SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-K

/x/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1997

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

For the transition period from ___________ to _____________

Commission File Number 0-21656

United Community Banks, Inc.

(Exact name of registrant as specified in its charter)

Georgia	58-180-7304
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

59 Highway 515, P.O. Box 398, Blairsville, Georgia	30512
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (706) 745-2151

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

Name of exchange on which registered: None

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

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 /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

Aggregate market value of the voting stock held by non-affiliates (which for purposes hereof are all holders other than executive officers and directors) of the Registrant as of March 17, 1998: $153,602,490 (based on 5,120,083 shares at $30 per share, the last sale price known to the Registrant for the Common Stock, for which there is no established public trading market.

As of March 17, 1998, 7,646,209 shares of Common Stock were issued and outstanding, par value $1.00 per share, including 140,000 shares deemed outstanding pursuant to 2006 Debentures and presently exercisable options to acquire 121,604 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's annual report to shareholders for the fiscal year ended December 31, 1997, contained in Appendix A to the Registrant's definitive Proxy Statement for the 1998 Annual Meeting of Shareholders, to be filed with the Commission, are incorporated by reference into Parts I and II. Portions of the Registrant's definitive Proxy Statement for the 1998 Annual Meeting of Shareholders, to be filed with the Commission, are incorporated into Part III.

PART I

ITEM 1. BUSINESS.

GENERAL

United Community Banks, Inc. ("United") was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank, now known as United Community Bank ("UCB"). United is a registered bank holding company. All of United's activities are currently conducted by its wholly-owned subsidiaries, UCB, which was organized as a Georgia banking corporation in 1950, Carolina Community Bank, Murphy, North Carolina ("Carolina"), which United acquired in 1990, Peoples Bank, Blue Ridge, Georgia ("Peoples"), which United acquired in 1992, Towns County Bank, Hiawassee, Georgia ("Towns"), which United also acquired in 1992, White County Bank, Cleveland, Georgia ("White"), which United acquired in 1995, and First Clayton Bancshares, Inc. ("First Clayton"), which United acquired in 1997. (UCB, Carolina, Peoples, Towns, White and First Clayton are collectively referred to as "Banks"). United also operates a finance company United Family Finance Co. ("UFFC").

RECENT DEVELOPMENTS

On January 30, 1998, United acquired certain assets and deposit liabilities of the Ellijay office of The Bank of North Georgia, which had total loans of $3 million, and total deposits of $23 million.

On September 12, 1997, United completed the acquisition of First Clayton, Rabun County, Georgia with the issuance of 646,247 shares of United Common Stock and approximately $7,000 paid for fractional shares. At the date of closing, First Clayton had assets of $74 million and equity of $6 million. First Clayton is a full-service commercial bank located in Clayton, Georgia. First Clayton provides customary types of banking services such as checking accounts, savings accounts and time deposits. It also engages in commercial and consumer lending, makes secured and unsecured loans and provides other financial services.

In May 1997, United completed a public offering of 300,000 shares of United Common Stock, pursuant to which $6.5 million in additional capital was raised. United used the net proceeds of that offering to invest additional capital in UCB, Carolina and Towns and for general corporate purposes.

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Form 10-K are forward-looking (as such term is defined in the Securities Exchange Act of 1934, as amended). Such statements may relate to United's operations, performance and financial condition. These statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties, many of which are beyond the control of United. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those set forth below.

YEAR 2000 COMPLIANCE. The "year 2000 issue" arises from the widespread use of computer programs that rely on two-digit codes to perform computations or decision-making functions. Many of these programs may fail due to an inability to properly interpret date codes beginning January 1, 2000. For example, such programs may misinterpret "00" as the year 1900 rather than 2000. In addition, some equipment, being controlled by microprocessor chips, may not deal appropriately with the year "00". United and the Banks are evaluating their computer systems to determine which modifications and expenditures will be necessary to make their systems compatible with year 2000 requirements. United and the Banks believe that their systems will be year 2000-compliant upon implementation of such modifications.

Although United and the Banks have not yet completed a review of their systems to determine modifications necessary to make them year 2000 compliant, United currently estimates that the total cost of such modifications will not be material to its consolidated results of operations. However, there can be no assurance that all necessary modifications will be identified and corrected or that unforeseen difficulties or costs will not arise. In addition, there can be no assurance that the systems of other companies on which United and the Banks depend will be modified on a timely basis, or that the failure by another company to properly modify its systems will not negatively impact the systems or operations of United and the Banks.

DEPENDENCE ON KEY PERSONNEL. The success of United is dependent upon the continued services of its key personnel including Mr. Jimmy C. Tallent, who is United's President and Chief Executive Officer. Although United employs many skilled executives and employees, the loss of Mr. Tallent's services could have a material adverse effect on the business of United.

MONETARY POLICY AND ECONOMIC CONDITIONS. The operating income and net income of the Banks depend to a substantial extent on the difference between income the Banks receive from their loans, investments and other earning assets, and the interest the Banks pay on their deposits and other liabilities. These rates are highly sensitive to many factors which are beyond the control of the Banks, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities.

SERVICES

The Banks are community-oriented, with an emphasis on retail banking, and offer such customary banking services as customer and commercial checking accounts, NOW accounts, savings accounts, certificates of deposit, lines of credit, Mastercard and VISA accounts, money transfers and trust services. The Banks finance commercial and consumer transactions, make secured and unsecured loans, including residential mortgage loans, and provide a variety of other banking services. UCB also offers travel agency services for the Banks' customers.

The Mortgage People Company ("MPC"), a division of UCB, is a full-service mortgage lending operation approved as a seller/servicer for Federal National Mortgage Association and Federal Home Mortgage Corporation. MPC was organized to provide fixed and adjustable-rate mortgages. UFFC is a traditional consumer finance company which is based in Blue Ridge, Georgia and also has been granted a license to conduct business in Hiawassee, Georgia and Murphy, North Carolina.

MARKETS

United conducts banking activities primarily through UCB, Towns, White and First Clayton in northern Georgia, Peoples in Northern Georgia and Polk County, Tennessee and surrounding counties, and through Carolina in western North Carolina. MPC primarily makes mortgage loans inside the Banks' market areas and outside this market areas through affiliations with UCB, Carolina, Peoples, Towns, White and First Clayton. Customers of the Banks are primarily consumers and small businesses.

DEPOSITS

The Banks offer a full range of depository accounts and services to both consumers and businesses. At December 31, 1997, United's deposit base, totaling approximately $977,079,000, consisted of approximately $109,210,000 in non-interest-bearing demand deposits (11% of total deposits), approximately $189,280,000 in interest-bearing demand deposits (including money market accounts) (19% of total deposits), approximately $45,280,000 in savings deposits (5% of total deposits), approximately $476,506,000 in time deposits in amounts less than $100,000 (49% of total deposits), and approximately $156,803,000 in time deposits of $100,000 or more (16% of total deposits). Certificates of deposit in excess of $100,000 may be more volatile than other deposits since those deposits, to the extent that they exceed $100,000, are not insured by the FDIC. Management of United is of the opinion that its time deposits of $100,000 or more are customer-relationship oriented and represent a reasonably stable source of funds.

LOANS

The Banks make both secured and unsecured loans to individuals, firms and corporations. Secured loans include first and second real estate mortgage loans. The Banks also make direct installment loans to consumers on both a secured and unsecured basis. At December 31, 1997, consumer, real estate construction, real estate mortgage and commercial loans represented approximately 13%, 10%, 63% and 13%, respectively, of United's total loan portfolio.

Specific risk elements associated with each of the Banks' lending categories are as follows:

Commercial, financial and agricultural	Industry concentrations, inability to monitor the condition of collateral (inventory, accounts receivable and vehicles), lack of borrower management expertise, increased competition, and specialized or obsolete equipment as collateral

Real estate - construction	Inadequate collateral and long-term financing agreements
Real estate - mortgage	Changes in local economy and rate limits on variable rate loans
Installment loans to individuals	Loss of borrower's employment, changes in local economy, the inability to monitor collateral (vehicle, boats and mobile homes)

Effective March 19, 1993, inter-agency guidelines adopted by federal bank regulators mandated that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value guidelines, subject to an allowable amount of non-conforming loans. The Banks had similar guidelines in place and adopted the federal guidelines as their maximum allowable limits, but had in the past and now have in place loan policies that are, in some cases, more conservative than the federal guidelines. The federal guidelines establish maximum allowable loan-to-value ratios for various types of real estate loans as set forth below:

Loan Category	Maximum Allowable Loan-To-Value Percent
Land	65%
Land development	75
Construction:	
Commercial, multi-family and other nonresidential	80
One-to-four family residential	85
Improved property	85
Owner-occupied one-to-four family and home equity	

[FN]

Multi-family construction includes condominiums and cooperatives.

A loan-to-value limit has not been established for permanent mortgage or home equity loans on owner-occupied, one-to-four family residential property. However, for any such loan with a loan-to-value ratio that equals or exceeds 90% at origination, appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral is required.

LENDING POLICY

The current lending strategy of the Banks is to make loans primarily to persons who reside, work or own property in their primary trade areas, except that United makes mortgage loans in the trade areas of the community banks in which United has affiliations or in the areas in which United has a loan origination office. See "Markets." Unsecured loans normally are made only to persons who maintain depository relationships with the Banks. Secured loans are made to persons who are well established and have net worth, collateral and cash flow to support the loan.

The Banks provide each lending officer with written guidelines for lending activities. Lending authority is delegated by the Boards of Directors of the Banks to loan officers, each of whom is limited in the amount of secured and unsecured loans which he or she can make to a single borrower or related group of borrowers. All unsecured loans in excess of $50,000 must have the approval of the President or a Senior Vice President of the appropriate Bank prior to being committed. Generally, secured loans above $400,000 and unsecured loans over $50,000 require Board approval.

LOAN REVIEW AND NONPERFORMING ASSETS

The loan review officer of United reviews each of the Banks' loan portfolios to determine any deficiencies and corrective action to be taken. The results of the reviews by the loan review officers are presented to the Presidents of each of the Banks, the President and the Chief Credit Officer of United and the Boards of Directors of each of the Banks and United. On at least a semi-annual basis, reviews are conducted at Towns and White for all loans over $350,000; at Carolina and First Clayton for all loans over $200,000; at Peoples for all loans over $400,000; and at UCB for all loans over $500,000. Past due loans are reviewed at least weekly by lending officers of the Bank involved and by the Chief Credit Officer of United, and a summary report is reviewed monthly by the Boards of Directors of each Bank. The Boards of Directors of the relevant Bank review all loans over $50,000, whether current or past due, at least once annually.

ASSET/LIABILITY MANAGEMENT

Committees composed of officers of each of the Banks and the Chief Financial Officer and Controller of United are charged with managing the assets and liabilities of the Banks. The committees attempt to manage asset growth, liquidity and capital in order to maximize income and reduce interest rate risk. The committees direct each Bank's overall acquisition and allocation of funds. At monthly meetings, the committees review the monthly asset and liability funds budget in relation to the actual flow of funds, as well as peer group comparisons; the ratio of the amount of rate sensitive assets to the amount of rate sensitive liabilities; the ratio of allowance for loan losses to outstanding and non-performing loans; and other variables, such as expected loan demand, investment opportunities, core deposit growth within specified categories, regulatory changes, monetary policy adjustments and the overall state of the economy.

INVESTMENT POLICY

The Banks' investment portfolio policy is to maximize income consistent with liquidity, asset quality and regulatory constraints. The policy is reviewed from time to time by the Boards of Directors. Individual transactions, portfolio composition and performance are reviewed and approved monthly by the Boards of Directors or a committee thereof. The Chief Financial Officer of United and the President of each of the Banks implement the policy and report information to the full Board of Directors of each of the Banks on a monthly basis concerning sales, purchases, maturities and calls, resultant gains or losses, average maturity, federal taxable equivalent yields and appreciation or depreciation by investment categories.

EMPLOYEES

As of December 31, 1997, the Banks had an aggregate of 553 full-time equivalent employees, and United had 16 employees. Neither United nor any of the Banks is a party to any collective bargaining agreement, and the Banks believe that their employee relations are good. None of the Banks' executive officers is employed pursuant to an employment contract.

COMPETITION

The banking business is highly competitive. UCB competes with one other depository institution in Union County, Georgia, and three other depository institutions in each of Lumpkin and Habersham Counties. Carolina competes with six other depository institutions in Graham, Cherokee, Macon, Haywood and Clay Counties, North Carolina, the majority of which are branches of regional or North Carolina state-wide institutions. Peoples competes with two other depository institutions in Fannin County, Georgia. Towns competes with one depository institution in Towns County, Georgia. White competes with two other depository institutions in White County, Georgia. First Clayton competes with two other depository institutions in Rabun County. The Banks also compete with other financial service organizations, including savings and loan associations, finance companies, credit unions and certain governmental agencies. To the extent that banks must maintain non-interest-earning reserves against deposits, they may be at a competitive disadvantage when compared with other financial service organizations that are not required to maintain reserves against substantially equivalent sources of funds.

SUPERVISION AND REGULATION

GENERAL. United is a registered bank holding company subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Company Act of 1956, as amended (the "Act"). United is required to file financial information with the Federal Reserve periodically and is subject to periodic examination by the Federal Reserve.

The Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (ii) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of a bank; and (iii) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities found by the Federal Reserve, by order or regulation, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are: making or servicing loans and certain types of leases; performing certain data processing services; acting as fiduciary or investment or financial advisor; providing discount brokerage services; underwriting bank eligible securities; underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and making investments in corporations or projects designed primarily to promote community welfare.

United must also register with the DBF and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationships of United and the Banks and related matters. The DBF may also require such other information as is necessary to keep itself informed as to whether the provisions of Georgia law and the regulations and orders issued thereunder by the DBF have been complied with, and the DBF may examine United and each of the Banks.

The North Carolina Banking Commission ("NCBC"), which has the statutory authority to regulate non-banking affiliates of North Carolina banks, in 1992 began using this authority to examine and regulate the activities of North Carolina-based holding companies owning North Carolina-based banks. Although the NCBC has not exercised its authority to date to examine and regulate holding companies outside of North Carolina that own North Carolina banks, it is likely the NCBC may do so in the future.

