unearned income	941,643	823,324
Less: Allowance for loan losses	(11,536)	(10,352)
Loans, net	930,107	812,972
Premises and equipment, net	35,787	27,737
Accrued interest receivable	12,872	10,985
Other assets	15,104	15,424
	$ 1,326,571	$ 1,153,367
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 134,941	109,210
Interest bearing	984,587	867,869
Total deposits	1,119,528	977,079

Accrued expenses and other liabilities	10,000	7,274
Federal funds purchased	-	33,011
Federal Home Loan Bank advances	87,024	43,321
Long-term debt and other borrowings	4,774	17,569
Company obligated manditorily redeemable capital securities of subsidiary trust holding solely junior subordinated debentures of the Company	21,000	-
Total liabilities	1,242,326	1,078,254
Stockholders' equity:		
Preferred Stock		
Common stock, $1 par value; 10,000,000 shares authorized;	-	-
7,393,605 and 7,385,105 shares issued and outstanding	7,394	7,385
Capital surplus	24,808	24,699
Retained earnings	50,057	42,198
Accumulated other comprehensive income	1,986	831
Total stockholders' equity	84,245	75,113
	$ 1,326,571	$ 1,153,367

See accompanying notes to consolidated fiancial statements.

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

	For the Three Months Ended, September 30,		For the Nine Months Ended, September 30,	
	1998	1997	1998	1997
	(In Thousands Except Share and Per Share Data)			
INTEREST INCOME:				
Interest and fees on loans	$ 24,186	$ 19,841	$ 68,280	$ 55,435
Interest on federal funds sold	507	797	1,202	1,581
Interest on investment securities	803	1,098	2,630	2,954
Interest on investment securities available for sale	2,712	1,715	7,592	5,337
Total interest income	28,208	23,451	79,704	65,307
INTEREST EXPENSE:				
Interest on deposits	12,875	11,479	37,246	31,341
Interest on Federal Home Loan Bank advances	1,325	661	2,850	1,800
Interest on long-term debt and other borrowings	169	273	918	873
Interest on Company obligated manditorily redeemable capital securities of subsidiary trust holding solely junior subordinated debentures of the Company	344	-	344	-
Total interest expense	14,713	12,413	41,358	34,014
Net interest income	13,495	11,038	38,346	31,293
Provision for loan losses	567	768	1,605	2,066
Net interest income after provision for loan losses	12,928	10,270	36,741	29,227
NONINTEREST INCOME:				
Service charges and fees	1,300	1,158	3,777	3,190
Securities gains, net	43	250	214	558
Mortgage loan and related fees	462	263	1,342	814
Other noninterest income	228	69	621	445
Total noninterest income	2,033	1,740	5,954	5,007
NONINTEREST EXPENSE:				
Salaries and employee benefits	5,800	4,485	16,795	12,789
Occupancy	1,663	1,312	4,655	3,561
Other noninterest expense	2,787	2,035	8,164	6,535
Total noninterest expense	10,250	7,832	29,614	22,885
Earnings before income taxes	4,711	4,178	13,081	11,349
Income taxes	1,563	1,322	4,391	3,611
NET INCOME	$ 3,148	$ 2,856	$ 8,690	$ 7,738
Basic earnings per share	$ 0.43	$ 0.39	$ 1.18	$ 1.06
Diluted earnings per share	$ 0.42	$ 0.38	$ 1.16	$ 1.06
Dividends declared per common share	$ 0.0375	$ 0.025	$ 0.113	$ 0.075
Average shares outstanding	7,394	7,385	7,391	7,272
Diluted average shares outstanding	7,632	7,580	7,619	7,452

/TABLE

UNITED COMMUNITY BANKS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended, September 30,	
	1998	1997	1998	1997
NET INCOME	$ 3,148	$ 2,856	$ 8,690	$ 7,738
OTHER COMPREHENSIVE INCOME, BEFORE TAX:				
Unrealized holding gains (losses) on investment securities	1,976	1,219	2,077	1,598
Less reclassification adjustment for gains (losses) on securities available for sale	43	250	214	558
Total other comprehensive income, before tax	1,933	969	1,863	1,040
INCOME TAX EXPENSE (BENEFIT) RELATED TO OTHER COMPREHENSIVE INCOME				
Unrealized holding gains (losses) on investment securities	751	463	789	607
Less reclassification adjustment for gains (losses) on securities available for sale	16	95	81	212
Total income tax expense (benefit) related to other comprehensive income	735	368	708	395
Total other comprehensive income, net of tax	1,198	601	1,155	645
Total comprehensive income	$ 4,346	$ 3,457	$ 9,845	$ 8,383

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

	For the Nine Months Ended September 30, 1998	1997
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,690	$ 7,738
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation, amortization and accretion	1,849	1,663
Provision for loan losses	1,605	2,066
Loss (gain) on sale of investment securities	(214)	(558)
Change in assets and liabilities:		
Interest receivable	(1,887)	(2,047)
Interest payable	260	1,041
Other assets	(306)	861
Accrued expenses and other liabilities	2,466	(938)
Change in mortgage loans held for sale	(2,334)	2,395
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,129	12,221
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and calls of securities held to maturity	21,020	13,258
Purchases of securities held to maturity	(13,095)	(9,614)
Proceeds from sales of securities available for sale	13,865	21,194
Proceeds from maturities and calls of securities available for sale	33,830	15,226
Purchases of securities available for sale	(110,476)	(92,310)
Net increase in loans	(118,740)	(148,076)
Proceeds from sale of other real estate	113	-
Purchase of bank premises and equipment	(9,428)	(5,650)
NET CASH USED IN INVESTING ACTIVITIES	(182,911)	(205,972)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	98,277	32,190
Net increase in time deposits	44,172	139,809
Net change in federal funds purchased	(33,011)	8,100
Net change in FHLB advances	43,703	3,684
Net change in long-term debt and other borrowings	(12,795)	179
Net proceeds from issuance of Capital Securities (1)	20,120	-
Net proceeds from sale of common stock	119	6,476
Dividends paid	(739)	(501)
Net cash provided by financing activities	159,846	189,937
Net increase (decrease) in cash and cash equivalents	(12,936)	(3,814)
Cash and cash equivalents at beginning of period	68,834	52,666
Cash and cash equivalents at end of period	$ 55,898	$ 48,852
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 41,098	$ 34,628
Income Taxes	$ 3,975	$ 3,985

