

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, 2004

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

(State of Incorporation)

58-180-7304

(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: 36,254,642 shares
outstanding as of September 30, 2004

INTRODUCTORY NOTE

All financial statements and per share amounts included in this Quarterly Report on Form 10-Q have been restated to reflect the three-for-two split of United's common stock effective on April 28, 2004.

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UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Income
For the Three and Nine Months Ended September 30,

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<i>(in thousands, except per share data)</i>				
Interest revenue:	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Loans, including fees	\$ 53,023	\$ 46,623	\$ 149,771	\$ 133,461
Federal funds sold and deposits in banks	181	140	358	307
Investment securities:				
Taxable	7,254	5,738	19,662	17,803
Tax exempt	514	694	1,625	2,164
Total interest revenue	<u>60,972</u>	<u>53,195</u>	<u>171,416</u>	<u>153,735</u>
Interest expense:				
Deposits:				
Demand	2,151	1,728	5,865	6,119
Savings	98	82	274	287
Time	10,608	9,784	29,678	30,673
Federal funds purchased	573	185	1,343	418
Other borrowings	5,712	5,667	16,186	16,005
Total interest expense	<u>19,142</u>	<u>17,446</u>	<u>53,346</u>	<u>53,502</u>
Net interest revenue	41,830	35,749	118,070	100,233
Provision for loan losses	2,000	1,500	5,600	4,500
Net interest revenue after provision for loan losses	<u>39,830</u>	<u>34,249</u>	<u>112,470</u>	<u>95,733</u>
Fee revenue:				
Service charges and fees	5,559	5,009	15,894	13,270
Mortgage loan and other related fees	1,747	3,115	4,612	8,762
Consulting fees	1,426	1,092	3,955	3,366
Brokerage fees	377	447	1,600	1,315
Securities gains (losses), net	398	(122)	394	(125)
Loss on prepayments of borrowings	(391)	—	(391)	—
Other	741	860	2,718	2,506
Total fee revenue	<u>9,857</u>	<u>10,401</u>	<u>28,782</u>	<u>29,094</u>
Total revenue	<u>49,687</u>	<u>44,650</u>	<u>141,252</u>	<u>124,827</u>
Operating expenses:				
Salaries and employee benefits	19,636	17,990	56,424	50,665
Occupancy	2,352	2,344	6,907	6,640
Communications and equipment	2,828	2,310	8,052	6,314
Postage, printing and supplies	1,214	1,237	3,424	3,354
Professional fees	1,035	1,036	2,667	3,007
Advertising and public relations	1,123	766	2,878	2,439
Amortization of intangibles	442	370	1,208	783
Merger-related charges	—	—	464	1,508
Other	2,666	2,659	7,275	7,126
Total operating expenses	<u>31,296</u>	<u>28,712</u>	<u>89,299</u>	<u>81,836</u>
Income before income taxes	18,391	15,938	51,953	42,991
Income taxes	6,436	5,574	18,011	15,094
Net income	<u>\$ 11,955</u>	<u>\$ 10,364</u>	<u>\$ 33,942</u>	<u>\$ 27,897</u>
Net income available to common stockholders	<u>\$ 11,955</u>	<u>\$ 10,352</u>	<u>\$ 33,925</u>	<u>\$ 27,840</u>
Earnings per common share:				
Basic	\$.33	\$.29	\$.95	\$.82
Diluted	.32	.29	.92	.80
Weighted average common shares outstanding (in thousands):				
Basic	36,254	35,112	35,738	33,752
Diluted	37,432	36,185	36,917	34,849

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheet
For the period ended

<i>(\$ in thousands)</i>	September 30, 2004	December 31, 2003	September 30, 2003
ASSETS	(Unaudited)	(Audited)	(Unaudited)
Cash and due from banks	\$ 102,457	\$ 91,819	\$ 94,381
Interest-bearing deposits in banks	57,465	68,374	67,022
Cash and cash equivalents	159,922	160,193	161,403
Securities available for sale	726,734	659,891	634,421
Mortgage loans held for sale	19,189	10,756	14,348
Loans, net of unearned income	3,438,417	3,015,997	2,918,412
Less - allowance for loan losses	43,548	38,655	37,773
Loans, net	3,394,869	2,977,342	2,880,639
Premises and equipment, net	92,918	87,439	83,342
Accrued interest receivable	28,108	20,962	23,079
Intangible assets	87,381	72,182	65,674
Other assets	83,534	80,069	79,233
Total assets	\$ 4,592,655	\$ 4,068,834	\$ 3,942,139
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Deposits:			
Demand	\$ 491,123	\$ 412,309	\$ 404,752
Interest-bearing demand	910,699	846,022	798,072
Savings	166,184	140,619	137,613
Time	1,773,519	1,458,499	1,449,894
Total deposits	3,341,525	2,857,449	2,790,331
Federal funds purchased and repurchase agreements	178,335	102,849	78,900
Federal Home Loan Bank advances	585,513	635,420	650,572
Other borrowings	113,878	152,596	107,871
Accrued expenses and other liabilities	25,609	21,147	24,752
Total liabilities	4,244,860	3,769,461	3,652,426
Stockholders' equity:			
Preferred stock, \$1 par value; \$10 stated value; 10,000,000 shares authorized; 44,800, 55,900 and 65,500 shares issued and outstanding	448	559	655
Common stock, \$1 par value; 100,000,000 shares authorized; 36,620,754, 35,706,573 and 35,706,573 shares issued	36,621	35,707	35,707
Capital surplus	116,075	95,951	95,022
Retained earnings	194,350	166,887	158,464
Treasury stock; 366,112, 417,525 and 474,555 shares, at cost	(6,251)	(7,120)	(8,015)
Accumulated other comprehensive income	6,552	7,389	7,880
Total stockholders' equity	347,795	299,373	289,713
Total liabilities and stockholders' equity	\$ 4,592,655	\$ 4,068,834	\$ 3,942,139

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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UNITED COMMUNITY BANKS, INC.
Consolidated Statement of Changes in Stockholder's 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 (Loss)	Total
Balance, December 31, 2002	\$ 1,726	\$ 32,709	\$ 51,592	\$ 135,709	\$ (11,432)	\$ 11,275	\$221,579
Comprehensive income:							
Net income				27,897			27,897
Other comprehensive loss:							
Unrealized holding losses on available for sale securities, net of deferred tax benefit and reclassification adjustment						(2,498)	(2,498)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit						(897)	(897)
Comprehensive income				27,897		(3,395)	24,502
Retirement of preferred stock (107,100 shares)	(1,071)						(1,071)
Cash dividends declared on common stock (\$.15 per share)				(5,085)			(5,085)
Common stock issued for acquisitions (2,997,687 shares)		2,998	46,893				49,891
Exercise of stock options (699,002 shares)			(3,403)		9,420		6,017
Conversion of debt (18,000 shares)			(84)		234		150
Tax benefit from options exercised			24				24
Acquisition of treasury stock (377,579 shares)					(6,237)		(6,237)
Dividends declared on preferred stock (\$.45 per share)				(57)			(57)
Balance, September 30, 2003	<u>\$ 655</u>	<u>\$ 35,707</u>	<u>\$ 95,022</u>	<u>\$ 158,464</u>	<u>\$ (8,015)</u>	<u>\$ 7,880</u>	<u>\$289,713</u>
Balance, December 31, 2003	\$ 559	\$ 35,707	\$ 95,951	\$ 166,887	\$ (7,120)	\$ 7,389	\$299,373
Comprehensive income:							
Net income				33,942			33,942
Other comprehensive income (loss):							
Unrealized holding gains on available for sale securities, net of deferred tax expense and reclassification adjustment						74	74
Unrealized losses on derivative financial instruments qualifying as cash flow hedges, net of deferred tax benefit						(911)	(911)
Comprehensive income				33,942		(837)	33,105
Redemption of preferred stock (11,100 shares)	(111)						(111)
Cash dividends declared on common stock (\$.18 per share)				(6,470)			(6,470)
Redemption of fractional shares (446 shares)		(1)	(10)				(11)
Common stock issued for acquisitions (914,627 shares)		915	20,585				21,500
Exercise of stock options (51,413 shares)			(301)		869		568
Amortization of restricted stock awards			42				42
Tax benefit from options exercised			(192)				(192)
Dividends declared on preferred stock (\$.45 per share)				(9)			(9)
Balance, September 30, 2004	<u>\$ 448</u>	<u>\$ 36,621</u>	<u>\$ 116,075</u>	<u>\$ 194,350</u>	<u>\$ (6,251)</u>	<u>\$ 6,552</u>	<u>\$347,795</u>

* Comprehensive income for the third quarters of 2004 and 2003 was \$19,461 and \$4,557, respectively.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statement of Cash Flows
For the Nine Months Ended September 30,

<i>(in thousands)</i>	2004	2003
Operating activities:	(Unaudited)	(Unaudited)
Net income	\$ 33,942	\$ 27,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	11,543	10,801
Provision for loan losses	5,600	4,500
(Gain) loss on sale of securities available for sale	(394)	125
Gain on sale of other assets	(79)	(18)
Changes in assets and liabilities:		
Other assets and accrued interest receivable	(11,416)	(8,933)
Accrued expenses and other liabilities	4,240	8,923
Mortgage loans held for sale	(8,433)	14,147
Net cash provided by operating activities	35,003	57,442
Investing activities (net of purchase adjustments):		
Proceeds from sales of securities available for sale	71,539	39,327
Proceeds from maturities and calls of securities available for sale	261,203	216,971
Purchases of securities available for sale	(370,655)	(299,802)
Net increase in loans	(333,238)	(229,857)
Proceeds from sales of premises and equipment	1,216	79
Purchases of premises and equipment	(11,420)	(9,117)
Net cash received from acquisitions	5,439	28,828
Proceeds from sale of other real estate	2,156	659
Net cash used by investing activities	(373,760)	(252,912)
Financing activities (net of purchase adjustments):		
Net change in deposits	308,129	13,125
Net change in federal funds purchased and repurchase agreements	134,889	57,655
Proceeds from other borrowings	1,155	13,191
Repayments of other borrowings	(45,028)	(17,031)
Proceeds from FHLB advances	757,600	642,600
Repayments of FHLB advances	(812,614)	(487,988)
Proceeds from issuance of subordinated debt	—	35,000
Proceeds from exercise of stock options	568	6,017
Retirement of preferred stock	(111)	(1,071)
Redemption of fractional shares	(11)	—
Purchase of treasury stock	—	(6,237)
Cash dividends on common stock	(6,082)	(4,676)
Cash dividends on preferred stock	(9)	(57)
Net cash provided by financing activities	338,486	250,528
Net change in cash and cash equivalents	(271)	55,058
Cash and cash equivalents at beginning of period	160,193	106,345
Cash and cash equivalents at end of period	\$ 159,922	\$ 161,403
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 54,032	\$ 53,257
Income taxes	19,030	14,388

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 2003 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 Split

On April 28, 2004, United had a three-for-two split of its common stock. All financial statements and per share amounts included in the financial statements and accompanying notes have been restated to reflect the change in the number of shares outstanding as of the beginning of the earliest period presented.

Note 3 — 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 restricted share awards is recognized over the restricted period based on the fair value of the stock on the date of grant. Compensation expense for employee stock options has not been recognized, since the exercise price of the options equaled 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 September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income available to common shareholders:				
As reported	\$ 11,955	\$ 10,352	\$ 33,925	\$ 27,840
Pro forma	11,754	10,270	33,367	27,554
Basic earnings per common share:				
As reported	.33	.29	.95	.82
Pro forma	.32	.29	.93	.82
Diluted earnings per common share:				
As reported	.32	.29	.92	.80
Pro forma	.31	.28	.91	.79

The weighted average fair value of options granted in the third quarter of 2004 and 2003 was \$5.47 and \$3.92, respectively. The weighted average fair value of options granted in the first nine months of 2004 and 2003 was \$5.89 and \$3.45, 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 ranging from 3.61% to 4.57% in 2004 and 3.48% in 2003; expected volatility of 15%; and, an expected life of 7 years. Since United’s stock trading history began in 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 pro forma 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 4 — 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 September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Basic earnings per share:				
Weighted average shares outstanding	36,254	35,112	35,738	33,752
Net income available to common shareholders	\$ 11,955	\$ 10,352	\$ 33,925	\$ 27,840
Basic earnings per share	\$.33	\$.29	\$.95	\$.82
Diluted earnings per share:				
Weighted average shares outstanding	36,254	35,112	35,738	33,752
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the period	806	671	807	687
Effect of conversion of subordinated debt	372	402	372	410
Total weighted average shares and common stock equivalents outstanding	37,432	36,185	36,917	34,849
Net income available to common shareholders	\$ 11,955	\$ 10,352	\$ 33,925	\$ 27,840
Income effect of conversion of subordinated debt, net of tax	23	23	65	72
Net income, adjusted for effect of conversion of subordinated debt, net of tax	\$ 11,978	\$ 10,375	\$ 33,990	\$ 27,912
Diluted earnings per share	\$.32	\$.29	\$.92	\$.80

Note 5 — Mergers and Acquisitions

On June 1, 2004, United acquired all of the outstanding common shares of Fairbanco Holding Company, Inc., a thrift holding company headquartered in Fairburn, Georgia. Fairbanco's results of operations are included in consolidated financial results from the acquisition date. Fairbanco Holding Company was the parent company of 1st Community Bank, with 5 banking offices serving Atlanta's southern metropolitan area.

The aggregate purchase price was \$23.6 million including \$2.7 million of cash and 914,627 shares of United's common stock valued at \$20.9 million. The value of the common shares issued of \$22.91 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.

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The following table summarizes the estimated fair values of assets acquired and liabilities assumed of Fairbanco Holding Company as of June 1, 2004.

	Fairbanco Holding Company
Assets:	
Cash and cash equivalents	\$ 66,956
Investment securities	30,485
Loans, net	92,383
Premises and equipment	1,255
Core deposit intangible	2,820
Goodwill	13,001
Other assets	5,711
Total assets	<u>\$212,611</u>
Liabilities:	
Deposits	\$175,947
Other borrowed funds	10,390
Other liabilities	2,663
Total liabilities assumed	<u>189,000</u>
Net assets acquired	<u>\$ 23,611</u>

Core deposit intangibles are being amortized over a period of 10 years. Goodwill will not be amortized or deductible for tax purposes, but will be subject to impairment tests at least annually.

In connection with the acquisition of Fairbanco Holding Company, United incurred merger-related charges of \$464,000 during the second quarter. The charges were 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 amounts remaining accrued at September 30, 2004.

	Expensed in Nine months ended September 30, 2004	Utilized in Nine months ended September 30, 2004	Balance at September 30, 2004
Professional fees	\$ 325	\$ 312	\$ 13
Other conversion costs	139	136	3
	<u>\$ 464</u>	<u>\$ 448</u>	<u>\$ 16</u>

On November 1, 2004, United acquired all of the outstanding common shares of Eagle National Bank headquartered in Stockbridge, Georgia. The aggregate purchase price was \$11.9 million including \$2.4 million of cash and 414,528 shares of United's common stock valued at \$9.5 million. The value of the common shares issued of \$22.84 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. The acquisition of Eagle National Bank will greatly enhance United's presence in the southside of the metro Atlanta market.

On August 26, 2004, United announced a definitive agreement to acquire Liberty National Bancshares, Inc. with assets of \$180 million headquartered in Conyers, Georgia. The transaction is valued at approximately \$36.1 million and is expected to close during the fourth quarter of 2004. United will exchange 1.3 million shares of its stock and approximately \$5.2 million in cash for all of the outstanding shares of Liberty. The acquisition of Liberty will greatly enhance United's presence in the eastside of the metro Atlanta market.

Note 6 — Reclassification

Certain amounts for the comparative periods of 2003 have been reclassified to conform to the 2004 presentation.

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 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 its business. 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. At September 30, 2004, United had total consolidated assets of \$4.6 billion, total loans of \$3.4 billion, total deposits of \$3.3 billion and stockholders' equity of \$348 million.

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.

As of the beginning of the periods covered by this report, this discussion reflects the three-for-two stock split effective on April 28, 2004 to shareholders of record on April 14, 2004.

Recent 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 that date, First Central Bank had assets of \$196 million, including purchase accounting related intangibles. United exchanged 1,231,740 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 bank subsidiary, First Georgia Bank. At closing, First Georgia Bank had assets of \$304 million, including purchase accounting related intangibles. United exchanged 1,765,947 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.