United is an "affiliate" of the Banks under the Federal Reserve Act, which imposes certain restrictions on (i) loans by the Banks to United, (ii) investments in the stock or securities of United by the Banks, (iii) the Banks' taking the stock or securities of an "affiliate" as collateral for loans by the Bank to a borrower, and (iv) the purchase of assets from United by the Banks. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Each of United's subsidiaries is regularly examined by the Federal Deposit Insurance Corporation (the "FDIC"). UCB, Peoples, White, Towns and First Clayton, as state banking associations organized under Georgia law, are subject to the supervision of, and are regularly examined by, the DBF. Carolina is subject to the supervision of, and is regularly examined by, the NCBC and the FDIC. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving UCB, Peoples, White, Towns or First Clayton, and the FDIC and the NCBC must grant prior approval of any merger, consolidation or other corporate reorganization of Carolina. A bank can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of a commonly-controlled institution.

PAYMENT OF DIVIDENDS. United is a legal entity separate and distinct from the Banks. Most of the revenues of United result from dividends paid to it by the Banks. There are statutory and regulatory requirements applicable to the payment of dividends by the Banks, as well as by United to its shareholders.

UCB, Peoples, Towns, White and First Clayton are each state chartered banks regulated by the DBF and the FDIC. Under the regulations of the DBF, dividends may not be declared out of the retained earnings of a state bank without first obtaining the written permission of the DBF unless such bank meets all the following requirements:

(a) total classified assets as of the most recent examination of the bank do not exceed 80% of equity capital (as defined by regulation);

(b) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and

(c) the ratio of equity capital to adjusted assets is not less than 6%.

Under North Carolina law, the Board of Directors of Carolina may declare a dividend for as much of the undivided profits of Carolina as it deems appropriate, so long as Carolina's surplus is greater than 50% of its capital.

The payment of dividends by United and the Banks may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending upon the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The FDIC has issued a policy statement providing that insured banks should generally only pay dividends out of current operating earnings. In addition to the formal statutes and regulations, regulatory authorities consider the adequacy of each of the Bank's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends to the Banks. At December 31, 1997, net assets available from the Banks to pay dividends without prior approval from regulatory authorities totaled approximately $13 million. For 1997, United's cash dividend payout to stockholders was 6.5% of net income.

MONETARY POLICY. The results of operations of the Banks are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities, including the Federal Reserve, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Banks.

CAPITAL ADEQUACY. The Federal Reserve and the FDIC have implemented substantially identical risk-based rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures as adjusted for credit risk. Banks and bank holding companies are required to have (1) a minimum level of total capital (as defined) to risk-weighted assets of eight percent (8%); (2) a minimum Tier One Capital (as defined) to risk-weighted assets of four percent (4%); and (3) a minimum stockholders' equity to risk-weighted assets of four percent (4%). In addition, the Federal Reserve and the FDIC have established a minimum three percent (3%) leverage ratio of Tier One Capital to total assets for the most highly-rated banks and bank holding companies. "Tier One Capital" generally consists of common equity not including unrecognized gains and losses on securities, minority interests in equity accounts of consolidated subsidiaries and certain perpetual preferred stock less certain intangibles. The Federal Reserve and the FDIC will require a bank holding company and a bank, respectively, to maintain a leverage ratio greater than three percent (3%) if either is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve. The Federal Reserve and the FDIC use the leverage ratio in tandem with the risk-based ratio to assess the capital adequacy of banks and bank holding companies. The FDIC, the Office of the Comptroller of the Currency (the "OCC") and the Federal Reserve have amended, effective January 1, 1997, the capital adequacy standards to provide for the consideration of interest rate risk in the overall determination of a bank's capital ratio, requiring banks with greater interest rate risk to maintain adequate capital for the risk. The revised standards have not had a significant effect on United's capital requirements.

In addition, effective December 19, 1992, a new Section 38 to the Federal Deposit Insurance Act implemented the prompt corrective action provisions that Congress enacted as a part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "1991 Act"). The "prompt corrective action" provisions set forth five regulatory zones in which all banks are placed largely based on their capital positions. Regulators are permitted to take increasingly harsh action as a bank's financial condition declines. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank's capital leverage ratio reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital.

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a "well capitalized" institution has a total risk-based capital ratio of at least 10%, a Tier One risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an "adequately capitalized" institution has a total risk-based capital ratio of at least 8%, a Tier One risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an "undercapitalized" institution has a total risk-based capital ratio of under 8%, a Tier One risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a "significantly undercapitalized" institution has a total risk-based capital ratio of under 6%, a Tier One risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a "critically undercapitalized" institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also establish procedures for "downgrading" an institution to a lower capital category based on supervisory factors other than capital. Under the FDIC's regulations, all of the Banks were "well capitalized" institutions at December 31, 1996 and December 31, 1997.

Set forth below are pertinent capital ratios for each of the Banks as of December 31, 1997:

Minimum Capital Requirement	UCB	Carolina	Peoples	Towns	White	First Clayton
Tier One Capital to Risk Based Assets: 4%	9.75%	9.56%	9.86%	10.67%	10.83%	12.27%
Total Capital to Risk Based Assets: 8%	10.92%	10.81%	11.11%	11.92%	12.09%	13.53%
Leverage Ratio (Tier One Capital to Average Total Assets): 3%	7.67%	6.34%	6.96%	7.25%	7.93%	7.43%

Minimum required ratio for "well capitalized" banks is 6%
Minimum required ratio for "well capitalized" banks is 10%
Minimum required ratio for "well capitalized" banks is 5%

Recent Legislative and Regulatory Action. On April 19, 1995, the four federal bank regulatory agencies adopted revisions to the regulations promulgated pursuant to the Community Reinvestment Act (the "CRA"), which are intended to set distinct assessment standards for financial institutions. The revised regulation contains three evaluation tests: (i) a lending test, which will compare an institution's market share of loans in low- and moderate-income areas to its market share of loans in its entire service area and the percentage of a bank's outstanding loans to low and moderate-income areas or individuals, (ii) a services test, which will evaluate the provisions of services that promote the availability of credit to low- and moderate-income areas, and (iii) an investment test, which will evaluate an institution's record of investments in organizations designed to foster community development, small and minority-owned businesses and affordable housing lending, including state and local government housing or revenue bonds. The regulations are designed to reduce some paperwork requirements of the current regulations and provide regulators, institutions and community groups with a more objective and predictable manner with which to evaluate the CRA performance of financial institutions. The rule became effective on January 1, 1996, at which time evaluation under streamlined procedures began for institutions with assets of less than $250 million that are owned by a holding company with total assets of less than $1 billion. It is not expected that these regulations will have any appreciable impact upon United and the Banks.

Congress and various federal agencies (including, in addition to the bank regulatory agencies, the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice) (collectively the "Federal Agencies") responsible for implementing the nation's fair lending laws have been increasingly concerned that prospective home buyers and other borrowers are experiencing discrimination in their efforts to obtain loans. In recent years, the Department of Justice has filed suit against financial institutions, which it determined had discriminated, seeking fines and restitution for borrowers who allegedly suffered from discriminatory practices. Most, if not all, of these suits have been settled (some for substantial sums) without a full adjudication on the merits.

On March 8, 1994, the Federal Agencies, in an effort to clarify what constitutes lending discrimination and specify the factors the agencies will consider in determining if lending discrimination exists, announced a joint policy statement detailing specific discriminatory practices prohibited under the Equal Opportunity Act and the Fair Housing Act. In the policy statement, three methods of proving lending discrimination were identified: (1) overt evidence of discrimination, when a lender blatantly discriminates on a prohibited basis, (2) evidence of disparate treatment, when a lender treats applicants differently based on a prohibited factor even where there is no showing that the treatment was motivated by prejudice or a conscious intention to discriminate against a person, and (3) evidence of disparate impact, when a lender applies a practice uniformly to all applicants, but the practice has a discriminatory effect, even where such practices are neutral on their face and are applied equally, unless the practice can be justified on the basis of business necessity.

On September 23, 1994, President Clinton signed the Reigle Community Development and Regulatory Improvement Act of 1994 (the "Regulatory Improvement Act"). The Regulatory Improvement Act contains funding for community development projects through banks and community development financial institutions and also numerous regulatory relief provisions designed to eliminate certain duplicative regulations and paperwork requirements.

On September 29, 1994, President Clinton signed the Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Federal Interstate Bill") which amends federal law to permit bank holding companies to acquire existing banks in any state effective September 29, 1995. Further, any interstate bank holding company is permitted to merge its various bank subsidiaries into a single bank with interstate branches after May 31, 1997. States have the authority to authorize interstate branching before June 1, 1997, or, alternatively, to opt out of interstate branching prior to that date. The Georgia Financial Institutions Code was amended in 1994 to permit the acquisition of a Georgia bank or bank holding company by out-of-state bank holding companies beginning July 1, 1995. On September 29, 1995, the interstate banking provisions of the Georgia Financial Institutions Code were superseded by the Federal Interstate Bill.

On January 26, 1996, the Georgia legislature adopted a bill (the "Georgia Intrastate Bill") to permit, effective July 1, 1996, any Georgia bank or group of affiliated banks under one holding company to establish up to an aggregate of three new or additional branch banks anywhere within the State of Georgia, excluding any branches established by a bank in a county in which it is already located. After July 1, 1998, all restrictions on state-wide branching are removed. Before adoption of the Georgia Intrastate Bill, Georgia only permitted branching via merger or consolidation with an existing bank or in certain other limited circumstances.

FDIC INSURANCE AND FICO ASSESSMENTS FOR THE BANKS. The Banks are subject to FDIC deposit insurance assessments for the

Bank Insurance Fund (the "BIF"). In the first six months of 1995, the Banks were assessed $.23 per $100 of deposits based upon a risk-based system whereby banks are assessed on a sliding scale depending upon their placement in nine separate supervisory categories, from $.23 per $100 of deposits for the healthiest banks (those with the highest capital, best management and best overall condition) to as much as $.31 per $100 of deposits for the less-healthy institutions, for an average $.259 per $100 of deposits.

On August 8, 1995, the FDIC lowered the BIF premium for healthy banks 83% from $.23 per $100 in deposits to $.04 per $100 in deposits, while retaining the $.31 level for the riskiest banks. The average assessment rate was therefore reduced from $.232 to $.044 per $100 of deposits. The new rate took effect on September 29, 1995. On September 15, 1995, the FDIC refunded $564,000 to the Banks for premium overpayments in the second and third quarter of 1995. On November 14, 1995, the FDIC again lowered the BIF premium for healthy banks from $.04 per $100 of deposits to zero for the highest rated institutions (94% of the industry). As a result, the Banks paid no premium for deposit insurance in 1997 and FICO bond assessments of $100,000. It is not estimated that the Banks will pay any premium for deposit insurance in 1998 and will pay FICO bond assessments of $120,000.

EXECUTIVE OFFICERS OF UNITED

Executive officers of United are elected by the Board of Directors annually in January and hold office until the following January unless they sooner resign or are removed from office by the Board of Directors.

The executive officers of United, and their ages, positions with United and the Banks and terms of office as of December 31, 1997, are as follows:

Name (age)	Principal Position	Officer of United Since
Jimmy C. Tallent (45)	President and Director of UCB and United; Director of Carolina, White, Peoples, First Clayton and UFFC; Chairman of the Board of Towns and White.	1984
Billy M. Decker (54)	Senior Vice President of United; President and Director of Carolina; Director of Carolina, United and UCB; Secretary of United.	1988
Stephen L. Cockerham (36)	Senior Vice President and Chief Credit Officer of UCB and United. From 1985 through 1990, Mr. Cockerham was a Bank Liquidation Specialist with the Federal Deposit Insurance Corporation.	1990

Name (age)	Principal Position	Officer of United Since
Guy Freeman (62)	Senior Vice President of United since March, 1995, Executive Vice President of Carolina since July 1996; President and CEO of Carolina since 1997; and Director of Carolina since December 1996. Mr. Freeman served as President and Chief Executive Officer of White from 1993 until February 1995. Since February 1995, Mr. Freeman has been Chairman of the Board of White, of which he has been a member since January 1993. Mr. Freeman also served as Chairman of the Board of WC Holding Company from February 1995 until its acquisition by United. From 1992 until 1993, Mr. Freeman served as President and Chief Executive Officer of East Side Bank, Snellville, Georgia, and from 1987 to 1992, he served in the same capacity at First American Bank, Atlanta, Georgia.	1995
Thomas C. Gilliland (49)	President and Chief Executive Officer of Peoples; Vice Chairman of the Peoples Board; Executive Vice President and Director of United; Executive Vice President of United since April 1994. Chairman of the Board of UFFC since 1997.	1993
Eugene B. White (53)	President and Director of White and Vice President of United since March, 1995. Mr. White served as Executive Vice President of First National Bank of Habersham, Cornelia, Georgia from 1982 to 1995.	1995

Name (age)	Principal Position	Officer of United Since
Richard E. Martin, Jr. (49)	Vice President of United since 1993; President and Director of Towns. From 1989 through 1992, Mr. Martin was Senior Vice President of First Colony Bank, Alpharetta, Georgia.	1992
L. Gene Sprayberry (52)	Executive Vice President of UCB; Assistant Secretary of United.	1973
Christopher J. Bledsoe	Senior Vice President and Chief Financial Officer of UCB and United; Director of UFFC since 1997. A certified public accountant, from 1988 through 1993, Mr. Bledsoe was a Supervisor at Evans, Porter, Bryan & Co., an accounting firm in Atlanta, Georgia.	1993
Robert L. Cochran (33)	Assistant Vice President and Controller of UCB; Controller of United since 1996. A certified public accountant, from 1989 through 1995, Mr. Cochran was an accounting manager with PNC Bank in Cincinnati, Ohio.	1995

ITEM 2. PROPERTIES.