(1) See note 2 of Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting and financial reporting policies of United Community Banks, Inc. (the Company) and its subsidiaries conform to generally accepted accounting principles and general banking industry practices. The following consolidated financial statements have not been audited and all material intercompany balances and transactions have been eliminated. A more detailed description of the company's accounting policies is included in the 1997 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 - CAPITAL SECURITIES

In July, 1998, a statutory business trust ("United Community Capital Trust") was created by the Company which in July, 1998, issued guaranteed preferred beneficial interests in the Company's junior subordinated preferrable interest debentures ("Capital Securities") to institutional investors in the amount of $21 million. This issuance represented the guaranteed preferred beneficial interests in $21 million in junior subordinated deferrable interest debentures ("Subordinated Debentures") issued by the Company to United Community Capital Trust. For regulatory purposes, the Capital Securities will be treated as Tier I capital of the Company. The subordinated debentures are the sole assets of United Community Capital Trust and bear an interest rate of 8.125% with a maturity date of July 15, 2028, which may be shortened to a date not earlier than January 15, 2008. If the subordinated debentures are redeemed in part or in whole prior to January 15, 2008, the redemption price of the Subordinated Debentures and the Capital Securities will include a premium ranging from 4.06% in 2008 to 0.41% in 2017.

Note 3 - Earnings Per Share

	Three Months Ended September 30		Nine Months Ended September 30	
	1998	1997	1998	1997
	(In thousands, except per share data)			
	(Unaudited)			
Basic earnings per share:				
Weighted average shares outstanding	$ 7,394	$ 7,385	$ 7,391	$ 7,272
Net income	3,148	2,856	8,690	7,738
Basic earnings per share	0.43	0.39	1.18	1.06
Diluted earnings per share:				
Weighted average shares outstanding	7,394	7,385	7,391	7,272
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the period	98	55	88	40
Effect of conversion of subordinated debt	140	140	140	140
Total weighted average shares and common stock equivalents outstanding	7,632	7,580	7,619	7,452
Net income, as reported	3,148	2,856	8,690	7,738
Income effect of conversion of subordinated debt, net of tax	47	47	142	142
Net income, adjusted for effect of conversion of subordinated debt, net of tax	$ 3,195	$ 2,903	$ 8,832	$ 7,880
Diluted earnings per share	0.42	0.38	1.16	1.06

NOTE 4 - RECENTLY ISSUED ACCOUNTING STANDARDS

During 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 became effective in the first quarter of 1998 and requires a disclosure of comprehensive income in a full set of general-purpose financial statements. In addition to net income, comprehensive income includes all other changes in stockholders' equity during the reporting period except those resulting from investments from or distributions to stockholders. The company is presenting a consolidated statement of comprehensive income in order to comply with this disclosure requirement.

During June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). SFAS No. 133 standardizes the accounting for derivative instruments, including certain derivative instruments imbedded in other contracts. Under this new standard, companies are required to carry all derivative instruments in the statement of financial position at market value. The Company must adopt SFAS 133 by January 1, 2000, although the FASB will permit earlier adoption. Once adopted, the provisions of SFAS must be applied prospectively.

The Company does not anticipate that adoption of SFAS 133 will have a material impact on the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This discussion contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Although the Company believes that the assumptions underlying the forward-looking statements contained in the discussion are reasonable, any of the assumptions could be inaccurate, and therefore, no assurance can be made that any of the forward-looking statements included in this discussion will be accurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to: economic conditions (both generally and in the markets where the Company operates); competition from other providers of financial services offered by the Company; government regulation and legislation; changes in interest rates; material unforeseen changes in the financial stability and liquidity of the Company's credit customers; material unforeseen complications related to the Year 2000 issues for the Company, its suppliers, customers and governmental agencies; and other risks detailed in the Company's filings with the Securities and Exchange Commission, all of which are difficult to predict and which may be beyond the control of the Company. The Company undertakes no obligation to revise forward-looking statements to reflect events or changes after the date of this discussion or to reflect the occurrence of unanticipated events.

OVERVIEW

United Community Banks, Inc. (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956. The company has six commercial bank subsidiaries that operate primarily in North Georgia and Western North Carolina. As of September 30, 1998, the Company had 26 bank branches in operation. Total assets at September 30, 1998 were $1.3 billion, compared to $1.2 billion at December 31, 1997. This increase represents annualized growth of approximately 20%.

RECENT DEVELOPMENTS

The Company opened a de novo branch in Etowah, North Carolina during July, 1998, and is planing to open a de novo branch in Cherokee, North Carolina by the end of 1998. In addition, a de novo branch is currently under construction in Murrayville, Georgia, with a scheduled opening date of April, 1999.

INCOME SUMMARY

For the nine months ended September 30, 1998, the Company reported net income of $8.7 million, or $1.16 per diluted share, compared to $7.7 million, or $1.06 per diluted share, for the same period in 1997. The year-to-date results for 1998 result in an annualized return on assets and equity of .94% and 14.68%, respectively, compared to 1.04% and 15.95%, respectively, for the same period in 1997. Net income for the three months ended September 30, 1998 was $3.1 million, or $.42 per diluted share, compared to $2.9 million, or $.38 per diluted share, for the same period last year.

Net income for the nine months ended September 30, 1998 increased 12% compared to the same period in 1997. This increase was the result of an increase in net interest income of $7.0 million, or 23%, a reduction in provision for loan loss of $461 thousand, or 22%, an increase in non-interest income of $947 thousand, or 19%, an increase

in non-interest expense of $6.7 million, or 29%, and an increase in income taxes of $780 thousand, or 22%.

NET INTEREST INCOME

Net interest income is the largest source of the Company's operating income. Net interest income on a tax-equivalent basis was $39.2 million for the nine months ended September 30, 1998, compared to $31.9 million for the same period in 1997, an increase of 23%. The increase in net interest income is primarily attributable to increases in outstanding average loans of $169 million, or 24%, and average securities of $48 million, or 26%, for the nine months ended September 30, 1998 as compared to the prior year. These increases in average interest earning assets were funded primarily with increased average deposit balances of $184 million, or 21%, and increased average borrowed funds of $34 million, or 63%.