During the fourth quarter of 2003, United acquired three branches in Avery, Mitchell and Graham counties in western North Carolina. The three branches had aggregate deposits and loans of \$72 million and \$11 million, respectively. These branches complemented United's existing western North Carolina markets and were a natural extension of the existing franchise. United paid a premium between 7% and 11% of average deposits for each branch.

On June 1, 2004, United completed its acquisition of Fairbanco Holding Company, a thrift holding company headquartered in Fairburn, Georgia, and its wholly-owned Georgia subsidiary, 1st Community Bank. On that date, 1st Community Bank had assets of \$213 million, including purchase accounting related intangibles. United exchanged 914,627 shares of its common stock valued at \$20.9 million and approximately \$2.7 million in cash for all of the outstanding shares. 1st Community Bank was merged into United's Georgia bank subsidiary.

On November 1, 2004, United completed its acquisition of Eagle National Bank headquartered in Stockbridge, Georgia. On that date, Eagle National Bank had assets of \$64 million, including purchase accounting related intangibles. United exchanged 414,528 shares of its common stock valued at \$9.5 million and approximately \$2.4 million in cash for all of the outstanding shares.

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On August 26, 2004, United announced a definitive agreement to acquire Liberty National Bancshares, Inc. with assets of \$180 million headquartered in Conyers, Georgia. The transaction is valued at approximately \$36.1 million and is expected to close during the fourth quarter of 2004. United will exchange up to 1,504,892 shares of its stock and no more than \$5.2 million in cash for all of the outstanding shares of Liberty. The acquisition of Liberty will greatly enhance United's presence in the eastside of the metro Atlanta market.

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 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
**FINANCIAL HIGHLIGHTS TABLE
UNITED COMMUNITY BANKS, INC.
Selected Financial Information
For the Three and Nine Months Ended September 30, 2004**

(in thousands, except per share data; taxable equivalent)	2004			2003		Third Quarter 2004-2003 Change	For the Nine Months Ended		YTD 2004-2003 Change
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter		2004	2003	
INCOME SUMMARY	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Interest revenue	\$ 61,358	\$ 56,680	\$ 54,587	\$ 53,943	\$ 53,731		\$ 172,625	\$ 155,395	
Interest expense	19,142	17,432	16,772	17,098	17,446		53,346	53,502	
Net interest revenue	42,216	39,248	37,815	36,845	36,285	16%	119,279	101,893	17%
Provision for loan losses	2,000	1,800	1,800	1,800	1,500		5,600	4,500	
Fee revenue	9,857	9,647	9,278	9,090	10,401	(5)	28,782	29,094	(1)
Total revenue	50,073	47,095	45,293	44,135	45,186	11	142,461	126,487	13
Operating expenses ⁽¹⁾	31,296	29,363	28,176	27,572	28,712	9	88,835	80,328	11
Income before taxes	18,777	17,732	17,117	16,563	16,474	14	53,626	46,159	16
Income taxes	6,822	6,379	6,179	5,959	6,110		19,380	17,288	
Net operating income	11,955	11,353	10,938	10,604	10,364	15	34,246	28,871	19
Merger-related charges, net of tax	—	304	—	383	—		304	974	
Net income	\$ 11,955	\$ 11,049	\$ 10,938	\$ 10,221	\$ 10,364	15	\$ 33,942	\$ 27,897	22
OPERATING PERFORMANCE ⁽¹⁾									
Earnings per common share:									
Basic	\$.33	\$.32	\$.31	\$.30	\$.29	14	\$.96	\$.85	13
Diluted	.32	.31	.30	.29	.29	10	.93	.83	12
Return on tangible equity ⁽³⁾	19.41%	19.70%	19.87%	19.72%	19.94%		19.67%	19.12%	
Return on assets	1.05	1.07	1.08	1.06	1.06		1.07	1.06	
Efficiency ratio	60.11	60.05	59.83	59.81	61.34		60.00	61.27	
Dividend payout ratio	18.18	18.75	19.35	16.67	17.24		18.75	17.65	
GAAP PERFORMANCE									
Per common share:									
Basic earnings	\$.33	\$.31	\$.31	\$.29	\$.29	14	\$.95	\$.82	16
Diluted earnings	.32	.30	.30	.28	.29	10	.92	.80	15
Cash dividends declared	.06	.06	.06	.05	.05	20	.18	.15	20
Book value	9.58	9.10	8.80	8.47	8.20	17	9.58	8.20	17
Tangible book value ⁽³⁾	7.28	6.77	6.86	6.52	6.44	13	7.28	6.44	13
Key performance ratios:									
Return on equity ⁽²⁾	14.20%	14.40%	14.87%	14.19%	14.90%		14.48%	15.02%	
Return on assets	1.05	1.04	1.08	1.02	1.06		1.06	1.02	
Net interest margin	3.99	3.95	3.99	3.96	3.97		3.98	4.00	
Dividend payout ratio	18.18	19.35	19.35	17.24	17.24		18.95	18.29	
Equity to assets	7.50	7.30	7.46	7.41	7.35		7.42	7.14	
Tangible equity to assets ⁽³⁾	5.76	5.74	5.88	5.82	5.85		5.79	6.10	
ASSET QUALITY									
Allowance for loan losses	\$ 43,548	\$ 42,558	\$ 39,820	\$ 38,655	\$ 37,773		\$ 43,548	\$ 37,773	
Non-performing assets	10,527	8,812	7,251	7,589	7,998		10,527	7,998	
Net charge-offs	1,010	789	635	918	1,080		2,434	3,179	
Allowance for loan losses to loans	1.27%	1.27%	1.27%	1.28%	1.29%		1.27%	1.29%	
Non-performing assets to total assets	.23	.19	.18	.19	.20		.23	.20	
Net charge-offs to average loans	.12	.10	.08	.12	.15		.10	.16	
AVERAGE BALANCES									
Loans	\$ 3,384,281	\$ 3,235,262	\$ 3,095,875	\$ 2,959,626	\$ 2,881,375	17	\$ 3,239,005	\$ 2,683,970	21
Investment securities	762,994	715,586	652,867	699,059	664,523	15	710,674	656,478	8
Earning assets	4,215,472	3,991,797	3,808,877	3,695,197	3,629,819	16	4,006,149	3,402,170	18
Total assets	4,521,842	4,274,442	4,084,883	3,961,384	3,888,141	16	4,294,555	3,640,371	18
Deposits	3,351,188	3,178,776	2,955,726	2,843,600	2,826,900	19	3,162,588	2,709,215	17
Stockholders' equity	338,913	311,942	304,926	293,464	285,790	19	318,668	260,015	23
Common shares outstanding:									
Basic	36,254	35,633	35,319	35,260	35,112		35,738	33,752	
Diluted	37,432	36,827	36,482	36,391	36,185		36,917	34,849	
AT PERIOD END									
Loans	\$ 3,438,417	\$ 3,338,309	\$ 3,147,303	\$ 3,015,997	\$ 2,918,412	18	\$ 3,438,417	\$ 2,918,412	18
Investment securities	726,734	739,667	617,787	659,891	634,421	15	726,734	634,421	15
Earning assets	4,280,643	4,172,049	3,851,968	3,796,332	3,676,018	16	4,280,643	3,676,018	16
Total assets	4,592,655	4,525,446	4,118,188	4,068,834	3,942,139	17	4,592,655	3,942,139	17
Deposits	3,341,525	3,339,848	3,074,193	2,857,449	2,790,331	20	3,341,525	2,790,331	20
Stockholders' equity	347,795	330,458	311,247	299,373	289,713	20	347,795	289,713	20
Common shares outstanding	36,255	36,246	35,331	35,289	35,232		36,255	35,232	

- (1) Excludes pre-tax merger-related charges totaling \$464,000 or \$.01 per diluted common share in the second quarter of 2004, and \$580,000 or \$.01 per diluted common share, \$668,000 or \$.01 per diluted common share and \$840,000 or \$.01 per diluted common share recorded in the fourth, second and first quarters, respectively, of 2003.
- (2) Net income available to common stockholders, which excluded preferred stock dividends, divided by average realized common equity which excludes accumulated other comprehensive income.
- (3) Excludes effect of acquisition related intangibles and associated amortization.

Merger-Related Charges

During the second quarter of 2004, first quarter of 2003, second quarter of 2003 and fourth quarter of 2003, United recorded merger-related charges of \$464,000, \$840,000, \$668,000 and \$580,000, respectively, for termination of equipment leases, professional fees and other systems conversion costs in connection with the acquisitions of Fairbanco Holding Company, First Central Bancshares, First Georgia Holdings and three branches in western North Carolina, 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 Note 5 to the consolidated financial statements in this Form 10-Q and Note 3 to the consolidated financial statements included in Form 10-K for the year ended December 31, 2003.

The table below presents a reconciliation, for periods impacted, of operating earnings to reported Net Income using accounting principles generally accepted in the United States (GAAP).

Table 2 — Operating Earnings to GAAP Earnings Reconciliation

For the Three and Nine Months Ended

(in thousands)

	Second Quarter 2004	Fourth Quarter 2003	For the Nine Months Ended	
			2004	2003
Merger charges included in expenses	\$ 464	\$ 580	\$ 464	\$ 1,508
Income tax effect of charges	160	197	160	534
After-tax effect of merger-related charges	\$ 304	\$ 383	\$ 304	\$ 974
Net Income Reconciliation				
Operating net income	\$ 11,353	\$ 10,604	\$ 34,246	\$ 28,871
After-tax effect of merger-related charges	(304)	(383)	(304)	(974)
Net income (GAAP)	\$ 11,049	\$ 10,221	\$ 33,942	\$ 27,897
Basic Earnings Per Share Reconciliation				
Basic operating earnings per share	\$.32	\$.30	\$.96	\$.85
Per share effect of merger-related charges	(.01)	(.01)	(.01)	(.03)
Basic earnings per share (GAAP)	\$.31	\$.29	\$.95	\$.82
Diluted Earnings Per Share Reconciliation				
Diluted operating earnings per share	\$.31	\$.29	\$.93	\$.83
Per share effect of merger-related charges	(.01)	(.01)	(.01)	(.03)
Diluted earnings per share (GAAP)	\$.30	\$.28	\$.92	\$.80

Results of Operations

Net operating income was \$12.0 million for the quarter ended September 30, 2004, an increase of \$1.6 million, or 15%, from the same period in 2003. Diluted operating earnings per share were \$.32 for the quarter ended September 30, 2004, compared with \$.29 for the same period in 2003, an increase of 10%. Operating return on tangible equity for the third quarter of 2004 was 19.41%, compared with 19.94% for 2003. Operating return on assets for the quarter ended September 30, 2004 was 1.05%, compared with 1.06% for 2003.

For the nine months ended September 30, net operating income was \$34.2 million compared to \$28.9 million for 2003, an increase of 19%. Diluted operating earnings per share were \$.93, compared with \$.83 for the same period in 2003, an increase of 12%. Operating return on tangible equity for the first nine months of 2004 was 19.67%, compared with 19.12% for 2003. Operating return on assets was 1.07%, compared with 1.06% for 2003.

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 months ended September 30, 2004 was \$42.2 million, up 16%, over last year. Year-to-date, net interest revenue was \$119.3 million, up 17% over the same period in 2003. The main driver of this increase was loan growth. Average loans increased \$503 million, or 17%, from the third quarter of last year and year-to-date average loans were up \$555 million, or 21% over the first nine months of 2003. This loan growth was due to the continued high loan demand across all of United's markets due to the current low rate environment and the acquisitions of 1st Community Bank and three North Carolina branches, which added \$90 million. The quarter-end loan balances increased \$520 million as compared to September 30, 2003. Of this increase, \$151 million was in the north Georgia markets, \$100 million in western North Carolina, \$203 million in the metro Atlanta market, \$42 million in east Tennessee, and \$24 million in the coastal Georgia markets.

Average interest-earning assets for the third quarter and first nine months of 2004 increased \$586 million, or 16%, and \$604 million, or 18%, respectively, over the same periods in 2003. The increase reflects the strong loan growth and the acquisitions, 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 resulting in increases in average interest-bearing liabilities for the quarter and year-to-date of approximately \$490 million and \$500 million, respectively, as compared to the same periods in 2003.

The banking industry uses two 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, 2004 and 2003, net interest spread was 3.71% and 3.70%, respectively, while net interest margin was 3.99% and 3.97%, respectively. Net interest spread was 3.71% for the first nine months of both 2004 and 2003, while net interest margin was 3.98% and 4.00%, respectively. The net interest spread and the net interest margin were held at a relatively consistent level over the last eight quarters by managing liability mix and pricing to offset the continued decline in loan and securities yields, a result of the low rate environment. Specifically, most of the loan growth over the last year has been prime-based, adjusted daily, which has accounted for most of the decline in loan yields. At September 30, 2004, United had approximately \$1.8 billion in loans indexed to the daily Prime Rate published in the Wall Street Journal compared with \$1.2 billion a year ago. At September 30, 2004 and 2003, United had receive-fixed swap contracts with a total notional value of \$637 million and \$330 million, respectively, that were accounted for as cash flow hedges of prime-based loans. The swap contracts added \$1.0 million and \$1.3 million to loan interest revenue in the third quarters of 2004 and 2003, respectively. This resulted in an increase in the average loan yield of 12 basis points and 18 basis points for the third quarters of 2004 and 2003, respectively. The effect of declining loan yields was somewhat offset by a slight positive shift in the mix of earning assets. At the Federal Open Markets Committee (FOMC) meetings on June 30, August 10 and September 21, 2004, the Federal Reserve increased the federal funds rate by 25 basis points resulting in a 10 basis point increase in the third quarter's loan portfolio yield as compared to the second quarter of 2004. For the third quarter of 2004, loans comprised approximately 80% of interest-earning assets compared with 79% for the third quarter of 2003.

The average yield on interest-earning assets for the third quarter of 2004 was 5.79%, compared with 5.88% in the third quarter of 2003. Year-to-date average yield on interest-earning assets was 5.75%, compared to 6.10% for the first nine months of 2003. The main driver of this decrease was lower loan yields, which were down 19 basis points for the quarter and 47 basis points for the year-to-date. The shift toward floating rate loans and the 25 basis point reduction in the Prime Rate on June 25, 2003 contributed to the decline in the average loan yield. The Federal Reserve's increases of the targeted federal funds rate in 2004 resulted in an 8 basis point increase in the third quarter's average yield on interest-earning assets over the second quarter of 2004.

The average cost of interest-bearing liabilities for the third quarter was 2.08%, a decrease of 10 basis points from the same period in 2003. The average cost of interest-bearing liabilities for the first nine months of 2004 was 2.04%, a decrease of 35 basis points from the first nine months of 2003. The decrease was due to lower rates paid on most sources of funding. United lowered deposit pricing across all of its products reflecting rate reductions initiated by the Federal Reserve in June 2003. Additionally, United was able to delay deposit rate increases in the third quarter of 2004 without experiencing deposit account attrition.

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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, 2004 and 2003.

Table 3 — Average Consolidated Balance Sheets and Net Interest Analysis

For the Three Months Ended September 30,

(In thousands, taxable equivalent)

	2004			2003		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾⁽²⁾	\$3,384,281	\$ 52,874	6.22%	\$2,881,375	\$ 46,520	6.41%
Taxable securities ⁽³⁾	716,525	7,254	4.05	603,031	5,738	3.81
Tax-exempt securities ⁽¹⁾	46,469	846	7.28	61,492	1,142	7.43
Federal funds sold and other interest-earning assets	68,197	384	2.25	83,921	331	1.58
Total interest-earning assets	<u>4,215,472</u>	<u>61,358</u>	5.79	<u>3,629,819</u>	<u>53,731</u>	5.88
Non-interest-earning assets:						
Allowance for loan losses	(43,466)			(38,082)		
Cash and due from banks	96,286			71,878		
Premises and equipment	90,852			82,687		
Other assets	162,187			141,839		
Total assets	<u>\$4,521,331</u>			<u>\$3,888,141</u>		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 923,870	\$ 2,151	.93	\$ 801,613	\$ 1,728	.86
Savings deposits	163,540	98	.24	136,323	82	.24
Certificates of deposit	1,766,553	10,608	2.39	1,489,660	9,784	2.61
Total interest-bearing deposits	<u>2,853,963</u>	<u>12,857</u>	1.79	<u>2,427,596</u>	<u>11,594</u>	1.89
Federal funds purchased	144,716	573	1.58	60,781	185	1.21
Federal Home Loan Bank advances	550,501	3,605	2.61	589,924	3,996	2.69
Long-term debt and other borrowings	113,873	2,107	7.36	94,413	1,671	7.02
Total borrowed funds	<u>809,090</u>	<u>6,285</u>	3.09	<u>745,118</u>	<u>5,852</u>	3.12
Total interest-bearing liabilities	<u>3,663,053</u>	<u>19,142</u>	2.08	<u>3,172,714</u>	<u>17,446</u>	2.18
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	497,225			399,304		
Other liabilities	22,140			30,333		
Total liabilities	<u>4,182,418</u>			<u>3,602,351</u>		
Stockholders' equity	338,913			285,790		
Total liabilities and stockholders' equity	<u>\$4,521,331</u>			<u>\$3,888,141</u>		
Net interest revenue		<u>\$ 42,216</u>			<u>\$ 36,285</u>	
Net interest-rate spread			<u>3.71%</u>			<u>3.70%</u>
Net interest margin ⁽⁴⁾			<u>3.99%</u>			<u>3.97%</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 \$3.9 million in 2004 and \$9.2 million in 2003 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.