The executive offices of United and the main banking office of UCB are located in adjacent buildings, the former a 17,000 square-foot facility at 59 Highway 515, Blairsville, Georgia and the latter a 19,000 square-foot operations center located adjacent to its executive offices and main banking office. Both the building and the land, which includes parking and four drive-in teller stations, are owned by UCB. UCB also has a branch at an Ingles supermarket in Blairsville. The Ingles branch property, consisting of 350 square feet, is leased. UCB's branch office in Cornelia, which it owns, is 5,000 square feet. UCB also maintains a branch office in Dahlonega, which consists of 9,500-square feet and two drive-in teller stations, which are owned by UCB and a 1,020-square foot building leased by UCB.

The main banking office of Carolina is located at 300 Peachtree Street, Murphy, North Carolina, and contains 12,000 square feet. Both the building and the land, which includes parking and drive-in teller stations, are owned by Carolina. Carolina has 10 North Carolina branches: Hayesville (one full service branch and one supermarket branch); Robbinsville; Andrews; Waynesville; Franklin; Sylva; Asheville; Bryson City; and Cashiers. Over half of Carolina's branches are in locations where both the land and the building is owned by United. Carolina's branches aggregate approximately 20,000 square feet.

Peoples owns its main banking office located at 4000 Appalachian Highway, Blue Ridge, Georgia. The office contains 19,000 square feet and four drive-in teller stations. Peoples owns a branch at West Tennessee Avenue and Blue Ridge Drive in McCaysville, Georgia, which contains 2,800 square feet and has three drive-in teller stations. Peoples also leases a 335 square foot branch at an Ingles supermarket on Appalachian Highway in Blue Ridge, Georgia.

Towns owns its banking facility, containing 3,594 square feet and two drive-in teller stations. The facility is located at 214 North Main Street, Hiawassee, Georgia.

The main banking office of White is located at 153 East Kytle Street, Cleveland, Georgia and contains approximately 14,000 square feet and four drive-in teller stations. White also has a branch office located on Highway 75 North in Helen, Georgia which contains approximately 2,200 square feet. White owns both its main and branch office.

First Clayton owns its banking facilities, containing 11,500 square feet and four drive-in teller stations. The facility is located at U.S. 441 and Duval in the Village Center, Clayton, Georgia.

UFFC leases property in Hiawassee and Blue Ridge, Georgia and Murphy, North Carolina. The Hiawassee, Blue Ridge and Murphy properties consist of 1,800, 2,800 and 1,000 square feet, respectively.

None of the properties owned by United or the Banks is subject to encumbrances.

ITEM 3. LEGAL PROCEEDINGS.

United is not aware of any material pending legal proceedings to which United or any of its subsidiaries is a party or to which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders of United during the fourth quarter of its fiscal year.

ITEM 5. MARKET FOR UNITED'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

STOCK. There is no established public trading market for United's Common Stock. At December 31, 1997, there were 2,534 holders of record of Common Stock.

DIVIDENDS. United paid cash dividends of $.10 per share of Common Stock to shareholders of record in 1997 and 1996. United intends to pay cash dividends on a quarterly basis. However, the amount and frequency of dividends will be determined by United's Board of Directors in light of the earnings, capital requirements and the financial condition of United, and no assurance can be given that dividends will be paid in the future.

PUBLIC OFFERING. United completed a public offering of 300,000 shares of Common Stock of United to Georgia and North Carolina residents at an aggregate offering price of $6,600,000 pursuant to a Registration Statement on Form S-1, effective March 7, 1997, Registration Number 333-20887 and 24085. The offering commenced on March 7, 1998 and was terminated after all of the shares offered had been sold.

From the effective date of the registration statement to its termination, the amount of expenses incurred by United in connection with the issuance and distribution of the securities registered was approximately $123,000. The net proceeds received by United from the sale of the shares of Common Stock were approximately $6.5 million, after deduction of the offering expenses payable by United. In the State of Georgia, the Common Stock was sold by certain executive officers of United, and no commissions were paid on such sales. In order to comply with the securities requirements of North Carolina, United engaged The Carson Medlin Company ("Carson Medlin") to act as a broker-dealer for the account of United in effecting offers and sales of the Common Stock to investors in North Carolina. Carson Medlin received a fee of $30,000 for these services. United used the proceeds of the offering to invest additional capital in UCB, Carolina and Towns, and for working capital because of asset growth that these banks are experiencing.

RECENT SALES OF UNREGISTERED SECURITIES. On December 31, 1996, debentures due December 31, 2006, in the aggregate amount of $3,500,000 were sold to 26 accredited investors in the States of Georgia and North Carolina for cash in a transaction not involving a public offering within the meaning of Section 4(2) of the Securities Act of 1933 and in compliance with exemptions contained in Rule 506 of Regulation D promulgated thereunder. All of the purchasers were either existing shareholders, current officers or directors of United.

ITEM 6. SELECTED FINANCIAL DATA.

Selected financial data for each of the five years ended December 31, 1997 appears under the caption "Selected Financial Data" on page A-3 of United's Annual Report to Shareholders which is included as the appendix to the Proxy Statement used in connection with the solicitation of proxies for United's Annual Meeting of Shareholders to be held on April 16, 1998, to be filed with the SEC (the "Proxy Statement") and is incorporated herein by reference.

PART II

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

Management's discussion and analysis of financial condition and results of operation appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation" on pages A-4 through A-19 of United's Annual Report to Shareholders, which is included as the appendix to the Proxy Statement, is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning quantitative and qualitative disclosures about market risk appears under the caption "Quantitative and Qualitative Disclosures about Market Risk" on page A-20 of United's Annual Report to Shareholders, which is included as the appendix to the Proxy Statement, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Report of Independent Certified Public Accountants, the Consolidated Financial Statements and Notes to the Consolidated Financial Statements appear on pages A-22 through A-47 of United's Annual Report to Shareholders, which is included as the appendix to the Proxy Statement, is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

During United's two most recent fiscal years, United did not change accountants and had no disagreement with its accountants on any matters of accounting principles or practices or financial statement disclosure.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF UNITED.

The information contained under the heading "Information About Nominees for Director" in the Proxy Statement is incorporated herein by reference. Pursuant to instruction 3 to paragraph (b) of Item 401 of Regulation S-K, information relating to the executive officers of United is included in Item 1 of this Report.

ITEM 11. EXECUTIVE COMPENSATION.

The information contained under the heading "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information contained under the heading "Voting Securities and Principal Holders," share ownership information of nominees for directors contained under the heading "Information about Nominees for Director" and share ownership of Mr. Freeman and Mr. Bledsoe contained in the footnotes (4) and (5) to the first chart under "Executive Compensation" in the Proxy Statement is incorporated herein by reference. For purposes of determining the aggregate market value of United's voting stock held by nonaffiliates, shares held by all directors and executive officers of United have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be "Affiliates" of United as defined by the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information contained under the heading "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements.

The following financial statements and notes thereto of United are incorporated herein by reference:

Report of Independent Certified Public Accountants

Consolidated Balance Sheets - December 31, 1997 and 1996

Consolidated Statements of Earnings for the Years ended December 31, 1997, 1996 and 1995

Consolidated Statements of Changes in Stockholders' Equity for the Years ended December 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows for the Years ended December 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

No financial statement schedules are required to be filed as part of this Report on Form 10-K.

3. Exhibits.

The following exhibits are required to be filed with this Report on Form 10-K by Item 601 of Regulation S-K:

3.1 - Amended and Restated Bylaws of United, dated September 12, 1997.

3.2. - Articles of Incorporation of United, as amended (included as Exhibit 3.1 to United's Registration Statement on Form S-4, Commission File No. 33-93286, previously filed with the Commission and incorporated herein by reference.)

4.1(a) - Form of Floating Rate Convertible Subordinated Payable In Kind Debenture due December 31, 2006 (included as Exhibit 4.2 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference).

4.1(b) - Form of Subscription Agreement (included as Exhibit A to United's Form S-1, Commission File Number 333-20887, previously filed with the Commission and incorporated by reference).

4.2	-	See exhibits 3.1 and 3.2 for provisions of Articles of Incorporation and By-laws, as amended, which define the rights of the holders of Common Stock of United.
10.1	-	Agreement, dated May 3, 1984, by and between Cornelia Bank and Union County Bank (included as Exhibit 10.8 to United's Registration Statement on Form S-18, Commission File No. 33-32205-A, previously filed with the Commission and incorporated herein by reference).
10.2	-	United Community Banks, Inc. Key Employee Stock Option Plan (included as Exhibit 10.3 to United's Annual Report on Form 10-K for the year ended December 31, 1994, previously filed with the Commission and incorporated herein by reference).*
10.3	-	Loan Agreement dated April 26, 1995 by and between the Bankers Bank and United, together with the related Promissory Note in the principal amount of $12,000,000 and Stock Pledge Agreement (included as Exhibit 10.17 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference.)
10.4	-	Split-Dollar Agreement between United and Jimmy C. Tallent dated June 1, 1994 (included as Exhibit 10.11 to United's Annual Report on Form 10-K for the year ended December 31, 1994, previously filed with the Commission and incorporated herein by reference).*
10.5	-	Agreement and Plan of Reorganization by and among White County Bancshares, Inc., White County Bank and United, dated as of April 11, 1995 (included as Exhibit 2.1 to United's Registration Statement on Form S-4, Commission File Number 33-93286, previously filed with the Commission and incorporated herein by reference).
10.6	-	Agreement and Plan of Merger by and between Registrant and White County Bancshares, Inc., dated as of April 11, 1995 (included as Exhibit 2.2 to United's Registration Statement on Form S-4, Commission File Number 33-93286, previously filed with the Commission and incorporated herein by reference).
10.7	-	Agreement and Plan of Merger by and between White County Bank and White Interim Bank, dated as of June 12, 1995 (included as Exhibit 2.3 to United's Registration Statement on Form S-4, Commission File No. 33-93286, previously filed with the Commission and incorporated herein by reference).

10.8 - Purchase and Assumption Agreement by and between Carolina Bank and NationsBank, N.A. (Carolinas) dated May 25, 1995 (included as Exhibit 10.16 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference).

10.9 - Broker Dealer Agreement between the Registrant and The Carson Medlin Company dated January 28, 1997 (included as Exhibit 10.10 to United's Registration Statement on Form S-1, Commission File Number 333-20887, previously filed with the Commission and incorporated herein by reference).

10.10 - Amendment to Broker Dealer Agreement between the Registrant and The Carson Medlin Company dated March 3, 1997 (included as Exhibit 10.11 to United's Registration Statement on Form S-1, Commission File Number 333-20887, previously filed with the Commission and incorporated herein by reference).

10.11 - Agreement and Plan of Merger, dated June 12, 1997, by and between United and First Clayton Bancshares, Inc. (included as Appendix A to United's Registration Statement on Form S-4, Commission File Number 333-31997, previously filed with the Commission and incorporated herein by reference).

21 - Subsidiaries of United.

23 - Consent of Porter Keadle Moore, LLP.

27 - Financial Data Schedule.

99 - Notice of Annual Meeting and Proxy Statement of United, including the Annual Report to Shareholders attached as Appendix A.

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* Management contract or compensatory plan or arrangement required to be filed as an Exhibit to this Annual Report on Form 10-K pursuant to Item 14(c) of Form 10-K.

(b) United did not file any reports on Form 8-K during the fourth quarter of 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, United has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Blairsville, State of Georgia, on the 24th of March, 1998.

UNITED COMMUNITY BANKS, INC.
(Registrant)

By: /s/ Jimmy C. Tallent
Title: President

POWER OF ATTORNEY AND SIGNATURES

Know all men by these presents, that each person whose signature appears below constitutes and appoints Jimmy C. Tallent or Robert L. Head, or either of them, as attorney-in-fact, with each having the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of United in the capacities set forth and on the 24th of March, 1998.

Signature	Title
/s/ Jimmy C. Tallent Jimmy C. Tallent	President and Director (Principal Executive Officer)
/s/ Robert L. Head, Jr. Robert L. Head, Jr.	Chairman of the Board of Directors
/s/ Billy M. Decker Billy M. Decker	Director
/s/ Thomas C. Gilliland Thomas C. Gilliland	Director
/s/ Charles Hill Charles Hill	Director
/s/ Hoyt O. Holloway Hoyt O. Holloway	Director
/s/ P. Deral Horne P. Deral Horne	Director
/s/ John R. Martin John R. Martin	Director
/s/ Clarence William Mason, Sr. Clarence William Mason, Sr.	Director
/s/ W. C. Nelson, Jr. W. C. Nelson, Jr.	Director
/s/ Charles E. Parks Charles E. Parks	Director
/s/ Christopher J. Bledsoe Christopher J. Bledsoe	Chief Financial Officer (Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
3	Amended and Restated Bylaws, dated September 12, 1997.
21	Subsidiaries of United.
23	Consent of Porter Keadle Moore, LLP.
27	Financial Data Schedule (for SEC use only)
99	Notice of Annual Meeting and Proxy Statement of United, including the Annual Report to Shareholders as Appendix A.

AMENDED AND RESTATED BYLAWS

OF

UNITED COMMUNITY BANKS, INC.
(A Georgia Corporation)

AS OF SEPTEMBER 12, 1997

AMENDED AND RESTATED BYLAWS

OF

UNITED COMMUNITY BANKS, INC.
(A GEORGIA CORPORATION)

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AMENDED AND RESTATED BYLAWS

OF

UNITED COMMUNITY BANKS, INC.

References in these Amended and Restated Bylaws to "Articles of Incorporation" are to the Articles of Incorporation of United Community Banks, Inc., a Georgia corporation (the "Corporation"), as amended and restated from time to time.

All of these Amended and Restated Bylaws are subject to contrary provisions, if any, of the Articles of Incorporation (including provisions designating the preferences, limitations, and relative rights of any class or series of shares), the Georgia Business Corporation Code (the "Code"), and other applicable law, as in effect on and after the effective date of these Bylaws. References in these Bylaws to "Sections" shall refer to sections of the Bylaws, unless otherwise indicated.

ARTICLE ONE

OFFICE

1.1 REGISTERED OFFICE AND AGENT. The Corporation shall maintain a registered office in the State of Georgia and shall have a registered agent whose business office is the same as the registered office.