Net interest income on a tax-equivalent basis for the quarter ended September 30, 1998 was $13.8 million, an increase of $2.5 million, or 23%, from the third quarter of 1997. This increase is primarily attributed to increases in outstanding average loans of $172 million, or 23%, and average securities of $55 million, or 27%, for the third quarter of 1998 as compared to the same period in 1997.

For the nine months ended September 30, 1998, the net interest margin (net interest income as a percentage of average interest earning assets) on a tax-equivalent basis was 4.59%, unchanged from the same period in 1997. The net interest margin for the quarter ended September 30, 1998 was 4.51%, a 2 basis point improvement over the same period in 1997.

The following tables show the relative impact of changes in average balances of interest earning assets and interest bearing liabilities, and interest rates earned (on a fully-tax equivalent basis) and paid by the company on those assets and liabilities, for the nine and six month periods ended September 30, 1998 and 1997.

AVERAGE CONSOLIDATED BALANCE SHEETS AND NET INTEREST ANALYSIS
(UNAUDITED)
In thousands

	Nine Months Ended			Nine Months Ended		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS:						
Interest-earning assets:						
Loans, net of unearned income	$ 879,132	$ 68,328	10.39%	$ 710,248	$ 55,503	10.45%
Securities	234,376	11,038	6.30%	186,731	8,878	6.36%
Federal funds sold and other interest income	27,615	1,202	5.82%	33,300	1,581	6.35%
TOTAL INTEREST-EARNING ASSETS / INTEREST INCOME	1,141,123	80,569	9.44%	930,279	65,962	9.48%
NON-INTEREST-EARNING ASSETS:						
Cash and due from banks	38,439			26,641		
Premises and equipment	31,730			21,888		
Other assets	20,846			12,506		
TOTAL ASSETS	$ 1,232,138			$ 991,314		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand (NOW)	$ 190,244	$ 5,919	4.16%	$ 137,966	$ 4,039	3.91%
Savings deposits	50,874	1,068	2.81%	42,764	883	2.76%
Money market accounts	36,889	960	3.48%	35,952	902	3.35%
Certificates of deposit	654,432	29,299	5.99%	563,582	25,518	6.05%
Individual Retirement Accounts						
Total interest-bearing deposits	932,439	37,246	5.34%	780,264	31,342	5.37%
Federal Home Loan Bank advances	66,360	2,850	5.74%	39,689	1,800	6.06%
Long-term debt and other borrowing	20,828	1,262	8.10%	13,879	872	8.40%
Total borrowed funds	87,188	4,112	6.31%	53,568	2,672	6.67%
TOTAL INTEREST-BEARING LIABILITIES / INTEREST EXPENSE	$ 1,019,627	$ 41,358	5.42%	$ 833,832	$ 34,014	5.45%
NON-INTEREST-BEARING LIABILITIES:						
Non-interest-bearing deposits	122,143			90,302		
Other liabilities	7,972			6,484		
Total liabilities	1,149,742			930,618		
Shareholders' equity	82,396			$ 60,696		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,232,138			$ 991,314		
Net interest-rate spread			4.02%			4.03%
Impact of non-interest bearing sources and other changes in balance sheet composition			0.57%			0.56%
NET INTEREST INCOME / MARGIN ON INTEREST-EARNING ASSETS		$ 39,211	4.59%		$ 31,948	4.59%

Includes Capital Trust Securities

/TABLE

	Nine Months Ended September 30, 1998 Compared to 1997		
	Increase (decrease) in interest income and expense due to changes in:		
	Volume	Rate	Total
Interest-earning assets:			
Loans	$13,128	$ (303)	$12,825
Securities	2,245	(84)	2,161
Mortgage loans held for sale			
Federal funds sold and other interest income	(255)	(124)	(379)
TOTAL INTEREST-EARNING ASSETS	15,118	(511)	14,607
INTEREST-BEARING LIABILITIES:			
Interest-bearing demand (NOW)	1,613	267	1,880
Savings deposits	170	15	185
Money market accounts	24	34	58
Certificates of deposit	4,070	(289)	3,781
Brokered certificates of deposit			
Other time deposits			
Total interest-bearing deposits	5,877	27	5,904
Federal funds purchased and repurchase agreements	1,150	(100)	1,050
Long-term debt and other borrowing	422	(32)	390
Total borrowed funds	1,572	(132)	1,440
TOTAL INTEREST-BEARING LIABILITIES	7,449	(105)	7,344
INCREASE (DECREASE) IN NET INTEREST INCOME	$ 7,669	$ (406)	$ 7,263

Includes Capital Trust Securities

/TABLE

AVERAGE CONSOLIDATED BALANCE
(UNAUDITED)
In thousands

	Three Months Ended September 30, 1998			Three Months Ended September 30, 1997		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS:						
Interest-earning assets:						
Loans, net of unearned income	$ 922,558	$ 24,203	10.41%	$ 750,635	$ 19,866	10.50%
Securities	257,434	3,809	5.87%	202,759	3,021	5.91%
Federal funds sold and other interest income	33,696	507	5.97%	42,484	797	7.44%
TOTAL INTEREST-EARNING ASSETS / INTEREST INCOME	$ 1,213,688	28,520	9.32%	995,878	23,683	9.43%
NON-INTEREST-EARNING ASSETS:						
Cash and due from banks	40,349			28,207		
Premises and equipment	33,542			23,649		
Other assets	26,528			12,274		
TOTAL ASSETS	$ 1,314,107			$ 1,060,007		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest-bearing demand (NOW)	$ 207,592	$ 2,169	4.15%	145,365	$ 1,433	3.91%
Savings deposits	53,729	386	2.85%	43,838	305	2.76%
Money market accounts	40,462	349	3.42%	36,182	309	3.39%
Certificates of deposit	663,454	9,971	5.96%	612,989	9,432	6.10%
Total interest-bearing deposits	965,237	12,875	5.29%	838,375	11,479	5.43%
Federal Home Loan Bank advances	92,768	1,325	5.67%	42,418	661	6.18%
Long-term debt and other borrowing	23,515	513	8.66%	13,635	273	7.94%
Total borrowed funds	116,284	1,838	6.27%	56,053	934	6.61%
TOTAL INTEREST-BEARING LIABILITIES / INTEREST EXPENSE	$ 1,081,521	$ 14,713	5.40%	$ 894,428	$ 12,413	5.51%
NON-INTEREST-BEARING LIABILITIES:						
Non-interest-bearing deposits	132,210			99,140		
Other liabilities	8,745			6,944		
Total liabilities	1,222,476			1,000,512		
Shareholders' equity	91,631			$ 59,496		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,314,107			$ 1,060,007		
Net interest-rate spread			3.92%			3.92%
Impact of non-interest bearing sources and other changes in balance sheet composition			0.59%			0.57%
NET INTEREST INCOME / MARGIN ON INTEREST-EARNING ASSETS		$ 13,807	4.51%		$ 11,270	4.49%