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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, 2004 and 2003.

Table 3 — Average Consolidated Balance Sheets and Net Interest Analysis (continued)

For the Nine Months Ended September 30,

(In thousands, taxable equivalent)

	2004			2003		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income ⁽¹⁾⁽²⁾	\$3,239,005	\$149,476	6.16%	\$2,683,970	\$133,176	6.63%
Taxable securities ⁽³⁾	662,101	19,662	3.96	592,625	17,803	4.01
Tax-exempt securities ⁽¹⁾	48,573	2,674	7.34	63,853	3,561	7.44
Federal funds sold and other interest-earning assets	56,470	813	1.92	61,722	855	1.85
Total interest-earning assets	4,006,149	172,625	5.75	3,402,170	155,395	6.10
Non-interest-earning assets:						
Allowance for loan losses	(41,452)			(35,216)		
Cash and due from banks	88,104			71,634		
Premises and equipment	88,977			77,847		
Other assets	152,606			123,936		
Total assets	\$4,294,384			\$3,640,371		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 892,120	\$ 5,865	.88	\$ 773,647	\$ 6,119	1.06
Savings deposits	152,905	274	.24	122,790	287	.31
Certificates of deposit	1,661,960	29,678	2.39	1,461,174	30,673	2.81
Total interest-bearing deposits	2,706,985	35,817	1.77	2,357,611	37,079	2.10
Federal funds purchased	140,353	1,343	1.28	43,799	418	1.28
Federal Home Loan Bank advances	538,068	9,973	2.48	508,913	11,326	2.98
Long-term debt and other borrowings	111,017	6,213	7.48	86,240	4,679	7.25
Total borrowed funds	789,438	17,529	2.97	638,952	16,423	3.44
Total interest-bearing liabilities	3,496,423	53,346	2.04	2,996,563	53,502	2.39
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	455,602			351,603		
Other liabilities	23,691			32,190		
Total liabilities	3,975,716			3,380,356		
Stockholders' equity	318,668			260,015		
Total liabilities and stockholders' equity	\$4,294,384			\$3,640,371		
Net interest revenue		\$119,279			\$101,893	
Net interest-rate spread			3.71%			3.71%
Net interest margin ⁽⁴⁾			3.98%			4.00%

(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 \$6.1 million in 2004 and \$12.6 million in 2003 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.

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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 (rate). 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 Taxable Equivalent Basis

(in thousands)

	Three Months Ended September 30, 2004 Compared to 2003 Increase (decrease) due to changes in			Nine Months Ended September 30, 2004 Compared to 2003 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Loans	\$ 7,898	\$ (1,544)	\$ 6,354	\$ 26,101	\$ (9,801)	\$ 16,300
Taxable securities	1,131	385	1,516	2,189	(330)	1,859
Tax-exempt securities	(274)	(22)	(296)	(842)	(45)	(887)
Federal funds sold and other interest-earning assets	(70)	123	53	(90)	48	(42)
Total interest-earning assets	8,685	(1,058)	7,627	27,358	(10,128)	17,230
Interest-bearing liabilities:						
Transaction accounts	277	146	423	862	(1,116)	(254)
Savings deposits	16	—	16	62	(75)	(13)
Certificates of deposit	1,712	(888)	824	3,913	(4,908)	(995)
Total interest-bearing deposits	2,005	(742)	1,263	4,837	(6,099)	(1,262)
Federal funds purchased	320	68	388	924	1	925
Federal Home Loan Bank advances	(261)	(130)	(391)	621	(1,974)	(1,353)
Long-term debt and other borrowings	357	79	436	1,382	152	1,534
Total borrowed funds	416	17	433	2,927	(1,821)	1,106
Total interest-bearing liabilities	2,421	(725)	1,696	7,764	(7,920)	(156)
Increase in net interest revenue	\$ 6,264	\$ (333)	\$ 5,931	\$ 19,594	\$ (2,208)	\$ 17,386

Provision for Loan Losses

The provision for loan losses was \$2.0 million for the third quarter of 2004, compared with \$1.5 million for the same period in 2003. Provision for the first nine months of 2004 was \$5.6 million, compared with \$4.5 million for the first nine months of 2003. Net loan charge-offs as a percentage of average outstanding loans for the three months ended September 30, 2004 were .12%, as compared with .15% for the third quarter of 2003. Year-to-date, net loan charge-offs as a percentage of average outstanding loans were .10%, compared to .16% for the first nine months of 2003. The average level of charge-offs for the prior two years was approximately 15 basis points and is more reflective of management's expectation for the remainder of 2004.

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 2004, totaled \$9.9 million and \$28.8 million, respectively, compared with \$10.4 million and \$29.1 million, for the same periods in 2003. Fee revenue for the third quarter of 2004 was approximately 20% of total revenue, compared with 23% for the third quarter of 2003. Year-to-date, fee revenue as a percentage of total revenue was 20%, compared with 23% for the first nine months of 2003. 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 2004 and 2003.

Table 5 — Fee Revenue

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004	2003	Change	2004	2003	Change
Service charges and fees	\$ 5,559	\$ 5,009	11%	\$ 15,894	\$ 13,270	20%
Mortgage loan and related fees	1,747	3,115	(44)	4,612	8,762	(47)
Consulting fees	1,426	1,092	31	3,955	3,366	17
Brokerage fees	377	447	(16)	1,600	1,315	22
Securities gains (losses), net	398	(122)		394	(125)	
Loss on prepayments of borrowings	(391)	—		(391)	—	
Other	741	860	(14)	2,718	2,506	8
Total	\$ 9,857	\$ 10,401	(5)	\$ 28,782	\$ 29,094	(1)

Earnings for acquired companies are included in consolidated results beginning on their respective acquisition dates. Therefore, comparability between current and prior periods is affected by acquisitions completed over the last 21 months.

Service charges on deposit accounts of \$5.6 million, were up \$550,000, or 11%, over the third quarter of 2003. Year-to-date service charges were up \$2.6 million, or 20%, over the same period in 2003. The increase in service charges and fees was primarily due to an increase in the number of accounts and transaction activity, resulting from successful internal efforts to increase core deposits and from acquisitions.

Mortgage loan and related fees of \$1.7 million for the quarter and \$4.6 million for the first nine months of 2004, were down \$1.4 million, or 44%, and \$4.2 million, or 47%, respectively, from the same periods in 2003. Mortgage loan originations of \$65 million for the third quarter 2004 were down \$34 million from the third quarter of 2003, as mortgage rates rose from their historically low levels. Substantially all of these originated residential mortgages were sold into the secondary market, including the right to service these loans.

Consulting fees for the third quarter and first nine months of 2004 of \$1.4 million and \$4.0 million were up \$334,000 and \$589,000, respectively, from the same periods in 2003. This increase was due to the increase in fee revenue from two new services offered and growth in general consulting revenue.

Brokerage fees of \$377,000 were down \$70,000, or 16% from the third quarter of 2003. For the first nine months of 2004, brokerage fees of \$1.6 million were up \$285,000, or 22% over the same period in 2003. During the third quarter, United changed service providers for transaction processing. During the conversion period, transaction activity slowed considerably but returned to earlier levels once conversion was complete.

Losses on prepayments of borrowings for the third quarter of 2004 were \$391,000. The penalties on prepayment of fixed rate FHLB advances were recorded as a reduction of fee revenue, as they were offset substantially by securities gains that were taken as part of the ongoing balance sheet management activities. The fixed rate advances were replaced with floating rate sources of wholesale funds that more closely matched the rate characteristics of the prime-based loans that were made during the year.

Operating Expenses

For the three and nine months ended September 30, 2004, total operating expenses, excluding merger-related charges, were \$31.3 million and \$88.8 million, respectively, compared with \$28.7 million and \$80.3 million for the same periods in 2003. The following table presents the components of operating expenses for the three and nine months ended September 30, 2004 and 2003.

Table 6 — Operating Expenses

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004	2003	Change	2004	2003	Change
Salaries and employee benefits	\$19,636	\$17,990	9%	\$56,424	\$50,665	11%
Occupancy	2,352	2,344	—	6,907	6,640	4
Communications and equipment	2,828	2,310	22	8,052	6,314	28
Postage, printing and supplies	1,214	1,237	(2)	3,424	3,354	2
Professional fees	1,035	1,036	—	2,667	3,007	(11)
Advertising and public relations	1,123	766	47	2,878	2,439	18
Amortization of intangibles	442	370		1,208	783	
Other	2,666	2,659	—	7,275	7,126	2
	31,296	28,712	9	88,835	80,328	11
Merger-related charges	—	—		464	1,508	
Total	\$31,296	\$28,712	9	89,299	\$81,836	9

Salaries and benefits for the third quarter of 2004 totaled \$19.6 million, an increase of \$1.6 million, or 9% over the same period in 2003. Year-to-date salaries and benefits of \$56.4 million were \$5.8 million, or 11% greater than the first nine months of 2003. Acquisitions accounted for approximately \$850,000 of the third quarter increase, with the remainder due to normal merit increases which were partially offset by lower incentive compensation related to the decline in mortgage refinancing activities.

Communication and equipment costs of \$2.8 million for the third quarter and \$8.1 million for the first nine months of 2004 were up \$518,000, or 22%, and \$1.7 million, or 28%, respectively, over the same periods in 2003, primarily due to acquisitions and further investment in technology equipment to support business growth and enhance operating efficiencies.

Advertising and public relations expenses for the third quarter of 2004 of \$1.1 million, were up \$357,000, or 47%, over the third quarter of 2003. Year-to-date, advertising and public relations were up \$439,000, or 18%. This was due to costs associated with United's efforts to increase core deposit accounts and direct mail marketing activities.

The increases of \$72,000 for the quarter and \$425,000 for the first nine months of 2004 in intangible amortization reflect the increase in amortization of core deposit intangibles that were recorded in connection with recent acquisitions.

The efficiency ratio measures total operating expenses, excluding merger-related charges, as a percentage of total revenue, excluding the provision for loan losses, net securities gains or losses and FHLB advance prepayment penalties. Based on operating income, which excludes merger-related charges, United's efficiency ratio for the third quarter was 60.11% compared with 61.34% for the third quarter of 2003. Year-to-date, the efficiency ratio was 60.00% compared with 61.27% for the first nine months of 2003.

Income Taxes

Income taxes, excluding taxable equivalent adjustments, were \$6.4 million for the third quarter, as compared with \$5.6 million for the third quarter of 2003, both representing a 35.0% effective tax rate. For the first nine months of 2004, income taxes were \$18.0 million, with an effective tax rate of 34.7%, compared to \$15.1 million, with an effective tax rate of 35.1%, for the same period in 2003. The effective tax rates were lower than the statutory tax rate primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes and due to tax credits. The decrease in the effective tax rate for 2004 is due to an increase in tax credits related to affordable housing investments made over the last twelve months. Additional information regarding income taxes can be found in Note 13 to the Consolidated Financial Statements filed with United's 2003 Form 10-K.

Balance Sheet Review

Total assets at September 30, 2004 were \$4.593 billion, 13% higher than the \$4.069 billion at December 31, 2003 and 17% higher than the \$3.942 billion at September 30, 2003. Average total assets for the third quarter of 2004 were \$4.522 billion, up \$634 million from average assets in the third quarter of 2003. Year-to-date, average total assets of \$4.295 billion were up 18% compared to \$3.640 billion for the same period in 2003.

Loans

The following table presents a summary of the loan portfolio.

Table 7 — Loans Outstanding*(in thousands)*

	September 30, 2004	December 31, 2003	September 30, 2003
Commercial (commercial and industrial)	\$ 184,327	\$ 190,189	\$ 181,938
Commercial (secured by real estate)	852,393	776,591	751,919
Total commercial	1,036,720	966,780	933,857
Construction (secured by real estate)	1,188,092	927,087	878,570
Residential mortgage	1,072,564	981,961	961,497
Installment	141,041	140,169	144,488
Total loans	<u>\$ 3,438,417</u>	<u>\$ 3,015,997</u>	<u>\$ 2,918,412</u>
As a percentage of total loans:			
Commercial (commercial and industrial)	5%	6%	6%
Commercial (secured by real estate)	25	26	26
Total commercial	30	32	32
Construction (secured by real estate)	35	31	30
Residential mortgage	31	32	33
Installment	4	5	5
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

At September 30, 2004, total loans were \$3.438 billion, an increase of \$520 million, or 18%, from September 2003 and an increase of \$422 million, or 14%, from December 31, 2003. Over the past year, United has experienced strong loan growth in all markets, with particular strength in loans secured by real estate. 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. The acquisitions of 1st Community Bank, which closed on June 1, 2004, and the three North Carolina branches during the fourth quarter of 2003 added \$90 million in balances to the loan portfolio. Average total loans for the third quarter and year-to-date 2004 were \$3.384 billion and \$3.239 billion, respectively, increases of \$503 million, or 17%, and \$555 million, or 21%, over the same periods in 2003. Approximately \$310 million of the increase from a year ago occurred in construction and land development loans. Growth has also been strong in residential real estate loans and commercial loans secured by real estate which grew \$111 million and \$100 million, respectively from September 30, 2003.

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 credit 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 credit 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.

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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, 2004 and 2003.

Table 8 — Summary of Loan Loss Experience
For the Three and Nine Months Ended September 30,
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Balance beginning of period	\$ 42,558	\$ 37,353	\$ 38,655	\$ 30,914
Allowance from acquisitions	—	—	1,727	5,538
Loans charged-off	(1,591)	(1,370)	(3,619)	(4,024)
Recoveries	581	290	1,185	845
Net charge-offs	(1,010)	(1,080)	(2,434)	(3,179)
Provision for loan losses	2,000	1,500	5,600	4,500
Balance end of period	\$ 43,548	\$ 37,773	\$ 43,548	\$ 37,773
Total loans:				
At period end	\$3,438,417	\$2,918,412	\$3,438,417	\$2,918,412
Average	3,384,281	2,881,375	3,239,005	2,683,970
As a percentage of average loans (annualized):				
Net charge-offs	.12%	.15%	.10%	.16%
Provision for loan losses	.24	.21	.23	.22
Allowance as a percentage of period end loans	1.27	1.29	1.27	1.29
Allowance as a percentage of non-performing loans	476	518	476	518

Management believes that the allowance for loan losses at September 30, 2004 is appropriate 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 non-performing assets.

Table 9 — Non-Performing Assets
(in thousands)

	September 30, 2004	December 31, 2003	September 30, 2003
Non-accrual loans	\$ 9,144	\$6,627	\$7,294
Loans past due 90 days or more and still accruing	—	—	—
Total non-performing loans	9,144	6,627	7,294
Other real estate owned	1,383	962	704
Total non-performing assets	\$10,527	\$7,589	\$7,998
Non-performing loans as a percentage of total loans	.27%	.22%	.25%
Non-performing assets as a percentage of total assets	.23	.19	.20

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days, totaled \$9.1 million at September 30, 2004, compared with \$6.6 million at December 31, 2003 and \$7.3 million at September 30, 2003. At September 30, 2004, the ratio of non-performing loans to total loans was .27%, compared with .22% at December 31, 2003 and .25% at September 30, 2003. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled \$10.5 million at September 30, 2004, compared with \$7.6 million at December 31, 2003 and \$8.0 million at September 30, 2003.

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, 2004.