1.2 OTHER OFFICES. The Corporation may also have other offices at such other place or places, both within or without the State of Georgia, as the Board of Directors may from time to time designate or the business of the Corporation requires.

ARTICLE TWO

STOCKHOLDERS' MEETINGS

2.1 PLACE OF MEETINGS. Meetings of the Corporation's stockholders may be held at any location inside or outside the State of Georgia designated by the Board of Directors or any other person or persons who properly call the meeting, or if the Board of Directors or such other person or persons do not specify a location, at the Corporation's principal office.

2.2 ANNUAL MEETINGS. The Corporation shall hold an annual meeting of stockholders, at a time determined by the Board of Directors, to elect directors and to transact any business that properly may come before the meeting. The annual meeting may be combined with any other meeting of stockholders, whether annual or special.

2.3 SPECIAL MEETINGS. Special meetings of stockholders may be called at any time by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, or the Chief Financial Officer, and shall be called by the Corporation upon the written request (in compliance with applicable requirements of the Code) of the holders of shares representing twenty-five percent (25%) or more of the votes entitled to be cast on each issue proposed to be considered at the special meeting. The business that may be transacted at any special meeting of stockholders shall be limited to that proposed in the notice of the special meeting given in accordance with Section 2.4 (including related or incidental matters that may be necessary or appropriate to effectuate the proposed business).

2.4 NOTICE OF MEETINGS. In accordance with Section 9.4 and subject to waiver by a stockholder pursuant to Section 2.5, the Corporation shall give written notice of the date, time, and place of each annual and special stockholders' meeting no fewer than 10 days nor more than 60 days before the meeting date to each stockholder of record entitled to vote at the meeting. The notice of an annual meeting need not state the purpose of the meeting unless these Bylaws require otherwise. The notice of a special meeting shall state the purpose for which the meeting is called. If an annual or special stockholders' meeting is adjourned to a different date, time, or location, the Corporation shall give stockholders notice of the new date, time, or location of the adjourned meeting, unless a quorum of stockholders was present at the meeting and information regarding the adjournment was announced before the meeting was adjourned; provided, however, that if (i) the adjournment is for more than 30 days, or (ii) a new record date is or must be fixed in accordance with Section 7.6, the Corporation must give notice of the adjourned meeting to all stockholders of record as of the new record date who are entitled to vote at the adjourned meeting.

2.5 WAIVER OF NOTICE. A stockholder may waive any notice required by the Code, the Articles of Incorporation, or these Bylaws, before or after the date and time of the matter to which the notice relates, by delivering to the Corporation a written waiver of notice signed by the stockholder entitled to the notice. In addition, a stockholder's attendance at a meeting shall be (a) a waiver of objection to lack of notice or defective notice of the meeting unless the stockholder attends the meeting for the express purpose of objecting at the beginning of the meeting, and (b) a waiver of objection to consideration of a particular matter at the meeting that is not within the purpose stated in the meeting notice, unless the stockholder objects to considering the matter when it is presented. Except as otherwise required by the Code, neither the purpose of nor the business transacted at the meeting need be specified in any waiver.

2.6 QUOROM; VOTE REQUIRED TO ACT. (a) At all meetings of stockholders, stockholders entitled to vote on a matter may take action on the matter only if a quorum exists at the meeting. A quorum at all meetings of stockholders shall consist of the holders of record of a majority of the shares of the capital stock of the Corporation, issued and outstanding, entitled to vote at the meeting, present in person or by proxy, except as otherwise provided by law or the Articles of Incorporation. Once a share is present at any meeting other than for the express purpose of objecting at the beginning of the meeting, the share shall be deemed present for quorum purposes for the remainder of the meeting and for any adjournments of that meeting, unless a new record date for the adjourned meeting is or must be set pursuant to Section 7.6 of these Bylaws.

(b) Except as provided in Section 3.2, if a quorum exists, action on a matter by the stockholders is approved by the stockholders if the votes cast favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or the Code requires a greater number of affirmative votes.

2.7 VOTING OF SHARES. Unless otherwise required by the Code or the Articles of Incorporation, each outstanding share of any class or series having voting rights shall be entitled to one vote on each matter that is submitted to a vote of stockholders.

2.8 PROXIES. A stockholder entitled to vote on a matter may vote in person or by proxy pursuant to an appointment executed in writing by the stockholder or by his or her attorney-in-fact. An appointment of a proxy shall be valid for three years from the date of its execution, unless a longer or shorter period is expressly stated in the proxy.

2.9 PRESIDING OFFICER. Except as otherwise provided in this Section 2.9, the Chairman of the Board, if there be one, and in his or her absence or disability the Chief Executive Officer, if there be one, and in his or her absence or disability the President, and in his or her absence or disability the Chief Financial Officer, if there be one, shall preside at every stockholders' meeting (and any adjournment thereof) as its chairman. If neither the Chairman of the Board, the Chief Executive Officer, the President nor the Chief Financial Officer is present and willing to serve as chairman of the meeting, and if the Chairman of the Board has not designated another person who is present and willing to serve, then a majority of the Corporation's directors present at the meeting shall be entitled to designate a person to serve as chairman. If no director of the Corporation is present at the meeting, or if a majority of the directors who are present cannot be established, then a chairman of the meeting shall be selected by a majority vote of the shares present at the meeting entitled to vote at the meeting. The chairman of the meeting may designate other persons to assist with the meeting.

2.10 ADJOURNMENTS. At any meeting of stockholders (including an adjourned meeting), a majority of shares present and entitled to vote at the meeting (whether or not those shares constitute a quorum) may adjourn the meeting. The only business that may be transacted at any reconvened meeting is business that could have been transacted at the meeting that was adjourned, unless further notice of the adjourned meeting has been given in compliance with the requirements for a special meeting that specifies the additional purpose or purposes for which the meeting is called. Nothing contained in this Section 2.10 shall be deemed or otherwise construed to limit any lawful authority of the chairman of a meeting to adjourn the meeting.

2.11 CONDUCT OF THE MEETING. At any meeting of stockholders, the chairman of the meeting shall be entitled to establish the rules of order governing the conduct of business at the meeting.

2.12 ACTION OF STOCKHOLDERS WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the actions so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, and delivered to the Corporation. Every written consent shall bear the date of signature of each stockholder who signs the consent. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Such consent shall have the same force and effect as a majority vote of stockholders.

2.13 MATTERS CONSIDERED AT ANNUAL MEETINGS. Notwithstanding anything to the contrary in these Bylaws, the only business that may be conducted at an annual meeting of stockholders shall be business brought before the meeting (a) by or at the direction of the Board of Directors prior to the meeting, (b) by or at the direction of the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, or (c) by a stockholder of the Corporation who is entitled to vote with respect to the business and who complies with the notice procedures set forth in this Section 2.13. For business to be brought properly before an annual meeting by a stockholder, the stockholder must have given timely notice of the business in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal offices of the Corporation on or before the later to occur of (i) 14 days prior to the annual meeting or (ii) 5 days after notice of the meeting is provided to the stockholders pursuant to Section 2.4 hereof. A stockholder's notice to the Secretary shall set forth a brief description of each matter of business the stockholder proposes to bring before the meeting and the reasons for conducting that business at the meeting; the name, as it appears on the Corporation's books, and address of the stockholder proposing the business; the series or class and number of shares of the Corporation's capital stock that are beneficially owned by the stockholder; and any material interest of the stockholder in the proposed business. The chairman of the meeting shall have the discretion to declare to the meeting that any business proposed by a stockholder to be considered at the meeting is out of order and that such business shall not be transacted at the meeting if (i) the chairman concludes that the matter has been proposed in a manner inconsistent with this Section 2.13 or (ii) the chairman concludes that the subject matter of the proposed business is inappropriate for consideration by the stockholders at the meeting.

ARTICLE THREE

BOARD OF DIRECTORS

3.1 GENERAL POWERS. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed by, the Board of Directors, subject to any limitation set forth in the Articles of Incorporation, in bylaws approved by the stockholders, or in agreements among all the stockholders that are otherwise lawful.

3.2 NUMBER, ELECTION AND TERM OF OFFICE. The number of directors of the Corporation shall consist of eight to fourteen persons, until otherwise determined by resolution of the Board of Directors or of the stockholders from time to time; provided that no decrease in the number of directors shall have the effect of shortening the term of an incumbent director. Except as provided elsewhere in this Section 3.2 and in Section 3.4, the directors shall be elected at each annual meeting of stockholders, or at a special meeting of stockholders called for purposes that include the election of directors, by a plurality of the votes cast by the shares entitled to vote and present at the meeting. Except in case of death, resignation, disqualification, or removal, the term of each director shall expire at the next succeeding annual meeting of stockholders. Despite the expiration of a director's term, he or she shall continue to serve until his or her successor, if there is to be any, has been elected and has qualified.

3.3 REMOVAL OF DIRECTORS. The entire Board of Directors or any individual director may be removed, with or without cause, by the affirmative vote of the holders of a majority of all the shares of stock outstanding and entitled to vote for the election of directors. Removal action may be taken only at a stockholders' meeting for which notice of the removal action has been given. A removed director's successor, if any, may be elected at the same meeting to serve the unexpired term.

3.4 VACANCIES. A vacancy occurring in the Board of Directors may be filled for the unexpired term, unless the stockholders have elected a successor, by the affirmative vote of a majority of the remaining directors, whether or not the remaining directors constitute a quorum. A vacancy or vacancies in the Board of Directors may result from the death, resignation, disqualification, or removal of any director, or from an increase in the number of directors.

3.5 COMPENSATION. Directors may receive such compensation for their services as directors as may be fixed by the Board of Directors from time to time. A director may also serve the Corporation in one or more capacities other than that of director and receive compensation for services rendered in those other capacities.

3.6 COMMITTEES OF THE BOARD OF DIRECTORS. The Board of Directors may designate from among its members an executive committee or one or more other standing or ad hoc committees, each consisting of one or more directors, who serve at the pleasure of the Board of Directors. Subject to the limitations imposed by the Code, each committee shall have the authority set forth in the resolution establishing the committee or in any other resolution of the Board of Directors specifying, enlarging, or limiting the authority of the committee.

3.7 QUALIFICATION OF DIRECTORS. No person elected to serve as a director of the Corporation shall assume office and begin serving unless and until duly qualified to serve, as determined by reference to the Code, the Articles of Incorporation, and any further eligibility requirements established in these Bylaws.

ARTICLE FOUR

MEETINGS OF THE BOARD OF DIRECTORS

4.1 REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held in conjunction with each annual meeting of stockholders. In addition, the Board of Directors may, by prior resolution, hold regular meetings at other times.

4.2 CHAIRMAN OF THE BOARD. The Chairman of the Board (if there be one) shall preside at and serve as chairman of meetings of the stockholders and of the Board of Directors (unless another person is selected under Section 2.9 to act as chairman). The Chairman of the Board shall perform other duties and have other authority as may from time to time be delegated by the Board of Directors.

4.3 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer or any two directors in office at that time.

4.4 PLACE OF MEETINGS. Directors may hold their meetings at any place in or outside the State of Georgia that the Board of Directors may establish from time to time.

4.5 NOTICE OF MEETINGS. Directors need not be provided with notice of any regular meeting of the Board of Directors. Unless waived in accordance with Section 4.11, the Corporation shall otherwise give at least three days' notice to each director of the date, time, and place of each special meeting. Notice of a meeting shall be deemed to have been given to any director in attendance at any prior meeting at which the date, time, and place of the subsequent meeting was announced.

4.6 QUOROM. At meetings of the Board of Directors, the greater of (a) a majority of the directors then in office, or (b) one-third of the number of directors fixed in accordance with these Bylaws shall constitute a quorum for the transaction of business.

4.7 VOTE REQUIRED FOR ACTION. If a quorum is present when a vote is taken, the vote of a majority of the directors present at the time of the vote will be the act of the Board of Directors, unless the vote of a greater number is required by the Code, the Articles of Incorporation, or these Bylaws. A director who is present at a meeting of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless (a) he or she objects at the beginning of the meeting (or promptly upon his or her arrival) to holding the meeting or transacting business at it; (b) his or her dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) he or she delivers written notice of dissent or abstention to the presiding officer of the meeting before its adjournment or to the Corporation immediately after adjournment of the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

4.8 PARTICIPATION BY CONFERENCE TELEPHONE. Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment through which all persons participating may hear and speak to each other. Participation in a meeting pursuant to this Section 4.8 shall constitute presence in person at the meeting.

4.9 ACTION BY DIRECTORS WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if a written consent, describing the action taken, is signed by each director and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. The consent may be executed in counterparts, and shall have the same force and effect as a unanimous vote of the Board of Directors at a duly convened meeting.

4.10 ADJOURNMENTS. A meeting of the Board of Directors, whether or not a quorum is present, may be adjourned by a majority of the directors present to reconvene at a specific time and place. It shall not be necessary to give notice to the directors of the reconvened meeting or of the business to be transacted, other than by announcement at the meeting that was adjourned, unless a quorum was not present at the meeting that was adjourned, in which case notice shall be given to directors in the same manner as for a special meeting. At any such reconvened meeting at which a quorum is present, any business may be transacted that could have been transacted at the meeting that was adjourned.

4.11 WAIVER OF NOTICE. A director may waive any notice required by the Code, the Articles of Incorporation, or these Bylaws before or after the date and time of the matter to which the notice relates, by a written waiver signed by the director and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. Attendance by a director at a meeting shall constitute waiver of notice of the meeting, except where a director at the beginning of the meeting (or promptly upon his or her arrival) objects to holding the meeting or to transacting business at the meeting, and does not thereafter vote for or assent to action taken at the meeting.

ARTICLE FIVE

OFFICERS

5.1 OFFICERS. The Board of Directors, as soon as may be possible after the election thereof held each year, shall elect or appoint a President, a Secretary and a Treasurer, and may also elect or appoint a Chief Executive Officer and a Chief Financial Officer. The Board of Directors may also elect a Chairman of the Board from among its members. The Board of Directors from time to time may create and establish the duties of other officers and may elect or appoint, or authorize specific senior officers to appoint, the person who shall hold other offices, including one or more Vice Presidents (including Executive Vice Presidents, Senior Vice Presidents, Assistant Vice Presidents, and the like), one or more Assistant Secretaries, and one or more Assistant Treasurers. Whether or not so provided by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or the Chief Financial Officer may appoint one or more Assistant Secretaries and one or more Assistant Treasurers. Any two or more offices may be held by the same person except that no person may hold both the offices of President and Secretary.