Includes Capital Trust
/TABLE

	Three Months Ended September 30, 1998 Compared to 1997		
	Increase (decrease) in interest income and expense due to changes in:		
	Volume	Rate	Total
INTEREST-EARNING ASSETS:			
Loans	$4,512	$ (174)	$4,338
Securities	809	(20)	789
Mortgage loans held for sale			
Federal funds sold and other interest income	(148)	(142)	(290)
TOTAL INTEREST-EARNING ASSETS	5,173	(336)	4,837
INTEREST-BEARING LIABILITIES:			
Interest-bearing demand (NOW)	646	90	736
Savings deposits	71	10	81
Money market accounts	37	3	40
Certificates of deposit	762	(223)	539
Brokered certificates of deposit			
Other time deposits			
Total interest-bearing deposits	1,516	(120)	1,396
Federal funds purchased and repurchase agreements	723	(59)	664
Long-term debt and other borrowing (1)	214	26	240
Total borrowed funds	937	(33)	904
TOTAL INTEREST-BEARING LIABILITIES	2,453	(153)	2,300
INCREASE (DECREASE) IN NET INTEREST INCOME	$2,720	$ (183)	$2,537

PROVISION FOR LOAN LOSS

The provision for loan losses was $1.6 million, or .24% of average loans on an annualized basis, for the nine months ended September 30, 1998, compared to $2.1 million, or .39% of average loans, for the same period in 1997. Net loan charge-offs for the nine months ended September 30, 1998 were $421 thousand, or .06% of average loans on an annualized basis, compared to $204 thousand, or .04% of average loans on an annualized basis, for the same period in 1997. The provision for loan losses and allowance for loan losses reflect management's consideration of the various risks in the loan portfolio. Additional discussion of loan quality and the allowance for loan losses in provided in the Asset Quality discussion section of this report.

NON-INTEREST INCOME

Non-interest income for the nine months ended September 30, 1998 was $6.0 million, an increase of $947 thousand, or 19%, over the comparable 1997 period. Excluding net gains on the sale of securities, non-interest income was $5.7 million for the nine months ended September 30, 1998, and increase of $1.3 million, or 29%, compared to the same period in 1997. The increase of $1.3 million is primarily attributed to an increase in service charges on deposit accounts of $587 thousand resulting from an increase in the number and volume of transaction deposit accounts, an improvement in mortgage banking fees of $528 thousand resulting from significantly higher level of refinance originations due to historically low mortgage rates, and increased trust and brokerage fees of $153 thousand, or 75%, resulting from an initiative to grow trust assets under management.

NON-INTEREST EXPENSE

For the nine months ended September 30, 1998, non-interest expense totaled $29.6 million, an increase of $6.7 million, or 29%, from the same period in 1997. The largest component of non-interest expense is employee salaries and benefits, which totaled $16.8 million for the nine months ended September 30, 1998, an increase of $4.0 million, or 31%, compared to the same period in 1997. The efficiency ratio, which is a measure of operating expenses as a percentage of operating revenues excluding securities gains, was 67.2% for the nine months ended September 30, 1998, compared to 64.0% for the same period in 1997. The increase in non-interest expense and the efficiency ratio are primarily attributed to the Company's recent internal growth, which included the construction of new branch offices. Comparing the nine month period ended September 30, 1998 with the same period in 1997, compensation and benefit expense increased $4.0 million, or 31%; total occupancy expense (which includes equipment expense) increased $1.1 million, or 31%; and, total other operating expense increased $1.6 million, or 25%. Significant increases in the other operating expense category for the nine months ended September 30, 1998 as compared to the same period in 1997 include: ATM expenses of $108 thousand, or 42%; postage and supply expense of $407 thousand, or 34%; advertising expense of $152 thousand, or 14%; and, goodwill and core deposit amortization expense of $108 thousand, or 35%.

The Company has recently undertaken a program aimed at improving operating efficiencies, primarily by centralizing certain back-office functions that are currently performed at various locations that do not have a direct impact on customer contact. Examples of functions being centralized include deposit operations, wire transfers and accounts payable. This program is currently in the development

stage and implementation will be done in phases throughout 1999. Management does not anticipate any forced reductions in staffing levels, since affected employees will be offered comparable positions at the Company's operating headquarters; however, management anticipates some level of attrition for which replacement will not be necessary. Overall, management expects the Company's future growth will not require proportionate increases in operational costs which should result in improved operating efficiencies.

INCOME TAXES

Income tax expense increased by $780 thousand, or 22%, during the first nine months of 1998 as compared to the same period in 1997. The effective tax rate for the nine months ended September 30, 1998 was 33.6%, compared to 31.8% for comparable 1997 period. This increase is primarily attributed to the Company moving into a higher federal income tax bracket associated with taxable income amounts greater that $10 million.

LOANS

The Company experienced annualized loan growth of 19.2% for the nine month period ended September 30, 1998. Outstanding loans, net of unearned income, totaled $942 million at September 30, 1998, compared to $823 million at December 31, 1997. The loan growth experienced during the first nine months of 1998 is attributed to continued robust economic conditions in the Company's market area and corresponding strong demand for residential construction, residential mortgage, consumer and commercial loans. Average loans for the nine months ended September 30, 1998 were $879 million compared to $710 million for the comparable 1997 period, representing an increase of 24%. The average tax-equivalent yield on loans for the nine months ended September 30, 1998 was 10.39%, compared to 10.45% for the same period in 1997. This decline is primarily attributed to the increased competitive pressures on loan pricing.