At September 30, 2004 and 2003, there were \$3.0 million and \$1.8 million, respectively, of loans classified as impaired under the definition outlined in SFAS No. 114. Specific reserves allocated to these impaired loans totaled \$750,000 at September 30, 2004, and \$449,000 at September 30, 2003. The average recorded investment in impaired loans for the quarters ended September 30, 2004 and 2003, was \$2.1 million and \$1.6 million, respectively. Year-to-date average recorded investment in impaired loans for 2004 and 2003 was \$1.1 million and \$2.3 million, respectively. Interest revenue recognized on loans while they were impaired for the third quarter and first nine months of 2004 was \$2,000 and \$17,000, respectively, compared with \$1,000 and \$11,000 for the same periods in 2003.

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 15% from third quarter of 2003, and year-to-date increased 8% over the first nine months of 2003, as the investment portfolio was used to help stabilize the interest rate sensitivity and increase net interest revenue.

The investment securities portfolio primarily consists of U.S. Government and agency securities, municipal securities and U.S. Government sponsored agency mortgage-backed securities. Mortgage-backed securities rely on the underlying pools of mortgage loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because the loans underlying the security 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, 2004 were \$3.342 billion, an increase of \$551 million from September 30, 2003, approximately 45% resulting from the acquisitions of 1st Community Bank on June 1, 2004 and the three North Carolina branches in late 2003. Total non-interest-bearing demand deposit accounts increased \$86 million and interest-bearing demand and savings accounts increased \$141 million. Total time deposits as of September 30, 2004 were \$1.774 billion, an increase of \$324 million from the third quarter of 2003. Of the increase in time deposits, \$149 million were brokered.

Time deposits of \$100,000 and greater totaled \$494 million at September 30, 2004, compared with \$403 million at September 30, 2003. 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, 2004 and September 30, 2003 were \$396 million and \$247 million, respectively.

Wholesale Funding

At September 30, 2004, each of the Banks were shareholders in the Federal Home Loan Bank. Through this affiliation, secured advances totaling \$586 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. FHLB advances outstanding at September 30, 2004 had both fixed and floating interest rates ranging from .60% to 6.59%. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 10 to the consolidated financial statements included in United’s 2003 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 regularly 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, 2004, United’s simulation model indicated that a 200 basis point increase in rates over the next twelve months would cause an approximate 4% increase in net interest revenue and a 200 basis point decrease in rates over the next twelve months would cause an approximate 6% decrease in net interest revenue.

In order to manage its 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, 2004, United was a party to interest rate swap contracts under which it pays a variable rate and receives a fixed rate.

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The following table presents the interest rate swap contracts outstanding at September 30, 2004.

Table 10 — Interest Rate Swap Contracts

As of September 30, 2004

(in thousands)

Type/Maturity	Notional Amount	Rate Received	Rate Paid ⁽¹⁾	Fair Value
Cash Flow Contracts				
December 23, 2004	\$ 50,000	4.37%	4.75%	\$ (75)
December 27, 2004	100,000	4.39	4.75	(147)
June 27, 2005	100,000	5.23	4.75	91
October 24, 2005	44,000	5.57	4.75	35
December 30, 2005 (2)	100,000	5.57	4.75	(76)
December 30, 2005 (2)	25,000	5.57	4.75	(19)
December 4, 2006	15,000	5.85	4.75	(28)
December 17, 2006	30,000	5.99	4.75	33
April 19, 2007	15,000	5.85	4.75	(75)
May 13, 2007	25,000	6.47	4.75	723
May 14, 2007	15,000	6.47	4.75	147
May 14, 2007	10,000	6.47	4.75	98
October 23, 2007	108,000	6.08	4.75	200
Total Cash Flow Contracts	\$637,000	5.43%	4.75%	\$ 907

(1) Based on prime rate at September 30, 2004.

(2) Forward swap contracts with a start date of January 3, 2005.

All of United's 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, from time to time United may require 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 uses 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 \$19.2 million at September 30, 2004, 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.

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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.

United has available a line of credit at its holding company with another financial institution totaling \$40 million. At September 30, 2004, United had sufficient qualifying collateral to increase FHLB advances by \$301 million. United's internal policy limits brokered deposits to 20% of total deposits, excluding the brokered deposits. At September 30, 2004, United had the capacity to increase brokered deposits by \$193 million and still remain within this limit. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

As disclosed in United's Consolidated Statement of Cash Flows, net cash provided by operating activities was \$35.1 million for the nine months ended September 30, 2004. The major contributors in this category were net income of \$33.9 million, depreciation, amortization and accretion of \$11.5 million, provision for loan losses of \$5.6 million and an increase in accrued expenses and other liabilities of \$4.2 million, partially offset by an increase in other assets of \$11.3 million and an increase in mortgage loans held for sale of \$8.4 million. Net cash used by investing activities of \$373.9 million consisted primarily of a net increase in loans totaling \$333.2 million and \$370.7 million used to purchase investment securities, partially offset by proceeds from sales, maturities and calls of investment securities of \$332.7 million. Net cash provided by financing activities consisted primarily of a net increase in deposits of \$308.1 million, and a net increase in federal funds purchased and repurchase agreements of \$134.9 million, partially offset by a net decrease in FHLB advances of \$55.0 million and a \$45.0 million net decrease in other borrowings. In the opinion of management, the liquidity position at September 30, 2004 is sufficient to meet its expected cash flow requirements.

Capital Resources and Dividends

Stockholders' equity at September 30, 2004 was \$347.8 million, an increase of \$58.0 million from September 30, 2003. 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 \$59.4 million, or 21%, from September 30, 2003, of which \$21.0 million was the result of shares exchanged for the acquisition of 1st Community Bank. Dividends of \$2.2 million, or \$.06 per share, were declared on common stock during the third quarter of 2004, an increase of 20% from the amount declared in 2003. On an operating basis, the dividend payout ratios for the third quarters of 2004 and 2003 were 18% and 17%, respectively, while for the first nine months of 2004 and 2003, the dividend payout ratios were 19% and 18%, 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.

United's Board of Directors has authorized the repurchase of up to 2,250,000 shares of the Company's common stock through December 31, 2004. Through September 30, 2004, a total of 1,311,000 shares have been purchased under this program at an average cost of \$14.78. No shares were purchased during the first nine months of 2004.

United's common stock trades on the NASDAQ National Market under the symbol UCBI. The closing price for the period ended September 30, 2004 was \$24.27. Below is a quarterly schedule of high, low and closing stock prices and average daily volume for 2004 and 2003.

Table 11 — Stock Price Information

	2004				2003			
	High	Low	Close	Avg Volume	High	Low	Close	Avg Volume
First quarter	\$24.62	\$21.37	\$23.73	26,364	\$18.00	\$14.67	\$15.37	30,019
Second quarter	25.36	21.89	25.18	43,316	18.00	15.37	16.65	23,508
Third quarter	25.45	21.75	24.27	30,366	20.02	16.34	18.47	36,213
Fourth quarter					23.93	18.51	21.91	31,821

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The following table presents the quarterly cash dividends declared in 2004 and 2003 and the respective payout ratios as a percentage of basic operating earnings per share, which excludes merger-related charges.

Table 12 — Dividend Payout Information (based on operating earnings)

	2004		2003	
	Dividend	Payout %	Dividend	Payout %
First quarter	\$.06	19	\$.05	19(1)
Second quarter	.06	19(1)	.05	17(1)
Third quarter	.06	18	.05	17
Fourth quarter			.05	17(1)

(1) Dividend payout ratios for the second quarter of 2004, and the first, second and fourth quarters of 2003 were 19%, 20%, 18% and 17%, 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, 2004 and 2003.

Table 13 — Capital Ratios

(in thousands)

	2004		2003	
	Actual Amount	Regulatory Minimum	Actual Amount	Regulatory Minimum
Tier I Leverage:				
Amount	\$299,256	\$133,166	\$255,582	\$114,777
Ratio	6.74%	3.00%	6.68%	3.00%
Tier I Risk Based:				
Amount	\$299,256	\$140,536	\$255,582	\$119,258
Ratio	8.52%	4.00%	8.57%	4.00%
Total Risk Based:				
Amount	\$412,404	\$281,073	\$362,494	\$238,515
Ratio	11.74%	8.00%	12.16%	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 \$299 million at September 30, 2004. 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 \$412 million at September 30, 2004. The capital ratios, as calculated under the guidelines, were 8.52% and 11.74% for Tier I and Total Risk-based capital, respectively, at September 30, 2004.

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. 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, 2004 and 2003 were 6.74% and 6.68%, 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.

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, 2004 from that presented in the Annual Report on Form 10-K for the year ended December 31, 2003. The interest rate sensitivity position at September 30, 2004 is included in management's discussion and analysis on page 22 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, 2004. 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

In the ordinary course of operations, United and the Banks are defendants in various legal proceedings. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the consolidated financial condition or results of operations of United.

Item 2. Unregistered Sales of Equity 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

- 10.1 United Community Bank Modified Retirement Plan, effective as of January 1, 2004.
- 10.2 United Community Bank Deferred Compensation Plan, effective as of October 21, 2004
- 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

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 9, 2004

UNITED COMMUNITY BANKS
MODIFIED RETIREMENT PLAN
EFFECTIVE AS OF JANUARY 1, 2004

UNITED COMMUNITY BANKS
MODIFIED RETIREMENT PLAN

Pursuant to the authorization of its Board of Directors, UNITED COMMUNITY BANKS, INC. ("the Company"), a Georgia bank holding company located in Blairsville, Georgia, does hereby constitute, establish and adopt the United Community Banks Modified Retirement Plan (the "Plan"), effective as of January 1, 2004 ("Effective Date").

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated Employees who contribute materially to the continued growth, development and future business success of the Company and its Subsidiaries that participate in this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

ARTICLE 1
DEFINITIONS

The following words and phrases shall have the following meanings, unless the context requires otherwise:

- 1.1 "Accrued Benefit" means an amount payable at Normal Retirement Age equal to the Participant's Normal Retirement Benefit described in Section 3.2 multiplied by a fraction, not to exceed one, the numerator of which is the Participant's actual number of Years of Service and the denominator of which is the Participant's potential number of Years of Service to Normal Retirement Age (determined beginning on the Participant's hire date and continuing as if the Participant continued employment with the Employer until his Normal Retirement Age), provided that the Plan Administrator may provide on an Appendix applicable to a Participant for a different method to determine the Accrued Benefit fraction through adjustment of the Participant's hire date or otherwise. The Participation Agreement may provide for payment of a specified benefit amount at an age earlier than the Participant's Normal Retirement Age, which amount may exceed the Participant's Accrued Benefit at such age.
- 1.2 "Actuarial Equivalent" means an actuarial equivalent value of an amount payable in a different form or at a different date computed on the basis of the following actuarial assumptions:

Mortality:	GAR 94 unisex mortality table set forth in Revenue Ruling 2001-62
Interest Rate:	7.00%

As the Plan Administrator deems necessary, in its sole discretion, the above actuarial assumptions may be adjusted from time to time, and no Participant shall be deemed to

have any right, vested or nonvested, regarding the continued use of any previously adopted actuarial assumptions.

- 1.3 "Beneficiary" means a Participant's designated Eligible Spouse or other person entitled to benefits, if any, upon the death of a Participant determined pursuant to Articles 3 and 4.
- 1.4 "Beneficiary Designation Form" means the form established from time to time by the Plan Administrator that a Participant completes, signs and returns to the Plan Administrator to designate a Beneficiary.
- 1.5 "Board" means the Board of Directors of the Company as from time to time constituted.
- 1.6 "Change in Control" means for purposes of the Plan any of the following:
- (A) The acquisition (other than from the Company) by any Person of Beneficial Ownership of twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting securities; provided, however, that for purposes of this Section 1.6, Person shall not include any person who on the Effective Date owns ten percent (10%) or more of the Company's outstanding securities, and a Change in Control shall not be deemed to occur solely because twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one (1) or more employee benefit plans maintained by the Company or any of its Subsidiaries, or (ii) any corporation, which, immediately prior to such acquisition, is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition.
 - (B) Approval by shareholders of the Company of (1) a merger or consolidation involving the Company if the shareholders of the Company, immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation, or (2) a complete liquidation or dissolution of the Company or an agreement for the sale or other disposition of all or substantially all of the assets of the Company.
 - (C) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 1.6 that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of

the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board.

Notwithstanding anything else to the contrary set forth in this Plan, if (i) an agreement is executed by the Company providing for any of the transactions or events constituting a Change in Control as defined herein, and the agreement subsequently expires or is terminated without the transaction or event being consummated, and (ii) Participant's employment did not terminate during the period after the agreement and prior to such expiration or termination, for purposes of this Plan it shall be as though such agreement was never executed and no Change in Control event shall be deemed to have occurred as a result of the execution of such agreement.

- 1.7 "Change in Control Benefit" means the benefit as set forth in Section 3.7.
- 1.8 "Code" means the Internal Revenue Code of 1986, as amended.
- 1.9 "Company" means United Community Banks, Inc., a bank holding company organized under the laws of Georgia.
- 1.10 "Disability" means the Participant has been determined to be "Disabled" (i) under the Company's long-term disability plan covering the Participant, or (ii) in accordance with standards established by the Plan Administrator based on the Participant's inability to perform his duties as a result of an injury or sickness.
- 1.11 "Disability Retirement Benefit" means the benefit as set forth in Section 3.4.
- 1.12 "Early Retirement Age" means, if provided for in the Participation Agreement, the Participant reaching the designated age and completing the number of Years of Service for receiving the Early Retirement Benefit under the Plan as set forth in the Participation Agreement applicable to such Participant, prior to Normal Retirement Age.
- 1.13 "Early Retirement Benefit" means the benefit payable at Early Retirement Age as set forth in Section 3.3.
- 1.14 "Election Form" means the form established from time to time by the Plan Administrator that a Participant completes, signs and returns to the Plan Administrator to make an election under the Plan.
- 1.15 "Eligible Spouse" means the individual to whom the Participant is legally married on the earlier of the Participant's date of benefit commencement or date of death.

- 1.16 "Employee" means a person who is an active employee of an Employer.
- 1.17 "Employer" means the Company and any of its Subsidiaries (now in existence or hereafter formed or acquired) that have been designated by the Board to participate in the Plan.
- 1.18 "Normal Retirement Age" means the (i) the Participant reaching age sixty-five (65) and completing at least five (5) Years of Service, or (ii) the Participant's designated age and Years of Service for receiving the Normal Retirement Benefit under this Plan as set forth in the Participation Agreement applicable to such Participant.
- 1.19 "Normal Retirement Benefit" means the benefit payable at Normal Retirement Age as set in Section 3.2.
- 1.20 "Participant" means any Employee (i) who is selected to participate in the Plan by the Plan Administrator (subject, where applicable, to ratification by the Compensation Committee), (ii) who elects to participate in the Plan, (iii) who signs a Participation Agreement and a Beneficiary Designation Form, (iv) whose signed Participation Agreement and Beneficiary Designation Form are accepted by the Plan Administrator, (v) who commences participation in the Plan, and (vi) whose Participation Agreement has not terminated.
- 1.21 "Participation Agreement" means a written agreement, as may be amended from time to time, which is entered into between a Participant and the Company. Each Participation Agreement executed by a Participant shall provide for the entire benefit to which such Participant is entitled under the Plan, the terms and conditions applicable to such benefit, and the Participation Agreement bearing the latest date of acceptance by the Plan Administrator shall govern such entitlement.
- 1.22 "Plan Administrator" means the Plan Administrator appointed by the Company as described in Article 6.
- 1.23 "Plan Year" means the twelve (12) month period from January 1 to December 31.
- 1.24 "Pre-Retirement Death Benefit" means the benefit as set forth in Section 3.8.
- 1.25 "Prior Plan" means the Executive Revenue Neutral Retirement Agreement or similar agreement covering a Participant which will be replaced by and superceded in its entirety by the Plan and the Participation Agreement.
- 1.26 "Subsidiary" means any corporation, partnership, limited liability company, joint venture or other entity in which the Company has, directly or indirectly, a fifty percent (50%) or greater voting interest.
- 1.27 "Termination for Cause" means, notwithstanding any provision of this Plan to the contrary, the Company shall not pay any benefit under this Plan, if the Company terminates the Participant's employment for Cause. Termination of the Participant's employment for "Cause" shall mean termination because of (i) willful misconduct on the

part of a Participant that is materially detrimental to the Company; or (ii) the conviction of a Participant for the commission of a felony. The existence of "Cause" under either (i) or (ii) shall be determined by the Plan Administrator. Notwithstanding the foregoing, if the Participant has entered into an employment agreement that is binding as of the date of employment termination, and if such employment agreement defines "Cause," and/or provides a means of determining whether "Cause" exists, such definition of "Cause" and means of determining its existence shall supersede this provision. For purposes of this paragraph, no act or failure to act on the Participant's part shall be considered "willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that the Participant's action or omission was in the best interest of the Company.