5.2 TERM. Each officer shall serve at the pleasure of the Board of Directors (or, if appointed by the Chief Executive Officer, President, Chief Financial Officer or a senior officer pursuant to this Article Five, at the pleasure of the Board of Directors, the Chief Executive Officer, President, Chief Financial Officer, or the senior officer authorized to have appointed the officer) until his death, resignation, or removal, or until his replacement is elected or appointed in accordance with this Article Five.

5.3 COMPENSATION. The compensation of all officers of the Corporation shall be fixed by the Board of Directors or by a committee or officer appointed by the Board of Directors. Officers may serve without compensation.

5.4 REMOVAL. All officers (regardless of how elected or appointed) may be removed, with or without cause, by the Board of Directors, and any officer appointed by the Chief Executive Officer, President, Chief Financial Officer or another senior officer may also be removed, with or without cause, by the Chief Executive Officer, President, Chief Financial Officer or by any senior officer authorized to have appointed the officer to be removed. Removal will be without prejudice to the contract rights, if any, of the person removed, but shall be effective notwithstanding any damage claim that may result from infringement of such contract rights.

5.5 CHAIRMAN OF THE BOARD. The Chairman of the Board (if there be one) shall preside at and serve as chairman of meetings of the stockholders and of the Board of Directors (unless another person is selected under Section 2.9 to act as Chairman). The Chairman of the Board shall perform other duties and have other authority as may from time to time be delegated by the Board of Directors.

5.6 CHIEF EXECUTIVE OFFICER. The Chief Executive Officer (if there be one) shall be charged with the general and active management of the Corporation, shall see that all orders and resolutions of the Board of Directors are carried into effect, shall have the authority to select and appoint employees and agents of the Corporation, and shall, in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board. The Chief Executive Officer shall also be responsible for the development, establishment, and implementation of the policy and strategic initiatives for the Corporation. The Chief Executive Officer shall perform any other duties and have any other authority as may be delegated from time to time by the Board of Directors, and shall be subject to the limitations fixed from time to time by the Board of Directors.

5.7 PRESIDENT. If there shall be no separate Chief Executive Officer of the Corporation, then the President shall be the chief executive officer of the Corporation, with the duties and authority provided in Section 5.6. The President shall perform such other duties and have such other authority as may from time to time be delegated by the Board of Directors. In the absence or disability of the Chief Executive Officer, the President shall perform the duties and exercise the powers of the Chief Executive Officer.

5.8 CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall have the legal custody of the corporate funds and securities and shall keep or cause to be kept full and accurate accounts of receipts and disbursements and other appropriate accounting records in books belonging to the Corporation and shall deposit all funds and other valuable items in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall render to the Chairman of the Board and the Board of Directors, at its regular meetings, or when the Chairman of the Board or the Board of Directors so requires, an account of all his transactions as Chief Financial Officer and of the financial condition of the Corporation. If required by the Board of Directors, he shall give the Corporation a bond in such sum, or such conditions, and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office.

5.9 VICE PRESIDENT. The Vice President (if there be one) shall, in the absence or disability of the President, perform the duties and exercise the powers of the President, whether the duties and powers are specified in these Bylaws or otherwise. If the Corporation has more than one Vice President, the one designated by the Board of Directors shall act in the event of the absence or disability of the President. Vice Presidents shall perform any other duties and have any other authority as from time to time may be delegated by the Board of Directors, the Chief Executive Officer, the President, or the Chief Financial Officer.

5.10 SECRETARY. The Secretary shall be responsible for preparing minutes of the meetings of stockholders, directors, and committees of directors, and for authenticating records of the Corporation. The Secretary or any Assistant Secretary shall have authority to give all notices required by law or these Bylaws. The Secretary shall be responsible for the custody of the corporate books, records, contracts, and other documents. The Secretary or any Assistant Secretary may affix the corporate seal to any lawfully executed documents requiring it, may attest to the signature of any officer of the Corporation, and shall sign any instrument that requires the Secretary's signature. The Secretary or any Assistant Secretary shall perform any other duties and have any other authority as from time to time may be delegated by the Board of Directors, the Chief Executive Officer, the President, or the Chief Financial Officer.

5.11 TREASURER. Unless otherwise provided by the Board of Directors, the Treasurer shall be responsible for the custody of all funds and securities belonging to the Corporation and for the receipt, deposit, or disbursement of these funds and securities under the direction of the Board of Directors. The Treasurer shall cause full and true accounts of all receipts and disbursements to be maintained, and shall make reports of these receipts and disbursements to the Board of Directors, the Chief Executive Officer, the President, and the Chief Financial Officer upon request. The Treasurer or Assistant Treasurer shall perform any other duties and have any other authority as from time to time may be delegated by the Board of Directors, the Chief Executive Officer, the President, or the Chief Financial Officer.

ARTICLE SIX

DISTRIBUTIONS AND DIVIDENDS

Unless the Articles of Incorporation provides otherwise, the Board of Directors, from time to time in its discretion, may authorize or declare distributions or share dividends in accordance with the Code.

ARTICLE SEVEN

SHARES

7.1 SHARE CERTIFICATES. The interest of each stockholder in the Corporation shall be evidenced by a certificate or certificates representing shares of the Corporation, which shall be in such form as the Board of Directors from time to time may adopt in accordance with the Code. Share certificates shall be in registered form and shall indicate the date of issue, the name of the Corporation, the name of the stockholder, and the number and class of shares and designation of the series, if any, represented by the certificate. Each certificate shall be signed by the President or a Vice President (or in lieu thereof, by the Chairman of the Board, Chief Executive Officer or the Chief Financial Officer, if there be any) and may be signed by the Secretary or an Assistant Secretary.

7.2 RIGHTS OF CORPORATION WITH RESPECT TO REGISTERED OWNERS. Prior to due presentation for transfer of registration of its shares, the Corporation may treat the registered owner of the shares (or the beneficial owner of the shares to the extent of any rights granted by a nominee certificate on file with the Corporation pursuant to any procedure that may be established by the Corporation in accordance with the Code) as the person exclusively entitled to vote the shares, to receive any dividend or other distribution with respect to the shares, and for all other purposes; and the Corporation shall not be bound to recognize any equitable or other claim to or interest in the shares on the part of any other person, whether or not it has express or other notice of such a claim or interest, except as otherwise provided by law.

7.3 TRANSFERS OF SHARES. Transfers of shares shall be made upon the books of the Corporation kept by the Corporation or by the transfer agent designated to transfer the shares, only upon direction of the person named in the certificate or by an attorney lawfully constituted in writing. Before a new certificate is issued, the old certificate shall be surrendered for cancellation or, in the case of a certificate alleged to have been lost, stolen, or destroyed, the provisions of Section 7.5 of these Bylaws shall have been complied with.

7.4 DUTY OF CORPORATION TO REGISTER TRANSFER. Notwithstanding any of the provisions of Section 7.3 of these Bylaws, the Corporation is under a duty to register the transfer of its shares only if: (a) the share certificate is endorsed by the appropriate person or persons; (b) reasonable assurance is given that each required endorsement is genuine and effective; (c) the Corporation has no duty to inquire into adverse claims or has discharged any such duty; (d) any applicable law relating to the collection of taxes has been complied with; (e) the transfer is in fact rightful or is to a bona fide purchaser; and (f) the transfer is in compliance with applicable provisions of any transfer restrictions of which the Corporation shall have notice.

7.5 LOST, STOLEN, OR DESTROYED CERTIFICATES. Any person claiming a share certificate to be lost, stolen, or destroyed shall make an affidavit or affirmation of this claim in such a manner as the Corporation may require and shall, if the Corporation requires, give the Corporation a bond of indemnity in form and amount, and with one or more sureties satisfactory to the Corporation, as the Corporation may require, whereupon an appropriate new certificate may be issued in lieu of the one alleged to have been lost, stolen, or destroyed.

7.6 Fixing of Record Date. For the purpose of determining stockholders (a) entitled to notice of or to vote at any meeting of stockholders or, if necessary, any adjournment thereof, (b) entitled to receive payment of any distribution or dividend, or (c) for any other proper purpose, the Board of Directors may fix in advance a date as the record date. The record date may not be more than 60 days (and, in the case of a notice to stockholders of a stockholders' meeting, not less than 10 days) prior to the date on which the particular action, requiring the determination of stockholders, is to be taken. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting, unless the Board of Directors shall fix a new record date for the reconvened meeting, which it must do if the meeting is adjourned to a date more than 30 days after the date fixed for the original meeting.

7.7 RECORD DATE IF NONE FIXED. If no record date is fixed as provided in Section 7.6, then the record date for any determination of stockholders that may be proper or required by law shall be, as appropriate, the date on which notice of a stockholders' meeting is mailed, the date on which the Board of Directors adopts a resolution declaring a dividend or authorizing a distribution, or the date on which any other action is taken that requires a determination of stockholders.

ARTICLE EIGHT

INDEMNIFICATION

8.1 ACTION BY PERSONS OTHER THAN THE CORPORATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another Corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit, or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that the person had reasonable cause to believe that his conduct was unlawful.

8.2 ACTIONS BY OR IN THE NAME OF THE CORPORATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation. Notwithstanding the foregoing, no indemnification shall be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Georgia or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of Georgia or such other court shall deem proper.

8.3 SUCCESSFUL DEFENSE. To the extent that a director, officer, employee, or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit, or proceeding referred to in Sections 8.1 and 8.2, or in defense of any claim, issue, or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

8.4 AUTHORIZATION OF INDEMNIFICATION. Any indemnification under Sections 8.1 and 8.2 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 8.1 and 8.2. Such determination shall be made: (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit, or proceeding; (2) if such quorum is not obtainable, or, even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion; or (3) by the stockholders.

8.5 PREPAYMENT OF EXPENSES. Expenses incurred in defending a civil or criminal action, suit, or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit, or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee, or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article Eight.

8.6 NON-EXCLUSIVE RIGHT. The indemnification and advancement of expenses provided by, or granted pursuant to, the other Sections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

8.7 INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

8.8 CONSTITUENT CORPORATIONS TO MERGER. For purposes of this Article, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, or agents, so that any person who is or was a director, officer, employee, or agent of such constituent corporation or a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

8.9 DEFINITIONS. For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee, or agent of the Corporation which imposes duties on, or involves services by, such its director, officer, employee, or agent with respect to an employee benefit plan, its participants, or its beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

8.10 CONTINUATION OF INDEMNIFICATION. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

8.11 CHANGES IN LAW. In the event the Code is amended following the date of the latest modification, amendment, or revision of this Article so as to permit indemnification by the Corporation of any person to a greater extent (either as to matters or persons which may be the subject of indemnity) than permitted in this Article, then the Board of Directors shall have the power to authorize such greater indemnification in accordance with the amended provisions of the Code.

8.12 OTHER PERMITTED INDEMNIFICATION. Whether or not required or permitted by the foregoing provisions of this Article, the Corporation shall indemnify any person against any other losses, damages, expenses (including attorneys' fees and other costs of defense), judgments, fines, and amounts paid in settlement which result from the fact that such person is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another Corporation, partnership, joint venture, trust, or other enterprise, if the Board of Directors finds, in its sole discretion, that such indemnity is appropriate in view of all of the facts and circumstances involved, unless such indemnity, in the opinion of counsel, is prohibited by law.

8.13 AMENDMENT. Any amendment to this Article Eight that limits or otherwise adversely affects the right of indemnification, advancement of expenses, or other rights of any person indemnified hereunder (an "Indemnified Person") shall, as to such Indemnified Person, apply only to proceedings based on actions, events, or omissions (collectively, "Post Amendment Events") occurring after such amendment and after delivery of notice of such amendment to the Indemnified Person so affected. Any Indemnified Person shall, as to any proceeding based on actions, events, or omissions occurring prior to the date of receipt of such notice, be entitled to the right of indemnification, advancement of expenses, and other rights under this Article Eight to the same extent as if such provisions had continued as part of the Bylaws of the Corporation without such amendment. This Section 8.13 cannot be altered, amended, or repealed in a manner effective as to any Indemnified Person (except as to Post Amendment Events) without the prior written consent of such Indemnified Person.

8.14 SEVERABILITY. Each of the Sections of this Article Eight, and each of the clauses set forth herein, shall be deemed separate and independent, and should any part of any such Section or clause be declared invalid or unenforceable by any court of competent jurisdiction, such invalidity or unenforceability shall in no way render invalid or unenforceable any other part thereof or any separate Section or clause of this Article Eight that is not declared invalid or unenforceable.

ARTICLE NINE

MISCELLANEOUS

9.1 INSPECTION OF BOOKS AND RECORDS. The Board of Directors shall have the power to determine which accounts, books, and records of the Corporation shall be available for stockholders to inspect or copy, except for those books and records required by the Code to be made available upon compliance by a stockholder with applicable requirements, and shall have the power to fix reasonable rules and regulations (including confidentiality restrictions and procedures) not in conflict with applicable law for the inspection and copying of accounts, books, and records that by law or by determination of the Board of Directors are made available.

9.2 FISCAL YEAR. The Board of Directors is authorized to fix the fiscal year of the Corporation and to change the fiscal year from time to time as it deems appropriate.

9.3 CORPORATE SEAL. The corporate seal will be in such form as the Board of Directors may from time to time determine. The Board of Directors may authorize the use of one or more facsimile forms of the corporate seal. The corporate seal need not be used unless its use is required by law, by these Bylaws, or by the Articles of Incorporation.