Asset Quality

Non-performing assets, which is comprised of non-accrual loans, loans past-due 90 days or more and still accruing interest and other real estate owned totaled $1.6 million, compared to $1.4 million at December 31 1997. Non-performing loans at September 30, 1998 consist primarily of loans secured by real estate, which comprise $710,000 or 91%, or total non-performing loans. These loans are generally well secured and in the process of collection. Other real estate owned at September 30, 1998 totaled $781 thousand, compared to $386 thousand at December 31, 1998, and was comprised of six properties.

Management classifies loans as non-accrual when principal or interest is 90 days or more past due and the loan is not sufficiently collateralized and in the process of collection. Once a loan is classified as non-accrual, it cannot be reclassified as an accruing loan until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain. Foreclosed properties held as other real estate owned are recorded at the lower of the Company's recorded investment in the loan or market value.

The following table presents information about the Company's non-performing assets, including asset quality ratios.

NON-PERFORMING ASSETS
(unaudited)
In thousands

	September 30, 1998	December 31, 1997
Non-accrual loans	$ 515	$ 536
Loans past due 90 days or more and still accruing	264	515
Total non-performing loans	779	1,051
Other real estate owned	781	386
Total non-performing assets	$ 1,560	$ 1,437
Total non-performing loans as a percentage of total loans	0.08%	0.13%
Total non-performing assets as a percentage of total assets	0.12%	0.12%
Allowance as a percentage of total loans	1.23%	1.26%
Allowance for loan losses as a percentage of non-peforming loans	1481%	985%
Allowance for loan losses as a percentage of non-perfoming assets	739%	720%

As of September 30, 1998 the Company had $4.8 million of outstanding loans that were not included in the past-due or non-accrual categories, but for which management had knowledge that the borrowers were having financial difficulties. Although these difficulties are serious enough for management to be uncertain of the borrowers' ability to comply original repayment terms of the loans, no losses are anticipated at this time in connection with them based on current market conditions, cash flow generation and collateral values.

These loans are subject to routine management review and are considered in determining the adequacy of the allowance for loan losses.

The allowance for loan losses at September 30, 1998 totaled $11.5 million, and increase of $1.2 million from December 31, 1997. This provides a ratio of allowance to total loans at September 30, 1998 of 1.23%, compared to 1.26% at December 31, 1997. At September 30, 1998 and December 31, 1997 the ratio of allowance for loan losses to total non-performing loans was 1481% and 985%, respectively.

Management believes that the allowance for loan losses at September 30, 1998 is sufficient to absorb losses inherent in the loan portfolio. This assessment is based upon the best available information and does involve a degree of uncertainty and matters of judgement. Accordingly, the adequacy of the loan loss reserve cannot be determined with precision and could be susceptible to significant change in future periods. Further discussion of the allowance for loan losses is included in the Year 2000 section of this discussion.

The following table provides an analysis of the changes in the Company's allowance for loan losses for the nine month periods ended September 30, 1998 and 1997.

Allowance for Loan Losses
(unaudited)
In thousands

	Nine Months Ended September 30,	
	1998	1997
Balance beginning of period	$10,352	$8,125
Provision for loan losses	1,605	2,066
Loans charged-off	(787)	(535)
Charge-off recoveries	366	331
Net charge-offs	(421)	(204)
Balance end of period	$11,536	$9,987
Net charge-offs as a percentage of average loans (annualized)	0.06%	0.04%

DEPOSITS AND BORROWED FUNDS

Total average non-interest bearing deposits for the nine months ended September 30, 1998 were $122.1 million, an increase of $32 million, or 35%, from the same period in 1997. For the three months ended September 30, 1998, total average non-interest bearing deposits were $132.2 million, an increase of $33.1 million, or 33%, from the comparable 1997 period. These increases are the result of management's efforts to increase to level of deposits used to fund earning assets.

Total average borrowed funds for the nine months ended September 30, 1998 were $87.2 million, an increase of $33.6 million, or 63%, from the comparable 1997 period. For the three months ended September 30, 1998, total average borrowed funds were $116.2 million, an increase of $60.2 million, or 108%, from the third quarter of 1997. Most of the increase for both the nine and three month periods is attributed to increased net borrowings from the Federal Home Loan Bank ("FHLB"), which were used to fund loan growth and the purchase of investment securities classified as available for sale. At September 30, 1998, the Company had aggregate FHLB borrowings of approximately $87 million.

ASSET/LIABILITY MANAGEMENT

The Company's financial performance is largely dependent upon its ability to manage market interest rate risk, which can be further defined as the exposure of the Company's net interest income to fluctuations in interest rates. Since net interest income is the largest component of the Company's earnings, management of interest

rate risk is a top priority. The Company's risk management program includes a coordinated approach to managing interest rate risk and is governed by policies established the Asset/Liability Management Committee ("ALCO"), which is comprised of members of the Company's senior management team. The ALCO meets regularly to evaluate the impact of market interest rates on the assets, liabilities, net interest margin, capital and liquidity of the Company and to determine the appropriate strategic plans to address the impact of these factors.

The Company's balance sheet structure is primarily short-term with most assets and liabilities either repricing or maturing in five years or less. Management monitors the sensitivity of net interest income to changes in market interest rates by utilizing a dynamic simulation model. This model measures net interest income sensitivity and volatility to interest rate changes based on assumptions which management believes are reasonable. Factors considered in the simulation model include actual maturities, estimated cash flows, repricing characteristics, deposit growth and the relative sensitivity of assets and liabilities to changes in market interest rates. The simulation model considers other factors that can impact net interest income, including the mix or earning assets and liabilities, yield curve relationships, customer preferences and general market conditions. Utilizing the simulation model, management can project the impact of changes in interest rates on net interest income.

In order to assist in achieving a desired level of interest rate sensitivity, the Company has entered into 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. These contracts include interest rate swaps in which the Company pays a variable rate and receives a fixed rate on a notional amount and interest rate cap contracts for which the Company pays an up-front premium in exchange for a variable cash flow if interest rates exceed the cap rate. As of September 30, 1998, the Company had three swap contracts with a combined notional amount of $25 million; maturity dates for these contracts range from December, 1998 through January, 1999. In addition, the Company had one cap contract as of September 30, 1998 with a notional amount of $10 million that matures in September, 2003. In order to minimize the credit risk of derivative financial instruments, the Company requires that all contract counterparties have an investment grade or better credit rating.