- 1.28 "Termination of Employment" means the date on which the Participant ceases to perform services for an Employer.
- 1.29 "Years of Service" means the twelve consecutive month period beginning on a Participant's date of hire with the Employer and any twelve (12) month anniversary thereof, during the entirety of which time the Participant is an Employee of an Employer. Service for partial years shall be calculated pro-rated based on the number of months completed. Service with a Subsidiary or other entity controlled by the Company before the time such entity became a Subsidiary or under such control shall not be considered a "Year of Service" unless the Plan Administrator specifically agrees to credit such service. In addition, the Plan Administrator in its discretion may provide on an Appendix for the grant of additional Years of Service in such circumstances where it deems such additional service appropriate and in the best interests of the Company.

ARTICLE 2 ELIGIBILITY AND PARTICIPATION

- 2.1 Selection by Plan Administrator. Participation in the Plan shall be limited to a select group of management and highly compensated employees of an Employer, as determined by the Plan Administrator in its sole discretion. From that group, the Plan Administrator shall select the Employees to participate in the Plan (subject, where applicable, to ratification by the Compensation Committee).
- 2.2 Enrollment Requirements. As a condition to participation, each selected Employee shall complete, execute and return to the Plan Administrator a Participation Agreement and a Beneficiary Designation Form. In addition, the Plan Administrator shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary or desirable.
- 2.3 Eligibility; Commencement of Participation. Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Plan Administrator, that Employee will become a Participant in the Plan and will be eligible to receive benefits at the time and in the manner provided hereunder, subject to the provisions of the Plan.

2.4 Termination of Participation and/or Eligibility. If the Plan Administrator determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, the Plan Administrator shall have the right, in its sole discretion, to (i) prevent the Participant from accruing additional benefits hereunder, and/or (ii) terminate the Participant's participation in the Plan. If a Participant has attained Early Retirement Age or Normal Retirement Age as of such termination of participation, the Plan Administrator may, in its discretion, after providing notice to the Compensation Committee, immediately distribute the Participant's benefits based on the Accrued Benefit of the Participant as of such date.

ARTICLE 3
BENEFITS

3.1 Plan Benefits. Each Participant's benefits under the Plan shall be limited to those described in this Article 3, and shall be subject to any conditions and limitations set forth in Article 5 and contained elsewhere in this Plan.

3.2 Normal Retirement Benefit. Upon attaining the Normal Retirement Age, the Company shall pay to the Participant the Annual Target Benefit as set forth in the Participation Agreement. Unless a Participant chooses an Alternative Payment Method, the Company shall pay the Normal Retirement Benefit to the Participant in the form of a life annuity, commencing within ninety (90) days following the Participant's Normal Retirement Age and payable on or about the first day of each successive month thereafter until the Participant's death, provided if the Participant has an Eligible Spouse on the date his benefits commence, the Normal Retirement Benefit shall be payable in the form of a life with 100% survivor annuity as described in Section 3.11(ii) below (unless the Participant elects an Alternative Payment Method). Upon making all of such installments, the Company's obligation to provide such payments will cease. No further benefit under this Plan is to be provided.

3.3 Early Retirement Benefit. If provided for in the Participation Agreement, upon attaining the Early Retirement Age and if the Participant retires from employment, the Company shall pay to the Participant an Early Retirement Benefit equal to the greater of (i) the Minimum Early Retirement Benefit set forth in the Participation Agreement or (ii) the Participant's Accrued Benefit reduced 5.00% for each calendar year (and prorated for each partial year thereof) that the Early Retirement Age precedes the date of commencement of the Normal Retirement Benefit. Unless a Participant chooses an Alternative Payment Method, the Company shall pay the Early Retirement Benefit to the Participant in the form of a life annuity, commencing within ninety (90) days following the Participant's Early Retirement Age and payable on or about the first day of each successive month thereafter until the Participant's death, provided if the Participant has an Eligible Spouse on the date his benefits commence, the Normal Retirement Benefit shall be payable in the form of a life with 100% survivor annuity as described in Section 3.11(ii) below (unless the Participant elects an Alternative Payment Method). Upon making all of such installments, the Company's obligation to provide such payments will cease. No further benefit under this Plan is to be provided.

- 3.4 Disability Retirement Benefit. A Participant shall be eligible for a Disability Retirement Benefit if he retires by reason of Disability and his Disability Retirement Date shall be the day next following the day on which the Participant is deemed to have a Disability as defined in Section 1.10. The amount of the Participant's Disability Retirement Benefit shall be equal to his Accrued Benefit as of his Disability Retirement Date. A Disability Retirement Benefit shall commence as of the first day of the calendar month next following the Participant's Normal Retirement Age and shall be payable in the form of a life annuity, provided that if the Participant has an Eligible Spouse on the date his benefits commence, the Disability Retirement Benefit shall be payable in the form of a life with 100% survivor annuity as described in Section 3.11.(ii) below (unless the Participant elects an Alternative Payment Method), provided that the Plan Administrator may in its discretion accelerate the time or manner of payment of Disability Retirement Benefits to a Participant. The Committee may in its sole discretion provide that a Participant who has a Disability will be credited with additional Years of Service after the Participant's Disability Retirement Date.
- 3.5 Vested Participant Benefit. A Participant shall become vested in his Accrued Benefit upon attainment of age 55 and completion of five (5) Years of Service. A Vested Participant shall be entitled to his Accrued Benefit determined as of his date of Termination of Employment. Payment of such benefit shall commence on the first day of the calendar month next following the Vested Participant's Normal Retirement Age. A Vested Participant who has an age for commencement of an Early Retirement Benefit set forth in the Participation Agreement may elect to commence his benefit as of the first day of the calendar month next following such Early Retirement Age and in such event, the Participant's Vested Accrued Benefit shall be reduced by 5% for each calendar year that the commencement date precedes his Normal Retirement Age. The Participant's Vested Accrued Benefit shall be payable as a life annuity, provided that if the Participant has an Eligible Spouse on the date his benefit commences, the Vested Benefit shall be payable in the form of a life with 100% survivor annuity as described in Section 3.11(ii).
- 3.6 Termination Prior to Completion of Vesting Requirements. Except in the event of a Participant's death, Disability, qualifying for Early Retirement, or attainment of his Normal Retirement Age, a Participant whose termination date occurs prior to meeting the vesting requirements of Section 3.5 shall be entitled to no benefits under this Plan.
- 3.7 Change in Control Benefit. Upon a Change in Control prior to the commencement of payment of benefits to a Participant under this Article, a Participant shall become immediately vested in the greater of the Participant's Early Retirement Benefit or Accrued Benefit, which benefit shall be payable at the earlier of the Participant's attainment of age 55 or the Early Retirement Age specified in the Participation Agreement. Notwithstanding any other provisions of this Plan, the Change in Control Benefit shall not be reduced for each month that the commencement of the Change in Control Benefit precedes the date of commencement of the Normal Retirement Benefit. Unless a Participant chooses an Alternative Payment Method, the Company shall pay the Change in Control Benefit to the Participant in the form of a life annuity, payable on or about the first day of each successive month thereafter until the Participant's death, provided if the Participant has an Eligible Spouse on the date his benefits commence, the

Change in Control Benefit shall be payable in the form of life with 100% survivor annuity as described in Section 3.11(ii) below (unless the Participant elects an Alternative Payment Method). Upon making all of such installments, the Company's obligation to provide such payments will cease. No further benefit under this Plan is to be provided.

3.8 Pre-Retirement Death Benefit for Married Participant. Unless a Participant chooses an Alternative Payment Method, if a Participant entitled to a Vested Participant Benefit pursuant to Section 3.5 dies prior to Normal Retirement Age (or Early Retirement Age, if provided for in the Participant's Participation Agreement) and has a surviving Eligible Spouse, the Company shall pay to the Participant's Eligible Spouse an amount equal to the benefit due as though

- (i) the Participant had terminated from Service just prior to his or her death,
- (ii) the Participant had survived to his Normal Retirement Age (or, if applicable, Early Retirement Age),
- (iii) at the Participant's Normal Retirement Age (or, if applicable, Early Retirement Age), the Participant had elected a life and 100% survivor benefit, and
- (iv) the Participant dies immediately after his or her election.

The benefit shall be payable to the Participant's surviving Eligible Spouse commencing on the date indicated above over the Eligible Spouse's lifetime. Upon making all of such payments, the Company's obligation to provide such payments will cease. No further benefit under this Plan is to be provided.

3.9 Death Benefit for Married Participant After Eligibility for Early Retirement Benefit. If an Early Retirement Benefit is provided for in the Participation Agreement, unless a Participant chooses an Alternative Payment Method, if a married Participant dies prior to commencing retirement payments but after attaining the requirements for an Early Retirement Benefit as set forth in the Participation Agreement, and has a surviving Eligible Spouse, the Company shall pay the Participant's Eligible Spouse the 100% survivor benefit under the Participant's life and 100% Survivor benefit, as defined in Article 3.11(ii), as if the Participant had terminated from Service and commenced benefits just prior to his death. The benefit shall be payable to the surviving Eligible Spouse over the Eligible Spouse's lifetime. Upon making all of such payments, the Company's obligation to provide such payments will cease. No further benefit under this Plan is to be provided.

3.10 Death of Unmarried Participant. If a Participant who does not have an Eligible Spouse dies while employed by the Company after completing the requirements for a Vested Participant Benefit or an Early or Normal Retirement Benefit, the Participant's Beneficiary shall be paid an amount equal to fifty percent (50%) of the lump sum Actuarial Equivalent of the Participant's Accrued Benefit (subject, if applicable, to reduction for early payment). The pre-retirement death benefit under this Section 3.10 shall be payable in five (5) substantially equal annual installments commencing on the

date the Participant would have attained age 55 or if the Participant had already attained age 55 at the date of death, the first day of the month following the date of death.

3.11 Alternative Payment Methods. A Participant may choose on the Election Form one of the following alternative forms of benefit payments that will apply when the Participant's benefit commences:

- (i) A life annuity payable for the Participant's life only with payments ceasing upon the Participant's death;
- (ii) Life with 100% continuation to his surviving Eligible Spouse, where payments continue without reduction until the later of the Participant's death or the death of a designated Eligible Spouse;
- (iii) Life with 50% continuation to his surviving Eligible Spouse, where payments continue until the Participant's death then, if the designated Eligible Spouse survives the Participant, fifty percent (50%) of the payment is paid to such designated Eligible Spouse until his or her death;
- (iv) 15 year period certain (180 monthly payments) with no further payment after 15 years, provided that if the Participant dies prior to receiving 180 monthly payments, his designated Beneficiary will receive the remainder of such 180 monthly payments.

The amount of any alternative payment shall be based on the Actuarial Equivalent of the benefit that would otherwise be payable.

3.12 Withholding and Payroll Taxes. The Company shall withhold from any and all benefit payments made under this Article 3, all federal, state and local income taxes, employment and other taxes required to be withheld by the Company in connection with the benefits hereunder, in amounts to be determined in the sole discretion of the Company. If employment or other taxes are required to be withheld prior to payment of benefits, the Company may reduce the Participant's other compensation, require that the Participant remit to the Company additional amounts, or make such other arrangements with the Participant as the Company shall determine to be necessary to satisfy such obligation.

3.13 Prior Plan Benefits. An Employee who participated in a Prior Plan shall not be eligible to participate in this Plan and no benefit shall be payable to, or for the benefit of, such Employee under this Plan until the Employee has waived and released all of his rights under the Prior Plan (and to any insurance policies or contracts relating to the Prior Plan) in a manner satisfactory to the Plan Administrator. In the event for any reason an Employee receives any benefit under a Prior Plan, the Employee's benefits under this Plan shall be reduced in an equitable manner (as determined by the Plan Administrator) by the amount of benefits received from the Prior Plan.

ARTICLE 4
BENEFICIARY

- 4.1 Beneficiary. Each Participant shall have the right, at any time, to designate his Eligible Spouse to receive any benefits payable under the Plan upon the death of a Participant. The Participant may designate someone other than his or her Eligible Spouse as a Beneficiary, but that designation shall only be effective if the Participant elects the 15-year period Alternative Payment Method pursuant to Section 3.11(iv), and the Participant dies prior to the expiration of the 15-year period. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.
- 4.2 Beneficiary Designation; Change. A Participant shall designate a Beneficiary by completing and signing the Beneficiary Designation Form, and delivering it to the Plan Administrator or its designated agent. The Participant's beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Participant or if the Participant designates his Eligible Spouse and the marriage is subsequently dissolved or terminated. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Plan Administrator prior to the Participant's death.
- 4.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received, accepted and acknowledged in writing by the Plan Administrator or its designated agent.
- 4.4 No Beneficiary Designation. If the Participant dies before retirement without a valid beneficiary designation, then the Participant's Eligible Spouse shall be the designated Beneficiary. If the Participant has no surviving Eligible Spouse, and the Participant elects the 15 year period Alternative Payment Method pursuant to Section 3.11(iv), the remaining benefits shall be paid to the personal representative on behalf of the Participant's estate.
- 4.5 Facility of Payment. If the Plan Administrator determines in its discretion that a benefit is to be paid to a minor, to a person declared incompetent, or to a person incapable of handling the disposition of that person's property, the Plan Administrator may direct payment of such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person. The Plan Administrator may require proof of incompetence, minority or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

ARTICLE 5
GENERAL LIMITATIONS ON BENEFITS

- 5.1 Termination for Cause. If there is a Termination for Cause by an Employer of the Participant's employment, the Participant shall cease participation hereunder as of the date of such Termination for Cause and all benefits payable (or to be payable) to the Participant or the Participant's Beneficiary shall be forfeited, unless the Plan Administrator determines in its sole discretion to pay part or all of the Participant's Accrued Benefit.
- 5.2 Non-Compete and Non-Solicitation Provisions. The Participant (and his Beneficiary) shall forfeit all rights to any benefits under this Plan if during his employment with an Employer and for the three (3) year period after his Termination of Employment, the Participant:
- (i) directly or indirectly, for the Participant's own account, or as a partner, member, employee, advisor or agent of any partnership or joint venture, or as a trustee, officer, director, shareholder, employee, advisor or agent of any corporation, bank, savings association, mutual thrift, credit union, trust, or other business or financial services organization or entity, within a fifty (50) mile radius of any office of the Company or its Subsidiaries, owns, manages, joins, participates in, encourages, supports, finances, is engaged in, has an interest in, gives financial assistance or advice to, permits Participant's name to be used in connection with or be concerned in any way in the ownership, management, operation or control of any business which competes with the Company or its Subsidiaries; or
 - (ii) solicits or assists anyone in soliciting in any way any employee of the Company or its Subsidiaries to resign or sever his or her employment or to breach any employment agreement with the Company or its Subsidiaries; or
 - (iii) knowingly or intentionally damages or destroys the goodwill and esteem of the Company or its Subsidiaries, or the Company's or Subsidiaries' suppliers, employees, patrons, customers, and others who may at any time have or have had relations with the Company or a Subsidiary; or
 - (iv) divulges, discloses, or communicates to others in any manner whatsoever, any confidential information of the Company or a Subsidiary, including, but not limited to, the names and addresses of customers or prospective customers, of the Company or a Subsidiary, as they may have existed from time to time, of work performed or services rendered for any customer, any method and/or procedures relating to projects or other work developed for the Company or a Subsidiary, earnings or other information concerning the Company or a Subsidiary. The restrictions contained in this subparagraph (iv) shall apply to all information regarding the Company or a Subsidiary, regardless of the source that provided or compiled such

information. Notwithstanding anything to the contrary, all information referred to herein shall not be disclosed unless and until it becomes known to the general public from sources other than the Participant.

Notwithstanding any language to the contrary contained in this Plan, it shall be permissible for a Participant to own stock or securities of any company which may be deemed competitive with the Company provided such shares or securities held by the Participant are issued by a company listed on a national securities exchange or the NASDAQ National Market system and the Participant owns less than a one percent (1%) interest thereof.