9.4 NOTICE. (a) Whenever these Bylaws require notice to be given to any stockholder or to any director, the notice may be given by mail, in person, by courier delivery, by telephone, or by telecopier, telegraph, or similar electronic means. Whenever notice is given to a stockholder or director by mail, the notice shall be sent by depositing the notice in a post office or letter box in a postage-prepaid, sealed envelope addressed to the stockholder or director at his or her address as it appears on the books of the Corporation. Any such written notice given by mail shall be effective: (i) if given to stockholders, as such, at the time the same is deposited in the United States mail; and (ii) in all other cases, at the earliest of (x) when delivered, properly addressed, to the addressee's last known principal place of business or residence, (y) three days after its deposit in the mail, as evidenced by the postmark, if mailed with first-class postage prepaid and correctly addressed, or (z) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee. Whenever notice is given to a stockholder or director by any means other than mail, the notice shall be deemed given when received.

(b) In calculating time periods for notice, when a period of time measured in days, weeks, months, years, or other measurement of time is prescribed for the exercise of any privilege or the discharge of any duty, the first day shall not be counted but the last day shall be counted.

ARTICLE TEN

AMENDMENTS

Except as otherwise provided under the Code or the Articles of Incorporation, the Board of Directors shall have the power to alter, amend, or repeal these Bylaws or adopt new Bylaws. Any Bylaws adopted by the Board of Directors may be altered, amended, or repealed, and new Bylaws adopted, by the stockholders. The stockholders may prescribe in adopting any Bylaw or Bylaws that the Bylaw or Bylaws so adopted shall not be altered, amended, or repealed by the Board of Directors.

Dated: September 12, 1997

Exhibit 21

Subsidiaries of United Community Banks, Inc.

Subsidiary	State of Organization
United Community Bank, Blairsville, Georgia (d/b/a Union County Bank in Union County, Georgia; d/b/a First Bank of Habersham in Habersham County, Georgia; d/b/a United Community Bank of Lumpkin County, Georgia)	Georgia
Carolina Community Bank, Murphy, North Carolina	North Carolina
Peoples Bank, Blue Ridge, Georgia	Georgia
Towns County Bank, Hiawassee, Georgia	Georgia
White County Bank, Cleveland, Georgia	Georgia
First Clayton Bancshares, Inc., Clayton, Georgia	Georgia
United Family Finance Co. (formerly Mountain Mortgage and Loan Company), Hiawassee, Georgia, Blue Ridge, Georgia and Murphy, North Carolina	Georgia

EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated March 6, 1998, accompanying the consolidated financial statements incorporated by reference in the Annual Report of United Community Banks, Inc. on Form 10-K for the year ended December 31, 1997. We hereby consent to the incorporation by reference of said report in the Registration Statement of United Community Banks, Inc. on Form S-8 (File No. 33-80885, effective December 27, 1995).

PORTER KEADLE MOORE, LLP

/s/ Porter Keadle Moore, LLP

Atlanta, Georgia
March 23, 1998

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UNITED COMMUNITY BANKS
1,000

YEAR
DEC-31-1997
DEC-31-1997
60,414
0
8,420
0
143,894
69,559
70,845
823,324
10,352
1,153
977,079
33,011
7,274
60,890
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0
7,385
67,728
1,153
76,722
11,416
1,642
89,780
42,868
46,548
43,232
2,634
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32,077
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15,501
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0
10,735
1.47
1.46
4.64
515
536
0
0
8,125
797
390
10,352
0
0
10,352

[UNITED COMMUNITY BANKS, INC. LOGO]

Notice of 1998 Annual Meeting

Proxy Statement

Annual Financial Statements
and Review of Operations

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March 24, 1998

Dear Shareholder:

It is my pleasure to invite you to attend the 1998 Annual Meeting of Shareholders of United Community Banks, Inc. which will be held April 16, 1998 at The Brasstown Valley Resort, Trackrock Amphitheater, Highway 515, Young Harris, Georgia at 2:30 p.m. The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items of business which will be discussed during the meeting. A report to shareholders, containing certain financial information, is included as an appendix to the Proxy Statement.

To be sure that your vote is counted, we urge you to carefully review the Proxy Statement and vote your choices on the enclosed proxy card as soon as possible. If you wish to attend the meeting, any ballot that you submit at the meeting will supersede your proxy.

On behalf of the management, employees and directors of United Community Banks, Inc., I want to thank you for your continued support.

Sincerely,

Jimmy C. Tallent,
President and Chief Executive Officer

UNITED COMMUNITY BANKS, INC.
59 Highway 515
P.O. Box 398
Blairsville, Georgia 30512

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on April 16, 1998

The annual meeting of shareholders of United Community Banks, Inc. ("United") will be held on April 16, 1998 at 2:30 p.m. at The Brasstown Valley Resort, Trackrock Amphitheater, Highway 515, Young Harris, Georgia, for the purposes of considering and voting upon:

1. The election of eleven directors to constitute the Board of Directors to serve until the next annual meeting and until their successors are elected and qualified; and

2. Such other matters as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 18, 1998 will be entitled to notice of and to vote at the meeting or any adjournment thereof.

A Proxy Statement and a Proxy solicited by the Board of Directors are enclosed herewith. Please sign, date and return the Proxy promptly in the enclosed business reply envelope. If you attend the meeting you may, if you wish, withdraw your Proxy and vote in person.

Also enclosed as an appendix to the Proxy Statement is a report to shareholders, including United's audited annual financial statements, management's discussion and analysis of financial condition and results of operations, selected financial data, market and dividend data and certain other matters.

By Order of the Board of Directors,

Jimmy C. Tallent,
President and Chief Executive Officer

March 24, 1998

[BOXED ITEM]
PLEASE COMPLETE AND RETURN THE ENCLOSED PROXY PROMPTLY SO THAT YOUR VOTE MAY BE RECORDED AT THE MEETING IF YOU DO NOT ATTEND PERSONALLY.

UNITED COMMUNITY BANKS, INC.

59 Highway 515
P.O. Box 398
Blairsville, Georgia 30512

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of Proxies by the Board of Directors of United Community Banks, Inc. ("United" or the "Company") for use at the Annual Meeting of Shareholders of United to be held on April 16, 1998, and any adjournment thereof, for the purposes set forth in the accompanying notice of the meeting. The expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement, will be paid by United. Copies of solicitation materials may be furnished to banks, brokerage houses and other custodians, nominees and fiduciaries for forwarding to beneficial owners of shares of United's common stock, and normal handling charges may be paid for such forwarding services. In addition to solicitations by mail, directors and regular employees of United may solicit Proxies in person or by telephone. It is anticipated that this Proxy Statement and the accompanying Proxy will first be mailed to shareholders on approximately March 25, 1998.

The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on March 18, 1998. On that date, United had outstanding and entitled to vote 7,385,105 shares of common stock, par value $1.00 per share (the "Common Stock").

Any Proxy given pursuant to this solicitation may be revoked by any shareholder who attends the meeting and gives oral notice of his or her election to vote in person, without compliance with any other formalities. In addition, any Proxy given pursuant to this solicitation may be revoked before the meeting by delivering an instrument revoking it or a duly executed Proxy bearing a later date to the Secretary of United. If the Proxy is properly completed and returned by the shareholder and is not revoked, it will be voted at the meeting in the manner specified thereon. If the Proxy is returned but no choice is specified thereon, it will be voted for all the persons named below under the caption "Information About Nominees For Director".

The percentages outstanding of Common Stock are based on 7,646,209 shares of Common Stock, including 140,000 shares deemed outstanding pursuant to United's prime plus 1/4% Convertible Subordinated Payable-in-Kind Debentures due December 31, 2006 ("2006 Debentures") and presently exercisable options to acquire 121,604 shares.

United will furnish without charge a copy of its Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") for the fiscal year ended December 31, 1997, including financial statements and schedules, to any shareholder of record or any beneficial owner of its Common Stock as of March 18, 1998 who requests a copy of such report. Any request for the Form 10-K should be in writing and addressed to:

Lois Jones
59 Highway 515
P.O. Box 398
Blairsville, Georgia 30512

If the person requesting the report was not a shareholder of record on March 18, 1998, the request must include a representation that the person was a beneficial owner of United's Common Stock on that date. Copies of any exhibits to the Form 10-K will also be furnished on request and upon the payment of United's expense in furnishing the exhibits.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The following table sets forth as of December 31, 1997, beneficial ownership of United's Common Stock by each "person" (as that term is defined by the SEC) known by United to be the beneficial owner of more than 5% of United's voting securities and all directors and executive officers of United as a group.

Name and Address of Beneficial Owner	Number of Shares Owned Beneficially	Percent of Class
Robert L. Head, Jr. Blairsville Highway Blairsville, Georgia 30512	725,000 (1)	9.5%
W. C. Nelson, Jr. P.O. Box 127 Blairsville, Georgia 30512	689,783 (2)	9.0%
All directors and executive officers as a group (19 persons)	2,507,126 (3)	32.9%

(1) Includes 50,758 shares beneficially owned by Mr. Head as custodian for his children and 10,000 shares owned pursuant to the 2006 Debentures. Does not include 16,965 shares owned by Mr. Head's wife, for which he disclaims beneficial ownership.
(2) Includes 11,250 shares beneficially owned by a trust over which Mr. Nelson has voting power and 10,000 shares owned pursuant to the 2006 Debentures. Does not include 10,150 shares owned by Mr. Nelson's wife, for which he disclaims beneficial ownership.
(3) Includes presently exerciseable options to acquire 81,802 shares and 132,000 shares beneficially owned pursuant to the 2006 Debentures.

NOMINATION AND ELECTION OF DIRECTORS
(Proposal 1)

The Bylaws of United provide that the number of directors may range from eight to fourteen directors. The board of Directors of United has set the number of directors at eleven. The number of directors may be increased or decreased from the foregoing from time to time by the Board of Directors by amendment of the Bylaws, but no decrease shall have the effect of shortening the term of an incumbent director. The terms of office for directors continue until the next annual meeting and until their successors are elected and qualified.

Each Proxy executed and returned by a shareholder will be voted as specified thereon by the shareholder. If no specification is made, the Proxy will be voted for the election of the nominees named below to constitute the entire Board of Directors. In the event that any nominee withdraws or for any reason is not able to serve as a director, the Proxy will be voted for such other person as may be designated by the Board of Directors as a substitute nominee, but in no event will the Proxy be voted for more than eleven nominees. Management of United has no reason to believe that any nominee will not serve if elected. All of the nominees are currently directors of United.

Directors are elected by a plurality of the votes cast by the holders of the shares entitled to vote in an election at a meeting at which a quorum is present. A quorum is present when the holders of a majority of the shares outstanding on the record date are present at a meeting in person or by proxy. An abstention and a broker non-vote would be included in determining whether a quorum is present at a meeting, but would not have an effect on the outcome of a vote.

INFORMATION ABOUT NOMINEES FOR DIRECTOR

The following information as of December 31, 1997 has been furnished by the respective nominees for director. Except as otherwise indicated, each nominee has been or was engaged in his present or last principal employment, in the same or a similar position, for more than five years.

Name (Age)	Information About Nominee	Number of Shares Owned Beneficially (Percent of Class)
Jimmy C. Tallent (45)	President, Chief Executive Officer and Director of Union County Bank ("UCB") since 1984 and of United since 1987. Director of Carolina Community Bank, Murphy, North Carolina ("Carolina") since 1990, of Peoples Bank of Fannin County ("Peoples") since 1992, of White County Bank ("White") since 1995, and of First Clayton Bank and Trust ("Clayton") since 1997. Chairman of the Board of Towns County Bank ("Towns") since 1992 and Chairman of the Board of White since 1995. Director of United Family Finance Co. ("Finance") since 1997.	148,672 (1.9%) (1)
Billy M. Decker (54)	Senior Vice President and Cashier of UCB from 1986 to 1990, Mr. Decker became President, Chief Executive Officer and a Director of Carolina in 1990. He has been a Director of United since 1988, a Vice President of United since 1992 and a Director of UCB since 1980. He has been Secretary of United since 1988.	134,767 (1.8%) (2)
Thomas C. Gilliland (49)	A Director of United since 1992 and Vice Chairman of the Peoples' Board since 1986, Mr. Gilliland became President and Chief Executive Officer of Peoples and Vice President of United in 1993 and was named Executive Vice President of United in 1994. Chairman of the Board of Finance since 1997.	177,650 (2.3%) (3)
Robert L. Head, Jr. (58)	Chairman of the Board of Directors of United since 1988, Mr. Head has served as a Director of UCB since 1973. Mr. Head operates Head Construction Company, a general construction firm, and Head-Westgate Corp., a construction and real estate development firm in Blairsville, Georgia. He also owns Mountain Building Supply in Blairsville, Georgia.	725,000 (9.5%) (4)

Charles E. Hill (60)	A Director of United since 1988 and of UCB since 1972, Mr. Hill is the Director of Pharmacy at Union General Hospital in Blairsville, Georgia.	170,977 (2.2%) (5)
Hoyt O. Holloway (58)	A Director of United since 1993 and of Peoples since 1986, Mr. Holloway owns H&H Farms, a poultry farm in Blue Ridge, Georgia.	48,085* (6)
P. Deral Horne (71)	A Director of Carolina since 1988 and of United since 1992, Mr. Horne owns Mountain and Valley Properties, a land development and sales business in Murphy, North Carolina.	30,000* (7)
John R. Martin (48)	A Director of United since 1997, a Director of Clayton since 1990, and Chairman of the Board of Directors of Clayton since 1996, Mr. Martin is also the owner of John Martin Construction and of several mini-warehouse facilities in northeast Georgia and western South Carolina, as well as being a registered pharmacist.	48,378*
Clarence W. Mason, Sr. (61)	Chairman of the Board of Directors of Peoples since 1986 and a Director of United since 1992, Mr. Mason owns Mason Tractor, a retail equipment sales operation in Blue Ridge, Georgia.	82,340 (1.1%) (8)
W. C. Nelson, Jr. (54)	A Director of United since 1988 and of UCB since 1975, Mr. Nelson is Vice Chairman of the United Board of Directors and owns Nelson Tractor Company, a retail equipment sales firm in Blairsville, Georgia.	689,763 (9.0%) (9)
Charles E. Parks (68)	A retired businessman, Mr. Parks is the former owner of Parks Lumber Co., a retail building supply firm located in Murrayville, Georgia.	102,109 (1.3%) (10)

* Less than one percent.