The Company requires all derivative financial instruments be used only for asset/liability management or hedging 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 sensitivity is minimal and should not have any material unintended impact on the Company's financial condition or results of operations. An explanation of a recently issued accounting standard that applies to use of derivative financial instruments is included in the Notes to Consolidated Financial Statements section of this report.

CAPITAL RESOURCES AND LIQUIDITY

The following table shows the Company's capital ratios, as calculated under regulatory guidelines, compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution at September 30, 1998 and December 31, 1997:

	September 30, 1998	December 31, 1997
Leverage ratio	6.76%	5.76%
Regulatory minimum	3.00	3.00
Well-capitalized minimum	5.00	5.00
Tier I risk-based capital	10.63	8.59
Regulatory minimum	3.00	3.00
Well-capitalized minimum	5.00	5.00
Total risk-based capital	12.26	10.28
Regulatory minimum	8.00	8.00
Well-capitalized minimum	10.00	10.00

The improvement in the leverage ratio over the prior period shown in the table above is primarily due to the continued growth in net income and the Company's current dividend policy, which is allowing the Company to retain approximately 85% of net earnings. The company is currently paying dividends on a quarterly basis and expects to continue making such distributions in the future if results from operations and capital levels are sufficient. Effective with the first quarter of 1998, the quarterly dividend was increased by 50%, to $.0375 from $.0250. For the nine months ended September 30, 1998 the Company paid dividends of $.1125 per common share, compared to $.075 per common share for the same period in 1997.

Improvement in the Tier I and Total risk-based capital ratios is attributed to the growth in net income retained by the Company and the issuance of $21 million of 8.125% Company obligated mandatorily redeemable capital securities of subsidiary trust holding solely junior subordinated debentures of the Company ("Capital Securities") of July 15, 1998 which, under current regulatory guidelines, qualify as Tier I capital.

Liquidity measures the ability to meet current and future cash flow needs as they become due. Maintaining an adequate level of liquid funds, at the most economical cost, is an important component of the Company's asset and liability management program. The Company has several sources of available funding to provide the required level of liquidity. The Company, like most banking organizations, relies primarily upon cash inflows from financing activities (deposit gathering, short-term borrowing and issuance of long-term debt) in order to fund its investing activities (loan origination and securities purchases). The financing activity cash inflows such as loan payments and securities sales and prepayments are also a significant component of liquidity.

YEAR 2000

OVERVIEW

The "Year 2000" issue refers to potential problems that may result from the improper processing of dates and date-dependent calculations by computers and other microchip-embedded technology (like an alarm or telephone system). In simple terms, problems with Year 2000 can result from a computer's inability to recognize a two-digit date field (00) as representing year 2000 and, incorrectly, recognize the year as 1900. Failure to identify and correct this problem could result in system processing errors that would disrupt the Company's normal business operations. In recognition of the seriousness of this issue, and in accordance with directives on Year 2000 issued by banking regulatory agencies, the Company established a Year 2000 Committee in January, 1998. This committee is chaired by the Company's Chief Information Officer and reports directly to the Company's board of directors on a quarterly basis.

STATE OF READINESS

The Company has adopted a seven-phase action plan to address Year 2000 issues and expects to address all aspects of the action plan in a timely manner and to be prepared for the impact Year 2000 will have on the Company, its systems, vendors and customers. The seven phases are:

1. AWARENESS - The Year 2000 committee and committee chairman were appointed and authorized to develop an overall strategy for addressing the Year 2000 issue. An on-going awareness program has been developed to keep directors, employees and customers informed about the Year 2000 issue and apprised of the Company's progress in addressing it.

2. INVENTORY - Entails completion of a specific, detailed inventory of all hardware, software and other microchip-embedded products used by the Company. Procedures are established to ensure that any new purchases are properly analyzed for Year 2000 compliance and then inventoried. Vendors and suppliers are contacted to ascertain Year 2000 compliance status and efforts to remediate potential problems.

3. ASSESSMENT - Mission critical areas are identified and testing to identify potential problem areas begins. Budgets are developed for expected expenses and other resources needed to adequately address potential problems. The potential risk exposure posed by credit customers and large depositors is also evaluated.

4. RENOVATION/ANALYSIS - Vendors that supply system applications are requested to provided certification that their product used by the Company is Year 2000 compliant. Non-compliant systems are renovated or replaced.

5. TESTING - All replaced or upgraded systems are tested to ensure full correction of any Year 2000 issues and then review by a third party for validation of corrective action. Contingency plans are tested for effectiveness.

6. IMPLEMENTATION - A final review of all systems after the renovation of problematic areas is completed. Management and system users will carefully assess the status of corrective action.

7. POST-IMPLEMENTATION - Utilizing the contingency plans, the Year 2000 committee will continue to refine backup processes and procedures to be used in a worst-case scenario.

This seven-phase program applies to both information technology ("IT") and non-information technology ("non-IT") systems that are affected by Year 2000 that have been designated by the Year 2000 Committee as "mission critical." For purposes of the Year 2000 project, mission critical systems are defined as any technology element that, if not able to function properly, could result in financial liability, loss of revenue, significant customer service/support problems and damage to the Company's reputation.

The following table identifies some, but not all, IT and non-IT mission critical systems and elements:

IT	Non-IT
Mainframe hardware	Security systems
Mainframe software	HVAC systems
ATMs	Vault doors
PC network hardware	Printed forms
PC network software	Phone systems

As of September 30, 1998, the awareness and inventory phases of the Year 2000 project have been completed for both IT and non-IT systems.

The Federal Financial Institutions Examination Council (FFIEC) issued a statement entitled "Year 2000 Project Management Awareness" in May, 1997. This statement established key milestones that banks and other financial institutions must meet with regard to Year 2000 testing and remediation.

The following table sets forth each deadline of this statement and where the Company stands, as of September 30, 1998, with respect to meeting each deadline.