- 5.2.1 Judicial Remedies. In the event of a breach or threatened breach by the Participant of any provision of these restrictions, the Participant recognizes the substantial and immediate harm that a breach or threatened breach will impose upon the Company, and further recognizes that in such event monetary damages may be inadequate to fully protect the Company. Accordingly, in the event of a breach or threatened breach of these restrictions, the Participant consents to the Company's entitlement to such ex parte, preliminary, interlocutory, temporary or permanent injunctive, or any other equitable relief, protecting and fully enforcing the Company's rights hereunder and preventing the Participant from further breaching any of his obligations set forth herein. The Participant expressly waives any requirement, based on any statute, rule of procedure, or other source, that the Company post a bond as a condition of obtaining any of the above-described remedies. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies available to the Company at law or in equity for such breach or threatened breach, including the recovery of damages from the Participant. The Participant expressly acknowledges and agrees that: (i) the restrictions set forth in Section 5.2 hereof are reasonable, in terms of scope, duration, geographic area, and otherwise, (ii) the protections afforded the Company in Section 5.2 hereof are necessary to protect its legitimate business interest, (iii) the restrictions set forth in Section 5.2 hereof will not be materially adverse to the Participant's employment with the Company, and (iv) his agreement to observe such restrictions forms a material part of the consideration for this Plan.
- 5.2.2 Overbreadth of Restrictive Covenant. It is the intention of the parties that if any restrictive covenant in this Plan is determined by a court of competent jurisdiction to be overly broad, then the court should enforce such restrictive covenant to the maximum extent permitted under the law as to area, breadth and duration.
- 5.2.3 Change in Control. The non-compete and non-solicitation provisions set forth in this Section 5.2 shall not be enforceable against a Participant following a Change in Control provided that if the Participant has violated

such provisions prior to a Change in Control, his benefits shall not be restored unless the Plan Administrator elects to reinstate the Participant's benefits.

- 5.3 Participant's Suicide or Misstatement. The Company shall not pay any benefit under this Plan if the Participant commits suicide within three years after the date of the Participant's Participation Agreement. In addition, the Company shall not pay any benefit under this Plan if the Participant has made any material misstatement of fact on any application for insurance or any benefits provided by the Company to, or with respect to, the Participant.

ARTICLE 6
ADMINISTRATION OF PLAN

- 6.1 Plan Administrator Duties. This Plan shall be administered by a Plan Administrator that shall be an individual or committee appointed by the Board. The Plan Administrator shall have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan or the benefits payable under the Plan.
- 6.2 Agents. In the administration of this Plan, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit, (including acting through a duly appointed representative), and may from time to time consult with counsel who may be counsel to an Employer.
- 6.3 Binding Effect of Decisions. The decision or action of the Plan Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 6.4 Indemnity of Plan Administrator. The Company shall indemnify and hold harmless the Plan Administrator (and any members of a committee serving as Plan Administrator) against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Plan Administrator or any of its members.
- 6.5 Employer Information. To enable the Plan Administrator to perform its functions, the Employers shall supply full and timely information to the Plan Administrator on all matters relating to the compensation of their Participants, the date and circumstances of the retirement, Disability, death or Termination of Employment of their Participants, and such other pertinent information as the Plan Administrator may reasonably require.

ARTICLE 7
CLAIMS AND REVIEW PROCEDURE

A Participant who believes that he is entitled to benefits under the Plan which have not been paid must file a written claim for such benefits. All claims for benefits shall be in writing and shall be filed with the Plan Administrator. If the Plan Administrator wholly or partially denies a Participant's claim for benefits, the Plan Administrator shall give the claimant written notice within sixty (60) days after the Plan's receipt of the claim setting forth:

- (a) the specific reason(s) for the denial;
- (b) specific reference to pertinent Plan provisions on which the denial is based;
- (c) a description of any additional material or information which must be submitted to perfect the claim, and an explanation of why such material or information is necessary; and
- (d) an explanation of the Plan's claim review procedure.

Each Participant whose claim for benefits has been denied may file a written request for a review of his claim by the Plan Administrator. The request for review must be filed by the Participant within 60 days after he received the written notice denying his claim. The decision of the Plan Administrator will be made within 60 days after receipt of a request for review and shall be communicated in writing to the Participant. Such written notice shall set forth the basis for the Plan Administrator's decision. If there are special circumstances which require an extension of time for completing the review, the Plan Administrator's decision shall be rendered not later than 120 days after receipt of a request for review.

The Plan Administrator shall have the exclusive discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits and to determine the amount of such benefits and its decision on such matters are final and conclusive

ARTICLE 8
AMENDMENT AND TERMINATION OF THE PLAN

8.1 Termination. The Company reserves the right to terminate the Plan at any time by the actions of the Board. In addition, the Company reserves the right to terminate an Employer's participation (and such Employer's Employees' participation) in the Plan by action of the Board; provided, however, that upon such termination, the Plan Administrator in its discretion may determine that all Participants who cease to be eligible to continue participation in the Plan because of such action will become one hundred percent (100%) vested in their Accrued Benefit. Further, the termination of the Plan shall not adversely affect any Participant or his or her Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination regardless of whether payment of such benefits has commenced.

8.2 Amendment. The Company may, at any time, amend or modify the Plan in whole or in part by the actions of the Board. The amendment or modification of the Plan shall not

affect any Participant or his or her Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.

- 8.3 Termination of Participation Agreement. Absent the earlier termination, modification or amendment of the Plan, the Participation Agreement of any Participant shall terminate upon the full payment of the applicable benefits as provided under Article 3.

ARTICLE 9
MISCELLANEOUS

- 9.1 Unsecured General Creditor. Participants and their Beneficiaries shall have no legal or equitable rights, interests or claims in any property or assets of the Company or an Employer. The Company's or Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 9.2 Not a Contract of Employment. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between an Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, with or without cause, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of an Employer or to interfere with the right of an Employer to discipline or discharge the Participant at any time.
- 9.3 Participation in Other Plans. Nothing herein contained shall be construed to alter, abridge, or in any manner affect the rights and privileges of the Participant to participate in and be covered by any pension, profit sharing, group insurance, bonus or similar employee plans which an Employer may now or hereafter maintain.
- 9.4 Alienability. Neither the Participant nor any Beneficiary under this Plan shall have any power or right to transfer, assign, anticipate, hypothecate, mortgage, commute, modify, or otherwise encumber in advance any of the benefits payable hereunder, nor shall any of said benefits be subject to seizure for the payment of any debts, judgments, alimony, or separate maintenance owed by the Participant or the Participant's Beneficiary or any of them, or to be transferable by operation of law in the event of bankruptcy, insolvency, or otherwise. In the event the Participant or any Beneficiary attempts assignment, commutation, hypothecation, transfer, or disposal of the benefit hereunder such action shall be of no force or effect and the Company's obligations hereunder to such Participant or Beneficiary shall immediately cease and terminate.
- 9.5 Successors. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns and the Participant and the Participant's Beneficiary.
- 9.6 Reorganization. The Company shall not merge or consolidate into or with another corporation, or reorganize, or sell substantially all of its assets to another corporation, firm, or person unless and until such succeeding or continuing corporation, firm, or person agrees to assume and discharge the obligations of the Company under this Plan.

Upon the occurrence of such event, the term "Company" as used in this Plan shall be deemed to refer to such succeeding or continuing company, firm, or person.

- 9.7 Interpretation. Wherever the fulfillment of the intent and purpose of this Plan requires, and the context will permit, the use of the masculine gender includes the feminine and use of the singular includes the plural.
- 9.8 Alternative Action. In the event it shall become impossible for the Company or the Plan Administrator to perform any act required by this Plan, the Company or Plan Administrator may in its discretion perform such alternative act as most nearly carries out the intent and purpose of this Plan.
- 9.9 Applicable Law. Subject to ERISA, the provisions of this Plan shall be construed and interpreted in accordance with the laws of the state of Georgia, without regard to its conflict of law principles.
- 9.10 Headings. Article and section headings are for convenient reference only and shall not control or affect the meaning or construction of any of its provisions.
- 9.11 Furnishing Information. A Participant or his or her Beneficiary will cooperate with the Plan Administrator by furnishing any and all information requested by the Plan Administrator and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Plan Administrator may deem necessary.
- 9.12 Validity. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision has never been inserted herein.
- 9.13 Notice. Any notice or filing required or permitted to be given to the Plan Administrator under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

United Community Banks, Inc.
Attention: Plan Administrator of Modified Retirement Plan
P.O. Box 398
Blairsville, Georgia 30514

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

9.14 Signed Copies. This Plan may be executed in any number of counterparts, each of whom shall be deemed to be an original, and such counterparts taken together shall constitute one (1) and the same instrument.

IN WITNESS WHEREOF, the Company has caused this Plan to be duly executed by its authorized officers as of the Effective Date.

UNITED COMMUNITY BANKS, INC.

By: _____

ATTEST:

By: _____

FORM OF PARTICIPATION AGREEMENT

THIS PARTICIPATION AGREEMENT (this "Agreement") is entered into as of _____, 2004 between UNITED COMMUNITY BANKS, INC. and _____, (together, the "Company"), and _____ (the "Participant").

RECITAL

- A. The Participant is a member of a select group of management or highly compensated Employees of the Company and the Company desires to provide certain supplemental retirement benefits to Participant, subject to the terms and conditions set forth herein and in the Plan.
- B. The Company has adopted, effective as of January 1, 2004, the UNITED COMMUNITY BANKS Modified Retirement Plan (the "Plan"), as amended from time to time, and the Participant has been selected to participate in the Plan.
- C. The Participant desires to participate in the Plan.

AGREEMENT

NOW THEREFORE, it is mutually agreed that:

- 1. Definitions. Unless otherwise provided in this Agreement, the capitalized terms in this Agreement shall have the same meaning as set forth in the Plan.
- 2. Integrated Agreement; Parties Bound. The Plan, a copy of which has been made available to the Participant, is hereby incorporated into and made a part of this Agreement as though set forth in full in this Agreement. The parties to this Agreement agree to and shall be bound by, and have the benefit of, each and every provision of the Plan as set forth in the Plan. This Agreement and the Plan, collectively, shall be considered one complete contract between the parties. Except as otherwise provided in the Plan, this Agreement shall not be amended except by an instrument in writing executed by the parties.
- 3. Acknowledgment. The Participant hereby acknowledges that he or she has read and understands this Agreement and the Plan.
- 4. Conditions to Participation. As a condition to participation in the Plan, the Participant must complete, sign, date and return to the Plan Administrator an original copy of this Agreement, a Beneficiary Designation, and any other forms required by the Plan Administrator. In addition, if applicable, as a condition to participation in the Plan, the Participant must waive his rights to any benefits under the Prior Plan and to any insurance policies or contract relating to the Prior Plan.
- 5. Successors and Assigns. This Agreement shall inure to the benefit of, and be binding upon the Company, its successors and assigns, and the Participant.

- 6. Governing Law. This Agreement shall be governed by and construed under ERISA and to the extent ERISA does not preempt state law, under the laws of the State of Georgia.
- 7. Annual Target Benefit. The Annual Target Benefit shall be _____ [\$--, ---]. The Annual Target Benefit may be amended/increased from time to time in accordance with the terms of the Plan.
- 8. Normal Retirement Eligibility Criteria. The Normal Retirement Eligibility Criteria shall be: _____ [age and Years of Service].
- 9. Early Retirement Eligibility Criteria. The Early Retirement Eligibility Criteria shall be: _____ [age and Years of Service].
- 10. Minimum Early Retirement Benefit. The Minimum Early Retirement Benefit shall be _____ [\$--, ---].
- 11. Special Conditions. _____

IN WITNESS WHEREOF, the Participant has signed and the Company has accepted this Participation Agreement, as of the date first written above.

PARTICIPANT

Date

Signature of Participant

Type or Print Name

AGREED TO AND ACCEPTED ON BEHALF OF THE COMPANY:

PLAN ADMINISTRATOR:

Signature of Authorized Representative

Type or Print Name

FORM OF PARTICIPATION AGREEMENT

THIS PARTICIPATION AGREEMENT (this "Agreement") is entered into as of _____, 2004 between UNITED COMMUNITY BANKS, INC. and _____, (together, the "Company"), and _____ (the "Participant").

RECITAL

- A. The Participant is a member of a select group of management or highly compensated Employees of the Company and the Company desires to provide certain supplemental retirement benefits to Participant, subject to the terms and conditions set forth herein and in the Plan.
- B. The Company has adopted, effective as of January 1, 2004, the UNITED COMMUNITY BANKS Modified Retirement Plan (the "Plan"), as amended from time to time, and the Participant has been selected to participate in the Plan.
- C. The Participant desires to participate in the Plan.

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- 2. Integrated Agreement; Parties Bound. The Plan, a copy of which has been made available to the Participant, is hereby incorporated into and made a part of this Agreement as though set forth in full in this Agreement. The parties to this Agreement agree to and shall be bound by, and have the benefit of, each and every provision of the Plan as set forth in the Plan. This Agreement and the Plan, collectively, shall be considered one complete contract between the parties. Except as otherwise provided in the Plan, this Agreement shall not be amended except by an instrument in writing executed by the parties.
- 3. Acknowledgment. The Participant hereby acknowledges that he or she has read and understands this Agreement and the Plan.
- 4. Conditions to Participation. As a condition to participation in the Plan, the Participant must complete, sign, date and return to the Plan Administrator an original copy of this Agreement, a Beneficiary Designation, and any other forms required by the Plan Administrator. In addition, if applicable, as a condition to participation in the Plan, the Participant must waive his rights to any benefits under the Prior Plan and to any insurance policies or contract relating to the Prior Plan.
- 5. Successors and Assigns. This Agreement shall inure to the benefit of, and be binding upon the Company, its successors and assigns, and the Participant.

- 6. Governing Law. This Agreement shall be governed by and construed under ERISA and to the extent ERISA does not preempt state law, under the laws of the State of Georgia.
- 7. Annual Target Benefit. The Annual Target Benefit shall be _____ [\$--, ---]. The Annual Target Benefit may be amended/increased from time to time in accordance with the terms of the Plan.
- 8. Normal Retirement Eligibility Criteria. The Normal Retirement Eligibility Criteria shall be: _____ [age and Years of Service].
- 9. Special Conditions. _____

IN WITNESS WHEREOF, the Participant has signed and the Company has accepted this Participation Agreement, as of the date first written above.

PARTICIPANT

Date

Signature of Participant

Type or Print Name

AGREED TO AND ACCEPTED ON BEHALF OF THE COMPANY:

PLAN ADMINISTRATOR:

Signature of Authorized Representative

Type or Print Name

UNITED COMMUNITY BANKS
DEFERRED COMPENSATION PLAN
Effective October 21, 2004

Pursuant to the authorization of its Board of Directors, UNITED COMMUNITY BANKS, INC. ("the Company"), a Georgia Corporation, does hereby constitute, establish and adopt the United Community Banks Deferred Compensation Plan (the "Plan"), effective October 21, 2004 ("Effective Date").

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated employees and members of the Company's Board of Directors who contribute materially to the continued growth, development and future business success of the Company and its Affiliates that participate in this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

ARTICLE I
DEFINITIONS

- 1.1 "401(k) Restoration Deferral" shall mean a deferral of Base Salary and/or Bonus Payments that cannot be deferred under the United 401(k) Plan and, thus, are ineligible for the matching contribution under the United 401(k) Plan.
- 1.2 "Account" or "Accounts" means the records maintained by the Committee to determine each Participant's interest under this Plan. The accounts may be reflected as entries in the Company's (or Employer's) records, or as separate accounts under a trust, or as a combination of both. The Committee may establish such sub-accounts as it deems necessary for the proper administration of the Plan.
- 1.3 "Affiliate" means any person, corporation or other entity that controls or is controlled by, directly or indirectly, the Company, as determined by the Committee in its sole discretion.
- 1.4 "Base Salary" for any Plan Year means the base salary of an Eligible Employee for such Plan Year, including any amounts of base salary deferred or set aside under Code Sections 401(k) and 125, amounts deferred under this Plan or other authorized deferrals and payroll deductions.
- 1.5 "Beneficial Ownership" shall mean beneficial ownership as that term is used in Rule 13d-3 promulgated under the Exchange Act.
- 1.6 "Beneficiary" means any person(s), trusts, partnerships or other legal entity(ies) designated by the Participant or otherwise determined in accordance with Section 10.7.
- 1.7 "Board of Directors" means the Board of Directors of the Company.