(1) Includes 10,000 shares beneficially owned by Mr. Tallent pursuant to the 2006 Debentures and 17,750 shares beneficially owned by Mr. Tallent pursuant to currently-exercisable options.

(2) Includes 10,000 shares beneficially owned by Mr. Decker pursuant to the 2006 Debentures and 7,100 shares beneficially owned by Mr. Decker pursuant to currently-exercisable options. Does not include 9,613 shares owned by Mr. Decker's wife, for which he disclaims beneficial ownership.

(3) Includes 6,270 shares beneficially owned by Mr. Gilliland as custodian for his children, 10,000 shares beneficially owned pursuant to the 2006 Debentures and 12,750 shares beneficially owned pursuant to currently exercisable stock options.

(4) Includes 50,758 shares beneficially owned by Mr. Head as custodian for his children and 10,000 shares owned pursuant to the 2006 Debentures. Does not include 16,965 shares owned by Mr. Head's wife, for which he disclaims beneficial ownership.

(5) Includes 10,000 shares beneficially owned by Mr. Hill pursuant to the 2006 Debentures. Does not include 88,932 shares owned by Mr. Hill's wife, for which he disclaims beneficial ownership.

(6) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures and 35,565 beneficially owned by Holloway Motors, Inc., a company 100% owned by Mr. Holloway. Does not include 485 shares owned by Mr. Holloway's wife, for which he disclaims beneficial ownership.
(7) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures.
(8) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures.
(9) Includes 11,250 shares beneficially owned by a trust over which Mr. Nelson has voting power and 10,000 shares owned pursuant to the 2006 Debentures; does not include 10,150 shares owned by Mr. Nelson's wife, for which he disclaims beneficial ownership.
(10) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures.

There are no family relationships between any director, executive officer or nominee for director of United or any of its subsidiaries.

EXECUTIVE COMPENSATION

The table below sets forth the annual and other compensation paid by United and its bank subsidiaries to the following persons who served in the designated offices during 1997: Jimmy C. Tallent, President and Chief Executive Officer of United and UCB, Billy M. Decker, Senior Vice President of United, Guy Freeman, President and Chief Executive Officer of Carolina and Senior Vice President of United, Thomas C. Gilliland, President and Chief Executive Officer of Peoples and Executive Vice President of United, Christopher J. Bledsoe, Senior Vice President and Chief Financial Officer of United and UCB (individually a "Named Executive Officer, collectively, the "Named Executive Officers").

Name and Principal Offices Held During 1997	Annual Compensation				Long-Term Compensation	
	Year	Salary	Bonus	Other	Securities Underlying Options	All Other Compensation
Jimmy C. Tallent	1997	$215,000	$90,000	$32,875(1)	8,750	$27,058(2)
President and Chief Executive	1996	$188,650	$65,000	$10,000(1)	8,750	$23,781
Officer of United and UCB	1995	$167,200	$57,000	$ 9,000(1)	12,500	$21,085
Thomas C. Gilliland	1997	$157,500	$42,500	$ 5,400(1)	5,250	$13,388(3)
President and Chief Executive	1996	$142,188	$35,000	$ 6,400(1)	5,250	$12,086
Office of Peoples; Executive	1995	$132,563	$30,000	$ 5,400(1)	7,500	$ 6,628
Vice President of United						
Billy M. Decker	1997	$117,700	$30,000	$18,600(1)	3,500	$14,359(3)
Senior Vice and Secretary of United	1996	$107,500	$35,500	$10,000(1)	3,500	$13,115
	1995	$ 98,010	$30,000	$ 8,100(1)	5,000	11,957
Guy W. Freeman						
President and Chief Executive	1997	$139,200	$40,000	7,000(1)	10,000	$16,982(3)
Officer of Carolina; Senior	1996	$117,500	$20,000	3,850(1)	3,500	$14,335
Vice President of United	1995	$ 87,929(4)	$10,000	1,400(1)	5,000	--
Christopher J. Bledsoe(5)	1997	$102,500	$25,000	--	3,500	$12,505(3)
Senior Vice President and Chief	1996	$ 91,500	$20,500	--	3,500	$11,163
Financial Officer of United and UCB	1995	$ 80,000	$17,000	--	5,000	$ 9,760

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(1) Directors' fees for service on United's bank subsidiaries' boards of directors. Other perquisites do not meet the Securities and Exchange Commission threshold for disclosure.
(2) Represents a contribution by United of $26,230 on behalf of Mr. Tallent to United's Profit Sharing Plan and insurance premiums of $828 paid by UCB on behalf of Mr. Tallent on a life insurance policy.
(3) Represents United's contribution on behalf of the named individual to United's Profit Sharing Plan.

(4) Mr. Freeman commenced employment with United and its subsidiaries in March 1995. Mr. Freeman beneficially owns 26,618 shares of Common Stock.
(5) Mr. Bledsoe beneficially owns 18,886 shares of Common Stock.

United has never granted restricted stock, stock appreciation rights or similar awards to any of its present or past executive officers, other than awards of stock options under the United Community Banks Key Employee Stock Option Plan.

Directors of United, other than a President or Vice President of a bank subsidiary who serves on United's Board of Directors, received $1,000 per board meeting attended during 1997. Certain members of United's Board of Directors also serve as members of one or more of the Boards of Directors of United's bank subsidiaries, for which they are compensated by the bank subsidiaries.

Option Grants In Last Fiscal Year

The following table sets forth information concerning stock options granted to the Named Executive Officers under the Plan during fiscal year 1997 and the projected value of those options at assumed annual rates of appreciation.

	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)		
Name	Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year	Expiration Date	0%	5%	10%
Jimmy C. Tallent	8,750	16%	1/1/07	$0	$121,100	$306,775
Thomas C. Gilliland	5,250	9%	1/1/07	$0	$ 72,660	$184,065
Billy M. Decker	3,500	6%	1/1/07	$0	$ 48,440	$122,710
Guy W. Freeman	10,000	18%	1/1/07	$0	$138,400	$350,600
Christopher J. Bledsoe	3,500	6%	1/1/07	$0	$ 48,440	$122,710

(1) 20% of the options were vested at the date of grant and an additional 20% vest at each of the first four anniversaries of the date of grant. Exercise price of the options is $22.00 per share, the fair market value on the date of grant of the options.
(2) "Potential Realizable Value" is disclosed in response to SEC regulations that require such disclosure for illustration only. The values disclosed are not intended to be, and should not be interpreted as, representations or projections of the future value of United's Common Stock or of the stock price. Amounts are calculated at 0%, 5% and 10% assumed appreciation of the value of the Common Stock (compounded annually over the option term) and are not intended to forecast actual expected future appreciation, if any, of the Common Stock. The potential realizable value to the optionee is the difference between the exercise price and the appreciated stock price at the assumed annual rates of appreciation multiplied by the number of shares underlying the options.

Option Fiscal Year-End Values

Shown below is information with respect to unexercised options to purchase the Common Stock granted under the Plan to the Named Executive Officers and held by them at December 31, 1997. No options were exercised during 1997 by a Named Executive Officer.

Fiscal Year-End Option Values

Name	Number of Unexercised Options at Fiscal Year End Exercisable/Unexercisable (#)	Value of Unexercised in the Money Options at Fiscal Year End ($)(1)
Jimmy C. Tallent	17,750/12,250	$306,000
Thomas C. Gilliland	10,650/7,350	$183,600
Billy M. Decker	7,100/4,900	$122,400
Guy W. Freeman	8,400/10,100	$132,800
Christopher J. Bledsoe	7,100/4,900	$122,400

(1) Based on $30.00 per share, the last sale price known to United during 1997. United's Common Stock is not publicly traded.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Stephen L. Cockerham, Senior Vice President and Chief Credit Officer of the Company and United, inadvertently failed to file on a timely basis a Form 4 reporting the purchase of Company Common Stock.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Board of Directors of United reviewed the compensation of Messrs. Tallent, Gilliland, Freeman, Decker and Bledsoe and of United's other executive officers for the 1997 fiscal year. Although all members of the Board of Directors participated in deliberations regarding the salaries of executive officers, none of such officers participated in any decisions regarding his own compensation as an executive officer.

UCB and Carolina have retained the services of a construction company operated by Robert L. Head, Jr., who is Chairman of the Board of Directors of United and a director of UCB. During 1997, UCB and Carolina made payments of approximately $1.2 million to such construction company

The Banks have had, and expect to have in the future, banking transactions in the ordinary course of business with directors and officers of United and their associates, including corporations in which such officers or directors are shareholders, directors and/or officers, on the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with unaffiliated third parties. Such transactions have not involved more than the normal risk of collectability or presented other unfavorable features.

JOINT REPORT ON EXECUTIVE COMPENSATION

General

Under rules established by the SEC, United is required to provide certain information with respect to compensation provided to United's President and Chief Executive Officer and to United's other executive officers. The SEC regulations require a report setting forth a description of United's executive compensation policy in general and the considerations that led to the compensation decisions affecting Mr. Tallent, Mr. Gilliland, Mr. Decker, Mr. Freeman and Mr. Bledsoe. In fulfillment of this requirement, the Board of Directors and Compensation Committee has prepared the following report for inclusion in this Proxy Statement.

The fundamental policy of United's compensation program is to offer competitive compensation and benefits for all employees, including the President and Chief Executive Officer and the other officers of United, in order to compete for and retain talented personnel who will lead United in achieving levels of financial performance which enhance shareholder value. United's executive compensation package historically has consisted of salary, annual incentive compensation, matching profit sharing contributions and other customary fringe benefits. The grant of stock options under the Plan is also a part of United's compensation package for certain executive officers, including the Named Executive Officers.

Salary

All members of the Board of Directors of United participated in deliberation regarding salaries of executive officers. Although subjective in nature, factors considered by the Board in setting the salaries of executive officers (other than Mr. Tallent) were Mr. Tallent's recommendations, compensation paid by comparable banks to their executive officers (although such information was obtained informally and United did not attempt to pay any certain percentage of salary for comparable positions with other banks), each executive officer's performance, contribution to United, tenure in his or her position, and internal comparability considerations. The Board of Directors set the salary of Mr. Tallent based on Mr. Tallent's salary during the preceding fiscal year, his tenure, the salaries of chief executive officers of comparable banks (although such information was obtained informally and United did not attempt to pay any certain percentage of salary for a comparable position with other banks) and the increase in earnings of United in recent years. The Board did not assign relative weights to the factors considered in setting salaries of executive officers, including Mr. Tallent.

Annual Incentive Compensation

Annual incentive compensation for 1997, paid in the form of a cash bonus during the fourth quarter of the fiscal year, was based on annual financial results of United's bank subsidiaries, including general targets with respect to net earnings and return on average assets. Cash bonuses were granted by the Board to Mr. Tallent, and the Board set a range of bonuses (based on a percentage of salary) for all employees other than Mr. Tallent, within which range Mr. Tallent determined each officer's bonus, based on individual performance.

Key Employee Stock Option Plan

Options to acquire 79,704 shares of Common Stock were awarded under the Plan in fiscal 1997, including options to acquire 31,000 shares of Common Stock awarded to the Named Executive Officers by the Compensation Committee.

United Community Banks, Inc. Board of Directors

Jimmy C. Tallent	Hoyt O. Holloway
Billy M. Decker	P. Deral Horne
Thomas C. Gilliland	John R. Martin
Robert L. Head, Jr.	Clarence W. Mason, Sr.
Charles E. Hill	W. C. Nelson, Jr.
	Charles E. Parks

Compensation Committee of the Board of Directors

Robert L. Head, Jr.	John R. Martin
Charles E. Hill	Clarence W. Mason, Sr.
Hoyt O. Holloway	W. C. Nelson, Jr.
P. Deral Horne	Charles E. Parks

SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United's Common Stock against the cumulative total return on The Nasdaq Stock Market (U.S. Companies) Index and The Nasdaq Bank Stocks Index for the period commenced on June 28, 1993, the date on which United's Common Stock was registered under the Securities Exchange Act of 1934, as amended, and ended on December 31, 1997. United's Common Stock is not publicly traded; therefore, the total shareholder return is based on stock trades known to United during the period presented.

[PERFORMANCE GRAPH GOES HERE]

	Cumulative Total Return					
	6/93	12/93	12/94	12/95	12/96	12/97
UNITED COMMUNITY BANKS INC.	100.00	118.96	186.79	300.79	396.57	569.36
NASDAQ STOCK MARKET (U.S.)	100.00	110.56	108.07	152.84	187.99	230.69
NASDAQ BANK	100.00	106.65	106.26	158.25	208.93	352.97

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The United Board of Directors held four meetings during 1997. All of the directors attended at least seventy-five percent (75%) of the meetings of the Board and meetings of the committees of the Board on which they sat that were held during their tenure as directors.

The Board of Directors does not have a standing audit or nominating committee. The compensation committee of the Board of Directors is comprised of all members of the Board who are not employees of the bank subsidiaries of United. The compensation committee makes compensation decisions for executive officers and key employees and administers the Plan.

INFORMATION CONCERNING UNITED'S ACCOUNTANTS

Porter Keadle Moore, LLP ("Porter Keadle") was the principal independent public accountant for United during the year ended December 31, 1997. Representatives of Porter Keadle are expected to be present at the annual meeting and will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions. United anticipates that Porter Keadle will be United's accountants for the current fiscal year.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at United's 1999 annual meeting must be received by December 12, 1998, in order to be eligible for inclusion in United's Proxy Statement and Proxy for that meeting.

OTHER MATTERS THAT MAY COME BEFORE THE MEETING

Management of United knows of no matters other than those stated above that are to be brought before the meeting. If any other matters should be presented for consideration and voting, however, it is the intention of the persons named as proxies in the enclosed Proxy to vote in accordance with their judgment as to what is in the best interest of United.