Date	Task	Company's Status
June 30, 1998	Complete development of all written testing strategies, plans and policies; due diligence to determine Year 2000 risk posed by customers implemented.	Completed
September 1, 1998	Commence testing of internal Mission-critical systems; assessment of customers' Year 2000 preparedness and potential impact on the Company substantially complete.	Completed
December 31, 1998	Testing of internal mission-critical systems substantially complete	Testing cannot commence until a year-end 1998 data file of all accounts is available; expect to be substantially complete by January 31, 1999
March 31, 1999	External testing with material third parties begins	Scheduled for completion by March 31, 1999
June 30, 1999	Testing of all mission-critical systems completed and corrective actions substantively completed.	Scheduled for completion by June 30, 1999

The FFIEC has, under its bank supervisory authority, developed a multi-phase examination process to determine if banks are complying with the provisions of the awareness statement described above. The Company intends to comply with all regulatory requirements established by banking regulatory agencies and the Securities and Exchange Commission.

As is the case with many financial institutions, the Company is dependent upon third parties to provide systems used in daily operations. Examples include, but are not limited to, firms that provide both mainframe and desktop computer hardware, bank processing software that tracks loans and deposits in an automated manner, telecommunications services, check clearing and electrical utilities.

Even though many providers of these products have advised that they are Year 2000 compliant, the Company is performing an independent testing and validation that will attempt to confirm that this is the case for each product as it is installed and used in the Company's operations. Generally speaking, the Company utilizes hardware and software providers that are registered under the Securities and Exchange Act of 1934; the Commission filings for each provider are being reviewed by management to determine if any significant disclosures with regard to the Year 2000 are made. In addition, the Company has requested all providers of hardware, software, processing services and other systems that are date-sensitive to provide written certification of the Year 2000 status for their product or service. The following table sets forth the Company's significant material relationships with third parties that, in the opinion of management, could potentially result in business interruption if the product or service provided is not Year 2000 compliant. This table is not intended to itemize all relationships with third-party service providers.

Product/Service	Year 2000 Assessment Status
Bank processing system	Certified compliant by manufacturer; being tested internally
Mainframe	In final phase of internal testing
Telecommunications services	Testing scheduled for first quarter of 1999
Wire transfers	Certified compliant by proxy
Check clearing	Certified compliant by proxy

EXPECTED COSTS ASSOCIATED WITH ADDRESSING YEAR 2000

As part of the Company's initiative to assess its state of readiness with regard to Year 2000, a budget was developed by the Year 2000 Committee. The budget is divided into five distinct categories:

Consulting - costs incurred with the engagement of third-party consultants and solution providers to assist with management of the Year 2000 project, to review and negotiate contracts and insurance coverage and to perform audits of the Company's state of readiness for the Year 2000.

Inventory - costs associated with the initial inventory and review of all of the Company's systems, including hardware, software and any other micro-chip embedded products.

Testing - cost associated with running tests on the company's systems, both individually and collectively, to determine if processing is affected by any of the potential problem dates associated with the Year 2000 and documenting the results of the tests. These costs may also include costs to upgrade the Company's computer systems to provide sufficient system resources to perform the tests.

Remediation - costs incurred to repair, upgrade or replace hardware, software or other micro-chip embedded technology that is not Year 2000 compliant.

Resources - costs associated with staff training and customer awareness with regard to the Year 2000 issue. Examples of this type of cost are fees for an employee to attend a seminar on Year 2000 or costs to produce a pamphlet on Year 2000 for the Company's customers.

The following table sets for the Company's budget for the Year 2000 issue and actual amounts expended as of September 30, 1998. All amounts shown are pre-tax. In addition, the table indicates the percentage of each budget line item (as described above) that is expected to be recognized as current period expense and the percentage that is expected to be recorded as a new asset with expense recognized over the useful life of the asset through charges to depreciation expense. Management intends to provide an update of this table in periodic reports with the Securities and Exchange Commission on Forms 10-K and 10-Q.

Year 2000 Budget
(unaudited)
In thousands

	Budget	% of Total Budget	Actual Costs Incurred as of 30-Sep-98	% of Budget Expended as of 30-Sep-98	% of Budget	
					Expensed	Amortized
Consulting	$ 175	9%	$ 13	7%	100%	0%
Inventory	70	4%	60	86%	100%	0%
Testing	82	4%	23	28%	100%	0%
Remediation	1,520	80%	1,259	83%	15%	85%
Resources	53	3%	16	30%	100%	0%
Total	$1,900	100.0%	$1,371	72%	12%	88%

In accordance with recently issued accounting guidelines on how Year 2000 costs should be recognized for financial statement purposes (EITF 96-14), the Company intends to recognize as current period expense all costs associated with the consulting, inventory, testing and resources components of the Year 2000 budget. The costs associated with remediation, which comprise approximately 80% of the Year 2000 budget, are primarily related to the installation of a new wide-area desktop computer network (WAN) that will replace virtually all of the desktop computers, file servers and peripheral equipment currently in use. In addition to being expected to be Year 2000 compliant, the new WAN will provide the Company with a uniform standard desktop computer configuration, internal and external e-mail capability, internet access and savings on telephone communication costs through utilization of the WAN communications backbone for voice communication. The Company intends to leverage this new WAN technology to increase the levels of employee productivity and improve the operating efficiency. The costs of the WAN component of the

Year 2000 remediation budget will be recognized over a useful life of three years at a cost of approximately $450,000 per year starting in the first quarter of 1999. This annual cost does not include any of the anticipated savings that the Company expects to achieve through improved operating efficiency and reduced telecommunications cost over the next three years. Approximately 8%, or $150 thousand, of the remediation budget will be recognized as expense for the write-off of any desktop computer network equipment that will be functionally obsolete after the new WAN is installed.

The Company expects to fund the costs associated with preparing for Year 2000 out of its normal operating cash flows. No major information technology initiatives have been postponed as a result of Year 2000 preparation that would have a material impact on the Company's financial condition or results of operations.