- 1.8 "Bonus Payment(s)" means any bonus amounts awarded to an Eligible Employee under any incentive plan maintained by the Employer, including annual bonus payments, long-term incentive plan payments and special incentive or bonus payments that may be awarded from time to time.
- 1.9 "Cause" shall mean (i) willful misconduct on the part of a Participant that is materially detrimental to the Company or any Employer; or (ii) the commission by a Participant of a felony. The existence of "Cause" under either (i) or (ii) shall be determined by the Committee. Notwithstanding the foregoing, if the Participant has entered into an employment agreement that is binding as of the date of employment termination, and if such employment agreement defines "Cause," and/or provides a means of determining whether "Cause" exists, such definition of "Cause" and means of determining its existence shall supersede this provision.
- 1.10 "Change in Control" means any of the following events:
- (a) The acquisition (other than from the Company) by any Person of Beneficial Ownership of twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting securities; provided, however, that for purposes of this Section 1.10, Person shall not include any person who on the date hereof owns ten percent (10%) or more of the Company's outstanding securities, and a Change in Control shall not be deemed to occur solely because twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one (1) or more employee benefit plans maintained by the Company or any of its Subsidiaries, or (ii) any corporation, which, immediately prior to such acquisition, is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition.
 - (b) Approval by shareholders of the Company of (1) a merger or consolidation involving the Company if the shareholders of the Company, immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation, or (2) a complete liquidation or dissolution of the Company or an agreement for the sale or other disposition of all or substantially all of the assets of the Company.
 - (c) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 1.10 that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was

approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board.

Notwithstanding anything else to the contrary set forth in this Plan, if (i) an agreement is executed by the Company providing for any of the transactions or events constituting a Change in Control as defined herein, and the agreement subsequently expires or is terminated without the transaction or event being consummated, and (ii) Participant's employment did not terminate during the period after the agreement and prior to such expiration or termination, for purposes of this Plan it shall be as though such agreement was never executed and no Change in Control event shall be deemed to have occurred as a result of the execution of such agreement.

- 1.11 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.
- 1.12 "Committee" means the Administrative Committee that administers the Plan in accordance with Article VIII.
- 1.13 "Company" means United Community Banks, Inc., a Georgia corporation, or any successor thereto.
- 1.14 "Continuous Service" means the total uninterrupted service of a Participant with the Employer or any Affiliate from the date of employment to the date of his Termination of Employment.
- 1.15 "Deferral Account" means any account maintained under the Plan for a Participant pursuant to Section 4.2.
- 1.16 "Director" means a member of the Board of Directors of the Company who is not also an employee of the Company or an Affiliate.
- 1.17 "Director's Fees" means any retainer and meeting fees payable to the Director by the Company for the Plan Year, before reductions for contributions to or deferrals under this or any other deferred compensation or benefit plans sponsored by the Company.
- 1.18 "Disability" means the Participant has been determined to be "Disabled" as defined under Section 409A (a)(2)(C) of the Code.
- 1.19 "Effective Date" means October 21, 2004.

- 1.20 "Eligible Employee" means for each Plan Year an officer or other key management employee of the Employer designated by the Committee as eligible to participate in the Plan for such Plan Year or portion thereof.
- 1.21 "Employer" means the Company and any Affiliate other than any Affiliate that shall be designated by the Board of Directors or the Committee as not eligible to participate under the Plan.
- 1.22 "Employer Contribution Account" means any account maintained for a Participant pursuant to Section 4.3.
- 1.23 "ERISA" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.24 "Exchange Act" shall mean the Securities Exchange Act of 1934, including amendments, or successor statutes of similar intent.
- 1.25 "Fiscal Year" means each twelve month period beginning January 1 and ending the next following December 31.
- 1.26 "Investment Option" means a deemed investment fund or asset allocation account that is available in accordance with Section 6.1 as the basis to calculate earnings, gains and losses on the amount credited to a Participant's Account.
- 1.27 "Key Employee" shall mean a key employee as defined in Section 416(i) of the Code (without regard to Section 416(i)(5)).
- 1.28 "Participant" means an Eligible Employee who participates in the Plan in accordance with Article 2 and a Director who participates in the Plan in accordance with Article 3.
- 1.29 "Person" shall mean any individual, entity or group within the meaning of Section 13(d)(3) or 14 (d)(2) of the Exchange Act.
- 1.30 "Plan" means the United Community Banks Deferred Compensation Plan as set forth in this document and as amended from time to time.
- 1.31 "Plan Year" means the calendar year.
- 1.32 "Retirement" means a Participant's voluntary or involuntary Termination of Employment or Termination of Service on or after age 65 or under circumstances qualifying the Participant for an "Early Retirement Benefit" as defined in and subject to the rules of the Company's Modified Retirement Plan, as may be amended from time to time.
- 1.33 "Termination of Employment" means termination of a Participant's employment with the Employer and the Affiliates for any reason. Transfer of employment among the entities constituting the Employer and the Affiliates shall not be deemed to be a Termination of Employment.

- 1.34 "Termination of Service" shall mean the date a Director ceases to serve as a member of the Company's Board of Directors for any reason including resignation, removal, or the failure to be re-elected by the Company's shareholders.
- 1.35 "Trust" means any trust established by the Company that includes the Plan as a plan with respect to which assets are to be held by the Trustee, provided that such trust shall not affect the status of the Plan as an unfunded plan for purposes of Title I of ERISA.
- 1.36 "Trustee" means the trustee or trustees or their successors under the Trust.
- 1.37 "United 401(k) Plan" means the United Community Banks, Inc. Profit Sharing Plan, or any successor plan maintained by an Employer that is qualified under Section 401(a) of the Code and includes a Code Section 401(k) feature that allows employees the ability to defer a portion of their compensation. Any reference herein to a provision or term of the United 401(k) Plan shall mean such provision or term as it may be amended from time to time.
- 1.38 "Valuation Date" means the Annual Valuation Date, December 31, and any other dates selected by the Committee as of which the Participant's Accounts are valued.

ARTICLE II
EMPLOYEE PARTICIPATION, DEFERRALS AND EMPLOYER CREDITS

2.1 Eligibility

Participation in the Plan shall be limited to Directors and to a select group of management and highly compensated employees of an Employer, as determined by the Committee, in its sole discretion. From that group of employees, the Committee shall determine the individual Eligible Employees who are eligible to participate in the Plan for any Plan Year. The Committee may make such determination by establishing a minimum compensation level or job title for participation or by the use of such other criteria as the Committee deems appropriate for time to time.

2.2 Election to Participate

Each Eligible Employee may elect to participate for the Plan Year, or part of a Plan Year for which he is eligible, by delivering to the Committee a written notice, at such time and in such form as approved by the Committee, electing to participate and specifying the dollar amount or percentage of Base Salary he elects to defer for such Plan Year (or part of a Plan Year), as a 401(k) Restoration Deferral or otherwise. An election to defer Base Salary for a Plan Year shall be made prior to the commencement of the Plan Year (or within thirty (30) days after the date the Plan is adopted or the Participant's initial eligibility to participate in the Plan).

Each Eligible Employee may also elect to participate by delivering to the Committee a written notice, at such time and in such form as approved by the Committee, specifying the dollar amount or percentage of any Bonus Payment he elects to defer for the Plan

Year, as a 401(k) Restoration Deferral or otherwise. An election to defer a Bonus Payment for a Plan Year shall be made prior to the commencement of such Plan Year (or within thirty (30) days after the date the Plan is adopted or the Participant's initial eligibility to participate in the Plan) or, with respect to performance-based compensation based on services performed over a period of at least 12 months, no later than 6 months before the end of the period. The Committee may provide for different elections with respect to different types of Bonus Payments.

A Participant may at any time during the Plan Year terminate an election to defer and discontinue future deferrals of Base Salary (but not Bonus Payments) under this Plan by providing written notice to the Committee prior to the start of the next payroll period for which Base Salary will be payable. In such event, Base Salary earned for services subsequent to such termination notice will be paid directly to the Participant and will not be subject to his prior deferral election. A Participant who elects to discontinue deferrals of Base Salary for a Plan Year may not recommence such deferrals until the next following Plan Year (or such later Plan Year in which he is again eligible to participate), provided the Participant completes and executes the required election form. Increases or decreases in the amount of Base Salary a Participant elects to defer (other than a suspension of deferrals) shall not be permitted during the Plan Year.

A Participant shall be required to submit a new election form on a timely basis to change the Participant's election for a subsequent Plan Year. If no new election form is filed during the prescribed enrollment period, the Participant's elections for the prior Plan Year shall continue in force for the next Plan Year.

2.3 Amount of Deferral

- (a) 401(k) Restoration Deferral. Each Eligible Employee may make a 401(k) Restoration Deferral by electing to defer from 1 to 5% (or such lesser or greater percentage or amount as would be subject to a matching contribution under the United 401(k) Plan but for certain limitations applicable to the Participant under the United 401(k) Plan and assuming Bonus Payments were eligible for deferral and match under the United 401(k) Plan) of the Eligible Employee's Base Salary and/or Bonus Payments; provided, that any election to defer Base Salary shall only apply to the extent such amount is not and cannot be deferred to the United 401(k) Plan. The Committee may set a minimum amount of deferrals for a Plan Year and/or for any payroll period.
- (b) Additional Deferrals. In addition to and/or in lieu of the 401(k) Restoration Deferrals, each Eligible Employee may elect to defer an amount not to exceed: (a) 75% of Base Salary for a Plan Year (or part of a Plan Year), and (b) 100% of Bonus Payments. An Eligible Employee shall not be permitted to reduce his compensation below the amount necessary to make required or elected contributions to employee benefit plans, required federal, state and local tax withholdings, and any other withholdings deemed necessary by the Committee or required by law. The Committee may also set a minimum amount of deferrals for a Plan Year and/or for any payroll period.

2.4 Employer Contribution

- (a) 401(k) Matching Contribution. The Employer Contribution Account of each Participant who has elected to make a 401(k) Restoration Deferral of Base Salary and/or Bonus Payments shall, within 10 business days of the date such Base Salary and/or Bonus Payment would otherwise be paid, be credited with an amount determined by subtracting the amount described in (2) below from the amount described in (1) below:
- (1) The amount that the Employer would have contributed as a matching contribution for the Participant under the United 401(k) Plan for the pay period pursuant to the provisions of the United 401(k) Plan if the amount of Base Salary and Bonus Payments that the Participant elected to defer under this Plan was instead deferred under the United 401(k) Plan, subject to any limitation in the United 401(k) Plan that matching contributions shall only be made with respect to the first stated percentage of a Participant's compensation, but without regard to the other limitations of the United 401(k) Plan and of the Code or ERISA, and including all Base Salary and Bonus Payments as compensation eligible for a matching contribution.
 - (2) The amount actually contributed by the Employer as a matching contribution for the Participant under the United 401(k) Plan for such pay period.
- (b) Discretionary Contribution. During a Plan Year, the Committee may, in its sole discretion, credit to an Eligible Employee's Employer Contribution Account an amount determined in the discretion of the Committee that may be a percentage of the Eligible Employee's Base Salary, a dollar amount, or some other amount. The Employer Contribution for a Plan Year may differ among Eligible Employees and may be made for some Eligible Employees but not others. The Employer Contribution shall be credited to the Employer Contribution Account for the Eligible Employee.

2.5 Withholding

The amount of Base Salary or Bonus Payments that an Eligible Employee elects to defer under Section 2.2 shall be withheld from his Base Salary or Bonus Payments in accordance with such rules and procedures as the Committee shall establish.

ARTICLE III DIRECTOR PARTICIPATION AND DEFERRALS

3.1 Director's Election to Participate

Each Director may elect to participate for the Plan Year, or part of a Plan Year for which he is eligible, by delivering to the Committee a written notice, at such time and in such

form as approved by the Committee, electing to participate and specifying the dollar amount or percentage of his Director's Fees he elects to defer for such Plan Year (or part of a Plan Year), which may include separate elections with respect to meeting fees and retainer fees. An election to defer Director's Fees for a Plan Year shall be made prior to the commencement of the Plan Year (or within thirty (30) days after the date the Plan is adopted or the Participant's initial eligibility to participate in the Plan), unless the Committee in its discretion permits an extension of the election period. Increases or decreases in the amount of Director's Fees a Director elects to defer shall not be permitted during the Plan Year. The Director shall be required to submit a new election form to change the Director's election for a subsequent Plan Year. If no new election form is filed during the prescribed enrollment period, the Director's election for the prior Plan Year shall continue in force for the next Plan Year.

3.2 Amount of Deferral

Each Director may elect to defer an amount up to 100% of his Director's Fees for a Plan Year; provided, a Director shall not be permitted to reduce his Director's Fees below the amount necessary to make required or elected contributions to employee benefit plans, required federal, state and local tax withholdings, and any other withholdings deemed necessary by the Committee or required by law.

ARTICLE IV DEFERRED COMPENSATION ACCOUNTS

4.1 Accounts

The Committee shall establish a Deferral Account and, if applicable, an Employer Contribution Account for each Eligible Employee for all periods during which such Eligible Employee is a Participant in the Plan. The Committees shall also establish a Deferral Account for each Director for all periods during which such Director is a Participant in the Plan.

4.2 Deferral Account

Each Participant's Deferral Account shall be credited with an amount equal to all of the Participant's Base Salary, Bonus Payments or Director's Fees elected by the Participant to be deferred on or about the dates such amounts would, but for the election to defer, have been payable to the Participant (or as otherwise determined by the Committee), and shall be credited with earnings, gains or losses in accordance with Section 6.1.

4.3 Employer Contribution Account

Each Participant's Employer Contribution Account shall be credited each Plan Year with an amount equal to the Employer Contribution for the Plan Year (including make-up 401(k) matching contributions and/or any discretionary contributions) and shall be credited with earnings, gains or losses in accordance with Section 6.1.

ARTICLE V
VESTING

5.1 Deferral Account

A Participant shall be immediately 100% vested in all amounts credited to his Deferral Account.

5.2 Employer Contribution Account.

A Participant shall become vested in his Employer Contribution Account in accordance with the following vesting schedule or such other vesting schedule as may be determined by the Committee to apply to an Employer Contribution at the time such Employer Contribution is made to the Plan.

Years of Service	% of Account Vested
Less Than 1	0%
1 but less than 2	33%
2 but less than 3	66%
3 or more	100%

Years of Service for purpose of vesting shall be determined in the same manner as determined under the United 401(k) Plan. If the Participant terminates employment prior to becoming fully vested in his Employer Contribution Account, any unvested amount shall be immediately forfeited.

ARTICLE VI
EARNINGS; TRUST ARRANGEMENTS

6.1 Crediting of Earnings, Gains and Losses.

The Investment Options shall consist of such investment options as the Committee may, in its discretion, designate from time to time. Each Participant may select from time to time, in accordance with such rules as the Committee may establish, the Investment Options in which his Accounts will be deemed to be invested; provided, that the Committee may in its discretion make certain Investment Options available to only a limited group of Participants. Based on such selection, the Committee will credit an amount to Participants' Accounts to reflect the amounts by which the Participants' Accounts would have increased or decreased if they had been invested in the Investment Options selected by the Participant. The selection of Investment Options is to be used only for the purpose of valuing each Participant's Accounts. The Company and the Committee are under no obligation to acquire or provide any of the Investment Options designated by a Participant, and any investments actually made by the Committee will be made solely in the name of the Company and will remain the property of the Company,

subject to the terms of any Trust. If a Participant fails to direct the deemed investment of 100% of his Accounts, any undirected amount shall be deemed to be invested in such fixed income Investment Option as shall be designated by the Committee.

The Employer shall pay all taxes required to be paid in connection with the deemed investment experience of Participants' Accounts. At least as often as the last business day of each calendar quarter, the Committee shall provide the Participant with a statement of his Accounts, in such reasonable detail as the Committee shall deem appropriate, showing the income, gains and losses (realized and unrealized), amounts of deferrals, and distributions from his Accounts since the prior statement.

The Investment Options are used solely for the purpose of determining the deemed earnings, gains and losses to be credited to a Participant's Accounts and no actual investment in the Investment Options shall be required. The Participant has no rights to any particular asset of the Employer or the Employer.

6.2 Trust

The Company may establish a trust fund with regard to the Accounts hereunder, which is designed to be a grantor trust under Code Section 671. It is the intention of the Company that any trust established for this purpose shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of highly compensated management employees for purposes of Title I of ERISA. The Employer may make payment of benefits directly to Participants or their Beneficiaries as they become due under the terms of the Plan. In addition, if the principal of any trust established for this purpose, and any earnings thereon, is not sufficient to make payments of benefits in accordance with the terms of the Plan, the Employer shall make the balance of each such payment as it falls due.