MATERIAL RISKS ASSOCIATED WITH THE COMPANY'S YEAR 2000 ISSUES

CREDIT RISK - the Company, in the conduct of its ordinary operations, extends credit to individuals, partnerships and corporations. The extension of credit to businesses is based upon an evaluation of the borrower's ability to generate cash flows from operations sufficient to repay principal and interest, in addition to meeting the operating needs of the business. Failure of one of the Company's business borrowers to adequately prepare for the impact a Year 2000 failure could have on its business could potentially impair its ability to repay the loan. An example of this would be a loan to a building supply store that has computer accounting systems that fail to recognize Year 2000 and, consequently, are unable to calculate and bill accounts receivable in January 2000. This failure would most likely have a negative impact on the customer's cash flow and, consequently, its ability to repay the loan in accordance with its original terms. The Company's exposure to Year 2000 credit risk is somewhat mitigated by the fact that only 13% of the $930 million in outstanding loans are to commercial enterprises. In order to assess the risks of Year 2000 in these loans, the Company's credit administration department has developed a risk determination questionnaire to be completed by the loan officer responsible for a commercial credit, both existing and new requests. If the questionnaire responses indicate that the customer is not giving sufficient consideration to the risks of Year 2000 on his or her company, the loan risk rating of the credit will be adjusted to reflect increased credit risk and an additional allocation of the allowance for loan losses will be made. Additional charges to the provision for loan loss will be made if, in the estimation of management, the increased risk for loan loss related to Year 2000 is not adequately provided for in the allowance for loan losses as of any balance sheet date. As of the date of this report, the initial questionnaires have been completed and are in the process of being reviewed by loan review staff and members of the Company's information technology staff.

LIQUIDITY RISK - is the risk to the Company's earnings and capital arising from an inability to raise sufficient cash to meet obligations as they come due. This risk is a very significant one for the Company since its primary business is banking, which involves taking deposits, which are generally due upon demand. Since the Company uses these deposits to fund loans and purchase investment securities, a dramatic increase in deposit withdrawals because of Year 2000 problems specific to the Company or of a more general nature could have an adverse impact on the Company. Specifically, the Company could be forced to liquidate investments under adverse market conditions (that is, to sell at a loss) in order to fund a significantly higher level of deposit withdrawal activity. The Company is assessing its liquidity risk by running various scenarios of deposit withdrawals coincident with the turn of millenium, ranging

from normal activity to what could be reasonably expected in a panic situation. As of September 30, 1998, the Company (or its affiliate banks) has federal funds lines of credit totaling approximately $15 million, unpledged investment securities available for repurchase agreements of approximately $100 million, secured borrowing availability at the Federal Home Loan Bank (FHLB) of approximately $200 million and a secured line of credit for $15 million, all of which can provide additional liquidity if the lending insitutions (in the case of borrowings) have funds available to lend at that point in time. In addition, the Company has secured borrowing facilities for all affiliate banks with the Federal Reserve that will allow access to additional borrowed funds, and the Federal Reserve has indicated in widely published reports that it will provide additional cash to the banking system through the discount window in order to alleviate liquidity pressures on financial institutions resulting from the desire of individuals to hold cash from late 1999 through the turn of the millenium.

TRANSACTION RISK - is the risk to the Company's earnings and capital resulting from failure to deliver one of its products or services in a acceptable manner. An examples of transaction risk related to Year 2000 is the ability of the Company's computer system to properly bill customers for loan payments due and account for the payments when received or the ability of a customer to perform a deposit or withdrawal at an ATM. In both of these examples, the individual customer is directly affected and the Company is impacted by the collective impact of all incorrectly processed customer transactions. Since all of the Company's products and services are processed in some manner by computer systems, all aspects of product design, delivery and support are being carefully evaluated in order to determine potential transaction risks.

The Company's Year 2000 policy also addresses other risks related to the Year 2000 issue which include, but are not limited to, strategic risk (adverse impact on business decisions or the implementation of business decisions, such as acquisitions); reputational risk (impact of bad publicity on customers and Company value); and legal risk (risk of litigation related to adverse impact of Year 2000 issues on the Company).

CONTINGENCY PLANNING FOR YEAR 2000

The Company's Year 2000 committee has presented the board of directors with a written Business Remediation and Business Resumption Contingency Policy. The purpose of this policy is to ensure that the Company is prepared to address any crisis situation(s) that could result from the failure of any of the Company's systems or third-party vendors and suppliers to recognize Year 2000 critical dates. The Company's Year 2000 contingency policy is modeled after the FFIEC interagency STATEMENT ON CONTINGENCY PLANNING IN CONNECTION WITH YEAR 2000 issued in May, 1997 and is comprised of four key phases:

1. ORGANIZATIONAL PLANNING - identification of core business processes and establishment of a timeline for a Year 2000 contingency plan.

2. BUSINESS IMPACT ANALYSIS - determination of Year 2000 failure risks for all core business processes and identification of failure scenarios. The minimal level of acceptable service in the event of failure is also determined.
3. DEVELOPMENT OF CONTINGENCY PLANS - identification and selection of the most reasonable and cost-effective contingency strategy for each core business process in the event of failure.

4. Contingency Plan Validation - validation of each plan by a qualified independent party and final approval by senior management and the board of directors.

A core business process is, for the purposes of the Company's Year 2000 contingency planning, defined as a group of interrelated tasks performed as a basic and integral part of the Company's daily operation. Examples of core business processes include posting of payments on loans and processing of checks, both which require a complex infrastructure of hardware, software, communications and power. Core business processes are further defined by potential impact on the Company and its operations. "Mission Critical" core business processes are those which, if not functioning properly because of failure to recognize Year 2000, will most likely cause an immediate loss of revenue and crisis-level customer service problems that could damage the Company's reputation. The Company's Year 2000 Committee is currently in the process of developing specific contingency plans that detail precisely how the "most likely worst-case scenarios" resulting from system failure will be handled. The objective of contingency planning is not to duplicate the complete functionality of failed systems, but, rather to identify the most economical means of resuming a minimally acceptable level of service in as short a time as possible.

QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

Information for this items is included under the heading of Asset/Liability Management in the Management's Discussion and Analysis section of this report.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

During the course of ordinary business, the Company and its subsidiaries are defendants in various legal proceedings. In the opinion of management, adverse decisions in any currently pending or threatened proceeding will not result in a material adverse change in the financial condition or results of operations of the Company.

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

Exhibit 27 - Financial Data Schedule (for SEC use only)

There were no reports on Form 8-K.

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 13, 1998

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

Date: November 13, 1998

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UNITED COMMUNITY BANKS, INC.
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