With respect to any benefits payable under the Plan, the Participants (and their Beneficiaries) shall have the same status as general unsecured creditors of the Company, and the Plan shall constitute a mere unsecured promise by the Company to make benefit payments in the future.

ARTICLE VII PAYMENT OF ACCOUNTS

7.1 Time and Method of Payment

- (a) Retirement or Disability. At the time an Eligible Employee or Director elects to participate in the Plan and to defer Base Salary, Bonus Payments or Director's Fees, he shall also elect, in such form as approved by the Committee, the time and method for the payment of such deferrals upon his Retirement or Disability. The Participant may make a separate election each Plan Year with respect to deferrals made for such Plan Year. If the Participant does not make an election for any Plan Year, the most recent previous election of the Participant shall apply, and if

no valid election has been made by the Participant, he shall be deemed to have elected a lump sum. Upon Retirement or Disability, a Participant's vested Account balance (or applicable portions of the Account) may be payable in one or more of the following methods:

- (i) A lump sum payment; or
- (ii) Annual installment payments over a period of 5, 10, or 15 years, with each installment equal to the unpaid balance of the Account (or the portion of the Account to which the election applies) as of the preceding December 31st divided by the number of remaining payments.

Except with respect to Key Employees as provided in Section 7.1(g), lump sum payments and the first annual installment payment shall be made on or before the January 31st of the calendar year following the calendar year in which the Participant's Retirement or Disability occurs. Second and subsequent installment payments shall be payable each year on or before January 31st of such year.

The Committee (or its designee) may establish from time to time limitations on the Participant's ability to select the time and method of payment of his Account based upon the amount in the Participant's Account. For example, unless and until changed by the Committee (or its designee), any Account that has a total vested balance of less than \$50,000 at the time of Retirement or Disability shall be paid in a lump sum regardless of an election by the Participant to be paid in installments. For purposes of this Article VII, the Committee may, if required by liquidity limitations resulting from a financial investment used to support an Investment Option (but only to such extent), establish limits on the timing and manner of payouts otherwise provided for under this Article VII for amounts attributable to such Investment Option.

- (b) Scheduled Withdrawals During Employment. In addition to the election with respect to the time and method of payment upon Retirement as specified in Section 7.1(a), a Participant may elect, at the time he makes his deferral election, in such manner as approved by the Committee, to receive payment of such deferrals at, or commencing at, a specified date during his term of employment or during his service as a Director, pursuant to one of the following payment methods:

- (1) A lump sum payment; or
- (2) Annual installment payments over a period of 2, 3, 4 or 5 years with each installment equal to the unpaid balance (or designated portion) of such vested Account as of the preceding December 31st divided by the number of remaining payments.

If a Participant incurs a Disability or terminates employment due to Retirement prior to the payment date in (b)(1), or the completion of the installment payments in (b)(2), the provisions of subsection (a) above (and if applicable, subsection (g) below) relating to payments after Retirement shall control with respect to the payment of (or payment of all remaining amounts of) the vested portion of the Participant's Account.

- (c) Termination for Cause. Upon a Participant's Termination of Employment by the Employer for Cause, the Participant's Employer Contribution Account (whether or not otherwise vested) shall be immediately forfeited. Except as provided in Section 7.1(g), any vested amount in the Participant's Deferral Account shall be distributed to the Participant in a single, lump sum as soon as administratively feasible following the Participant's Termination of Employment for Cause.
- (d) Other Termination of Employment. Except as provided in Section 7.1(g) below, upon a Participant's Termination of Employment or Termination of Service other than due to death, Disability, Retirement or for Cause, the Participant's entire vested Account balance shall be distributed to the Participant in a single, lump sum as soon as administratively feasible following the Participant's Termination of Employment or Termination of Service.
- (e) Death. Upon the death of the Participant, the Participant's Account shall become 100% vested and shall be payable to the Participant's Beneficiary in a lump sum by January 31st of the year following the year in which the Participant died; provided, however, the Participant may elect in advance, at such time and in such manner as determined by the Committee, that the Participant's Account will be paid to his Beneficiary in annual installments over a period of 5, 10, or 15 years, with the first installment paid on or before the January 31st of the calendar year following the calendar year in which the Participant died.
- (f) Unforeseeable Emergency. Upon the occurrence of an "unforeseeable emergency", as defined in Code Section 409A and the regulations thereunder, the Participant may receive a lump sum distribution of such amounts as necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The Committee or its designee shall determine the existence of an unforeseeable emergency and the maximum amount of any distribution in accordance with the requirements of Code Section 409A and the regulations and other guidance thereunder. Any distribution on account of an unforeseeable emergency shall be payable in a lump sum as soon as administratively practical following approval by the Committee or its designee and shall be payable only from the vested portion of the Participant's Account. The Committee or its designee may prescribe that a Participant who receives a distribution on account of an unforeseeable emergency may not make additional deferrals of Base Salary or Director's Fees for the remainder of the Plan Year or some other time period.

(g) Special Rule for Key Employees. Notwithstanding any other provision of this Plan, if the Participant is or could likely be considered a Key Employee (as determined by the Committee or its designee), distributions to such Participant may not be made before the date which is 6 months after the date of the Participant's Termination of Employment (or, if earlier, the date of death of the Participant), and any distribution that would otherwise be payable before the 6-month anniversary shall be delayed and shall be paid within 30 days following such 6-month anniversary.

7.2 Changes in Election.

A Participant may request a change in his election as to the date or method of payment under Section 7.1(b) on such form as may be established by the Committee. A Participant may only change his election two times; provided, however, a Participant who has changed his election two times and who experiences a change in family circumstances (divorce, marriage, death of a spouse, or the birth or adoption of a child), may make a third change to his election as long as such change is otherwise consistent with the requirements of this provision and is made within 60 days of the date of the change in family circumstance. To be effective, a request for a change must be made at least one year prior to the date the Participant's distributions would otherwise commence. A Participant who requests a change as to the date or method of payment with respect to payments during employment or service as a Director must request a new payment commencement date that is at least five (5) years after the date of commencement of payment previously elected by the Participant.

7.3 Direction of Payments.

Payment under this Article VII of amounts credited to a Participant's Account shall be made to the Participant, provided that the Committee may, in its discretion and in accordance with such procedures as may be established by the Committee, allow the Participant to direct (which direction may be required to be irrevocable) that the Plan make such payments directly to a trust, partnership or other legal entity established by, or for the benefit of, the Participant. Regardless of the entity to which a Participant's Accounts are paid, the Participant shall remain liable for all income and other taxes with respect to such payments as provided in Section 10.4.

7.4 Consequences of a Change of Control.

Notwithstanding anything to the contrary contained in this Plan, upon the occurrence of a Change of Control, each Participant's Account shall become fully vested but shall remain subject to the Participant's elections as to time and method of payment.

ARTICLE VIII ADMINISTRATION

8.1 Committee

The general administration of the Plan and the responsibility for carrying out its provisions shall be placed in the Compensation Committee of the Company's Board of Directors or such other committee as may be appointed from time to time by the Board of Directors to serve at the pleasure thereof (the "Committee").

8.2 Duties and Binding Effect of Decisions

The Committee shall have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and procedures for the administration of this Plan, (ii) select the Investment Options, (iii) decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with the Plan or the benefits payable under the Plan, and (iv) maintain all records that may be necessary for the administration of the Plan. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules, regulations and procedures promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

8.3 Committee Action

Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of such majority, expressed from time to time by a vote at a meeting (a) in person, (b) by telephone or other means by which all members may hear one another or (c) in writing without a meeting, shall constitute the action of the Committee and shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office.

8.4 Delegation

The members of the Committee may authorize one or more of its members or any other person or persons to execute and deliver any instrument, make any payment or perform any other act which the Plan authorizes or requires the Committee to do. Without limiting the generality of the foregoing, until the Committee determines otherwise, the Chief Executive Officer of the Company shall be responsible for the execution of the routine administration of the Plan.

8.5 Services

The Committee may employ or retain agents to perform such clerical, accounting, legal, consulting, trust, trustee and other services as may be necessary or desirable to carry out the provisions of the Plan.

8.6 Indemnification

The Company shall indemnify and save harmless each member of the Committee against all expenses and liabilities, including reasonable legal fees and expenses, arising out of membership on the Committee or any actions taken as a member of the Committee, excepting only expenses and liabilities arising from his own gross negligence or willful misconduct, as determined by the Board of Directors.

8.7 Claims Procedure

(a) A Participant or his duly authorized representative (the "claimant") may make a claim for benefits under the Plan by filing a written claim with the Committee.

Determinations of each such claim shall be made as described below; provided, however, that the claimant and the Committee may agree to extended periods of time for making determinations beyond those periods described below.

- (b) The Committee will notify a claimant of its decision regarding his claim within a reasonable period of time, but not later than 90 days following the date on which the claim is filed, unless special circumstances require a longer period for adjudication and the claimant is notified in writing of the reasons for an extension of time prior to the end of the initial 90-day period and the date by which the Committee expects to make the final decision. In no event will the Committee be given an extension for processing the claim beyond 180 days after the date on which the claim is first filed with the Committee unless otherwise agreed in writing by the claimant and the Committee.
- (c) If a claim is denied, the Committee will notify the claimant of its decision in writing. Such notification will be written in a manner calculated to be understood by the claimant and will contain the following information:
 - (1) the specific reason(s) for the denial;
 - (2) a specific reference to the Plan provision(s) on which the denial is based;
 - (3) a description of additional information necessary for the claimant to perfect his claim, if any, and an explanation of why such material is necessary; and
 - (4) an explanation of the Plan's claim review procedure and the applicable time limits under such procedure and a statement as to the claimant's right to bring a civil action under ERISA after all of the Plan's review procedures have been satisfied.
- (d) The claimant shall have 60 days following receipt of the notice of denial to file a written request with the Committee for a review of the denied claim. The decision by the Committee with respect to the review must be given within 60 days after receipt of the request, unless special circumstances require an extension and the claimant is notified in writing of the reasons for an extension of time prior to the end of the initial 60-day period and the date by which the Committee expects to make the final decision. In no event will the decision be delayed beyond 120 days after receipt of the request for review unless otherwise agreed in writing by the claimant and the Committee.
- (e) Every claimant will be provided a reasonable opportunity for a full and fair review of an adverse determination. A full and fair review means the following:
 - (1) the claimant will be given the opportunity to submit written comments, documents, records, etc. with regard to the claim for benefits, and the review will actually take into account all information submitted by the

claimant, regardless of whether it was reviewed as part of the initial determination; and

- (2) the claimant will be provided, upon request and free of charge, with copies of all documents and information relevant to the claim for benefits.
- (f) The Committee will notify the claimant of its decision regarding an appeal of a denied claim in writing. The decision will be written in a manner calculated to be understood by the claimant, and will include:
- (1) the specific reason(s) for the denial and adverse determination;
 - (2) a reference to the specific Plan provisions on which the denial is based;
 - (3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all information relevant to the claimant's claim for benefits; and
 - (4) a statement regarding the claimant's right to bring a civil action under ERISA.
- (g) If the Committee fails to follow these procedures consistent with the requirements of ERISA with respect to any claim, the claimant will be deemed to have exhausted all administrative remedies under the Plan and will have the right to bring a civil action under section 502(a) of ERISA.
- (h) The Committee shall interpret this Section 8.7 such that the claims procedures applicable under the Plan conform to the claims review requirements of Part 5, Title I, of ERISA.

ARTICLE IX
AMENDMENT AND TERMINATION

The Company, by action of the Board of Directors or the Compensation Committee of the Board of Directors, may at any time or from time to time modify or amend any or all of the provisions of the Plan, stop future deferrals to the Plan, or terminate the Plan, provided that no such amendment or termination shall reduce a Participant's Account balance or change existing elections with respect to the time and method of payment of a Participant's Account.

ARTICLE X
GENERAL PROVISIONS

10.1 Limitation on Participant's Rights.

Participation in this Plan shall not give any Participant the right to be retained in the Employer's employ, or any right or interest in this Plan or any assets of the Employer other than as herein provided. The Employer reserve the right to terminate the employment of any Participant at any time without any liability for any claim against the Employer under this Plan, except to the extent expressly provided herein.

10.2 Unsecured General Creditor.

Participants and their beneficiaries shall have no legal or equitable rights, interests or claims in any property or assets of the Company or an Employer. The Company's or Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

10.3 Participation in Other Plans.

Nothing in this Plan shall be construed to alter, abridge, or in any manner affect the rights and privileges of the Participant to participate in and be covered by any pension, profit sharing, group insurance, bonus or similar employee plans which an Employer may now or hereafter maintain.

10.4 Taxes.

If the whole or any part of any Participant's Account shall become liable for the payment of any estate, inheritance, income, or other tax which the Employer shall be required to pay or withhold, the Employer shall have the full power and authority to withhold and pay such tax out of any moneys or other property in its hand for the account of the Participant whose interests hereunder are so liable. The Employer shall provide notice to the Participant of any such withholding. Prior to making any payment, the Employer may require such releases or other documents from any lawful taxing authority as it shall deem necessary.

10.5 Assignment, Pledge or Encumbrance.

Except as expressly provided in Section 7.3, the amounts credited to the Accounts of a Participant shall not be subject to assignment, alienation, pledge, transfer or other encumbrance of any kind, whether voluntary or involuntary, and any such purported assignment, alienation, pledge, transfer or other encumbrance shall be void and unenforceable against the Plan, the Trust, the Company or any Affiliate; further, the amounts credited to the Accounts shall not be liable for, or subject to, legal process, claims of creditors, tort claims, or attachment for the payment of any claim against any Participant or other person entitled to receive such amount; provided, that nothing herein shall prevent an assignment or other encumbrance in favor of the Employer to secure any indebtedness of any kind of the Participant to the Employer.

10.6 Minor or Incompetent.

If the Committee determines that any person to whom a payment is due hereunder is a minor or is incompetent by reason of a physical or mental disability, the Committee shall have the power to cause the payments becoming due to such person to be made to another for the benefit of such minor or incompetent without responsibility of the Company or the Committee to see to the application of such payment. Payments made pursuant to such power shall operate as a complete discharge of the Company and the Committee.

10.7 Beneficiary.

Each Participant may designate, on such form as may be provided by the Committee, any person(s), trusts, partnerships, foundations, or other legal entity(ies), including his estate, as his Beneficiary under the Plan. A Participant may revoke his designation of a Beneficiary or change his Beneficiary at any time prior to his death by executing a change of beneficiary form and delivering such form to the Committee. If no person or legal entity shall be properly designated by a Participant as his Beneficiary or if no designated Beneficiary survives him, his Beneficiary shall be his estate.

10.8 Binding Provisions

The provisions of this Plan shall be binding upon each Participant as a consequence of his election to participate in the Plan, and his heirs, executors, administrators, and assigns. This Plan shall be binding upon, and enforceable against, the Company and any successor(s) (whether direct or indirect, by purchase, merger, consolidation, sale of assets or otherwise) to substantially all of the business or assets of the Company.

10.9 Notices.

Any election made or notice given by a Participant pursuant to the Plan shall be in writing to the Committee or to such representative as may be designated by the Committee for such purpose, shall be on such form as may be specified by the Committee, and shall not be deemed to have been made or given until the date it is received by the Committee or its designated representative.

10.10 Alternative Action.

In the event it shall become impossible for the Company or the Committee to perform any act required by this Plan, the Company or Committee may in its discretion perform such alternative act as most nearly carries out the intent and purpose of this Plan.

10.11 Compliance with Code Section 409A.

The Plan is intended to satisfy the requirements of Code Section 409A and any regulations or guidance that may be adopted thereunder from time to time, including any transition relief available under applicable guidance related to Code Section 409A. The Plan may be amended or interpreted by the Committee as it determines necessary or

appropriate in accordance with Code Section 409A and to avoid a plan failure under Code Section 409A(1).

10.12 Governing Law.

The Plan shall be governed by and construed in accordance with ERISA and the Code, and to the extent not preempted by such laws, in accordance with the laws of the State of Georgia, but not including the choice of law provisions thereof.

10.13 Headings.

Article and section headings are for convenient reference only and shall not control or affect the meaning or construction of any of its provisions.

10.14 Pronouns.

The masculine pronoun shall be deemed to include the feminine wherever it appears in the Plan unless a different meaning is required by the context.

IN WITNESS WHEREOF, the Company, through resolutions adopted by its Board of Directors, adopted the foregoing Plan the 21st day of October, 2004.

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 9, 2004

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 9, 2004

Exhibit 32

**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, 2004 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 9, 2004