By Order of the Board of Directors,

Jimmy C. Tallent
President and Chief Executive Officer

APPENDIX A

GENERAL DESCRIPTION OF THE BUSINESS

United Community Banks, Inc. ("United") was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of Union County Bank ("UCB"). United is a registered bank holding company. All of United's activities are currently conducted by its wholly-owned subsidiaries, UCB, which was organized as a Georgia banking corporation in 1950, Carolina Community Bank, Murphy, North Carolina ("Carolina"), which United acquired in 1990, Peoples Bank, Blue Ridge, Georgia ("Peoples"), which United acquired in 1992, Towns County Bank, Hiawassee, Georgia ("Towns"), which United also acquired in 1992, White County Bank, Cleveland, Georgia ("White"), which United acquired in 1995, and First Clayton Bancshares, Inc. ("First Clayton"), which United acquired in 1997.

UCB, Carolina, Peoples, Towns, White and First Clayton (collectively, the "Banks") are community-oriented, with an emphasis on retail banking, and offer such customary banking services as customer and commercial checking accounts, NOW accounts, savings accounts, certificates of deposit, lines of credit, Mastercard and VISA accounts, money transfers and trust services. The Banks finance commercial and consumer transactions, make secured and unsecured loans, including residential mortgage loans, and provide a variety of other banking services. UCB also offers travel agency services for the Banks' customers.

The Mortgage People Company ("MPC"), a division of UCB, is a full-service mortgage lending operation approved as a seller/servicer for Federal National Mortgage Association and Federal Home Mortgage Corporation. MPC was organized to provide fixed and adjustable-rate mortgages. United Family Finance Company is a traditional consumer finance company which is based in Blue Ridge, Georgia and also has been granted a license to conduct business in Hiawassee, Georgia and Murphy, North Carolina.

UNITED COMMMUNITY BANKS, INC.

SELECTED FINANCIAL DATA

	1997	1996	1995	1994	1993
	(in thousands except per share data)				
FOR THE YEAR					
Net interest income	$ 43,232	33,815	25,015	20,067	16,024
Provision for loan losses	2,634	1,597	1,116	998	931
Noninterest income	6,980	5,666	4,523	3,962	3,918
Noninterest expense	32,077	24,843	19,204	15,125	12,810
Income taxes	4,766	4,114	2,549	2,205	1,592
Net earnings	10,735	8,927	6,669	5,701	4,609
PER COMMON SHARE					
Net earnings	1.47	1.29	1.03	0.91	0.74
Net earnings - assuming dilution	1.46	1.26	1.01	0.89	0.72
Cash dividends declared	0.10	0.10	0.08	0.09	0.06
Book value	10.17	8.14	7.09	5.56	4.76
AT YEAR END					
Loans	816,934	633,176	480,360	366,916	305,398
Earning assets	1,049,159	824,476	659,548	458,446	399,674
Assets	1,153,367	886,103	712,298	496,527	427,483
Deposits	977,079	773,300	637,832	427,998	378,920
Stockholders' equity	75,113	57,675	49,207	34,871	29,876
Common shares outstanding	7,385,105	7,084,621	6,945,081	6,274,903	6,278,900
AVERAGE BALANCES					
Loans	737,889	551,043	423,953	332,793	270,199
Earning assets	960,346	723,994	565,523	429,152	365,711
Assets	1,024,730	783,509	607,877	464,767	393,541
Deposits	894,200	695,391	538,518	408,645	351,526
Stockholders' equity	66,333	53,472	42,110	32,463	27,539
Weighted average shares outstanding	7,300,874	6,919,437	6,499,264	6,275,014	6,235,452
KEY PERFORMANCE RATIOS					
Return on average assets	1.05%	1.14%	1.10%	1.23%	1.17%
Return on average stockholders' equity	16.18%	16.69%	15.84%	17.56%	16.74%
Net interest margin, taxable equivalent	4.64%	4.85%	4.64%	4.93%	4.63%
Efficiency ratio	64.43%	62.93%	65.01%	62.92%	64.24%
Dividend payout ratio	6.51%	7.58%	8.82%	9.89%	8.11%
Average equity to average assets	6.47%	6.82%	6.93%	6.98%	7.00%

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

General

United was incorporated under the laws of Georgia in 1987 and commenced operations in 1988 by acquiring 100% of the outstanding shares of UCB. United is a registered bank holding company. All of United's activities are currently conducted by its wholly-owned subsidiaries, UCB, which was organized as a Georgia banking corporation in 1950, Carolina, which United acquired in 1990, Peoples, which United acquired in 1992, Towns, which United also acquired in 1992, White which United acquired in 1995 and First Clayton, which United acquired in 1997.

The following discussion focuses on significant changes in the financial condition and results of operations of United and the Banks during the three years ended December 31, 1997. The discussion and analysis is intended to supplement and highlight and should be read in conjunction with information contained in the accompanying consolidated financial statements.

Year 2000 Considerations

The Company is aware of the issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" (Y2K) issue is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two-digit value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The Company is utilizing both internal and external resources to identify, correct or reprogram, and test the systems for Y2K compliance. It is anticipated that all mainframe systems will be Y2K certified no later than the third quarter of 1998, allowing adequate time for testing during 1999. To date, confirmation has been received from the Company's primary processing vendors that plans are being developed to address processing of transactions in the year 2000.

Management has not yet fully determined the Y2K compliance expense and related potential effect on the Company's earnings; however, direct costs are not expected to be material to the consolidated results of operations and will be expensed as incurred. Expenses in 1997 related to the Y2K issue were not material to the financial results of operations.

Restatement of Financial Statements and Management's Discussion and Analysis

Effective September 12, 1997, United completed the acquisition of First Clayton Bancshares, Inc., the parent company of the $73 million First Clayton Bank and Trust in Clayton, Georgia. United issued 646,257 shares of its common stock and paid approximately $7,000 for fractional shares in connection with this acquisition. The acquisition was accounted for as a pooling of interests and accordingly, the consolidated financial statements and management's discussion and analysis for all periods have been restated to include the financial position and results of operations as if the combination had occurred at the beginning of the earliest period presented.

Financial Highlights

Year Ended December 31, 1997. Net earnings totaled over $10.7 million for the year ended December 31, 1997, an increase of 20% from the $8.9 million earned in 1996. Net earnings per common share were $1.47 for 1997 compared to $1.29 reported for 1996, an increase of 14%. Return on average assets and return on average equity for the year ended December 31, 1997, were 1.05% and 16.18%, respectively. The 1996 return on average assets and return on average equity were 1.14% and 16.69%, respectively.

United's balance sheet grew 30% during the year as assets ended the year at $1.2 billion. Net loans increased 30% during the year and deposits grew over 26%. The increases in both loans and deposits reflect a strong economic environment as well as market share gains from competition. Stockholders' equity increased to $75.1 million and represented 7% of year end assets.

Capital Issues

In March 1997, United completed an offering to the public of 300,000 shares of United common stock registered under the Securities Act of 1933, pursuant to which $6.5 million in additional capital was raised after deducting certain issuance costs. United used the proceeds of the offering primarily to invest additional capital in UCB, Carolina and Towns to support the asset growth that the banks are experiencing.

On December 31, 1996, United completed a private placement of convertible subordinated payable-in-kind debentures due December 31, 2006 (the "2006 Debentures"). The 2006 Debentures bear interest at the rate of one quarter of one percentage point over the prime rate per annum as quoted in the Wall Street Journal, payable on April 1, July 1, October 1 and January 1 of each year commencing on April 1, 1997, to holders of record at the close of business on the 15th day of the month immediately preceding the interest payment date. Interest is computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as applicable.

The 2006 Debentures may be redeemed, in whole or in part from time to time on or after January 1, 1998, at the option of United upon at least 20 days and not more than 60 days notice, at a redemption price equal to 100% of the principal amount of the Debentures to be redeemed plus interest accrued and unpaid as of the date of redemption. The holders of the 2006 Debentures not redeemed will have the right, excercisable at any time up to December 31, 2006, to convert such debenture at the principal amount thereof into shares of Common Stock of United at the conversion price of $25 per share, subject to adjustment for stock splits and stock dividends.

In August 1995, United completed an offering to the public of 215,515 shares of United Common Stock registered under the Securities Act of 1933 pursuant to which $2,434,000 in additional capital was raised. United used the proceeds of the offering primarily to invest additional capital in Carolina and Towns. The additional capital for Towns was used to support the asset growth experienced by Towns. The additional capital for Carolina was necessitated by Carolina's asset growth and the acquisition of the Franklin and Waynesville branch banking offices.

Expansions during 1997

In addition to the purchase of First Clayton, other United subsidiaries expanded in their respective surrounding areas. Carolina created de novo branch offices in the Western North Carolina cities of Bryson City, Brevard and Cashiers. Subsequent to December 31, 1997, Carolina has applied for and has received approval to open a branch in Etowah, North Carolina. Peoples entered into a purchase and assumption agreement to acquire certain assets and assume certain liabilities of a branch of another bank located in Ellijay (Gilmer County), Georgia. The Ellijay branch purchase was consummated in January of 1998.

Effective January 30, 1998, United's subsidiary, Peoples, assumed deposits totaling $23 million and purchased certain assets totaling $4 million of a branch in Ellijay, Georgia.

Expansions prior to 1997

Effective July 1, 1996, the Georgia bank branching laws were amended to permit subsidiary banks of Georgia bank holding companies to branch in an aggregate of three additional locations prior to July 1, 1998, after which time statewide branching will be permitted. On July 1, 1996, UCB changed its name from Union County Bank to United Community Bank and established a branch office in Dahlonega, Lumpkin County, Georgia. UCB simultaneously filed a tradename filing to permit it to conduct its operations in Union County, Georgia under the tradename Union County Bank. On September 28, 1996, UCB assumed deposits of $23.7 million and purchased assets of $33.2 million in Cornelia, Habersham County, Georgia, from a banking institution which sold off its operations in the county. In Habersham County, UCB operates under the trade name of First Bank of Habersham, and in Lumpkin County, UCB does business as United Community Bank. On July 1, 1996, Carolina opened a loan production office in Sylva, North Carolina.

In 1995, United's subsidiary, Carolina, assumed deposits totaling $32 million and purchased certain assets totaling $12 million of three branch banks in the Western North Carolina cities of Andrews, Franklin and Waynesville.

Effective August 31, 1995, United completed the acquisition of White County Bancshares, Inc., the parent company of the $71 million asset, White County Bank in Cleveland, Georgia. United issued 455,400 shares of its common stock in addition to a previously issued exchangeable payable in kind debenture for all of the issued and outstanding shares of White. This transaction was accounted for as a purchase.

Net Interest Income

Net interest income (the difference between the interest earned on assets and the interest paid on deposits and liabilities) is the single largest component of United's operating income. United actively manages this income source to provide the largest possible amount of income while balancing interest rate, credit, and liquidity risks.

Net interest income, on a taxable equivalent basis, was $44.6 million in 1997, compared to $35.1 million in 1996 and $26.2 million in 1995. The 27% increase in 1997 was primarily the result of increased volume of net earning assets.

Interest income increased over 32% in 1997 and 27% in 1996. The increase in 1997 was again primarily a result of an increase in interest and fees on loans of over $18.6 million. Interest on investment securities and other earning assets increased $3.3 million or 29%.

Average earning assets in 1997 increased 33% when compared to 1996 due to increases in average loans of $186.8 million and average investment securities of $41.0 million. An increase in average earning assets of 28% was experienced in 1996 over 1995 primarily due to increases in average loans of $127.1 million. Table 1 represents net interest income, yields and rates on a taxable-equivalent basis and average balances for the years 1997, 1996 and 1995.

Table 1 - Consolidated Average Balances, Interest and Rates
Taxable Equivalent Basis
(dollars in thousands)

	Years Ended December 31,								
	1997			1996			1995		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
Interest earning assets:									
Federal funds sold	$ 29,741	1,642	5.52%	20,303	1,096	5.40%	20,903	1,315	6.29%
Interest bearing deposits with other banks	--	--	--	918	102	11.11%	286	4	1.40%
Investment securities:									
Taxable	148,390	9,097	6.13%	115,480	6,735	5.83%	87,378	5,354	6.13%
Tax-exempt	44,326	3,514	7.93%	36,250	3,022	8.34%	33,003	2,894	8.77%
Total investment securities	192,716	12,611	6.54%	151,730	9,757	6.43%	120,381	8,248	6.85%
Loans:									
Taxable	733,655	76,452	10.42%	544,247	57,495	10.56%	418,015	44,196	10.57%
Tax-exempt	4,234	408	9.64%	6,796	732	10.77%	5,938	653	11.00%
Total loans	737,889	76,860	10.42%	551,043	58,227	10.57%	423,953	44,849	10.58%
Total interest earning assets	960,346	91,113	9.49%	723,994	69,182	9.56%	565,523	54,416	9.62%
Allowance for loan losses	(9,304)			(7,530)			(5,678)		
Cash and due from banks	28,542			21,396			17,374		
Premises and equipment	23,194			18,097			15,032		
Other assets	21,952			27,552			15,626		
Total assets	$1,024,730			783,509			607,877		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Deposits:									
Demand	$ 176,054	6,712	3.81%	169,811	5,445	3.21%	104,403	3,833	3.67%
Savings	43,286	1,190	2.75%	41,834	1,147	2.74%	35,236	1,100	3.12%
Time	579,398	34,966	6.03%	410,656	25,569	6.23%	345,144	21,396	6.20%
Federal funds purchased	3,229	184	5.70%	947	51	5.39%	975	56	5.74%
FHLB advances	39,615	2,382	6.01%	17,237	981	5.69%	11,889	899	7.56%
Notes payable	10,803	810	7.50%	10,291	808	7.85%	9,537	820	8.60%
Convertible subordinated debentures	3,500	304	8.69%	1,000	90	9.00%	1,000	90	9.00%
Total interest bearing liabilities	855,885	46,548	5.44%	651,776	34,091	5.23%	508,184	28,194	5.55%
Noninterest bearing demand deposits	95,462			73,090			53,735		
Other liabilities	7,050			5,171			3,848		
Stockholders' equity	66,333			53,472			42,110		
Total liabilities and stockholders' equity	$1,024,730			783,509			607,877		
Net interest income		44,565			35,091			26,222	
Net interest spread			4.05%			4.33%			4.07%
Net interest margin			4.64%			4.85%			4.64%
Taxable equivalent adjustments:									
Loans		138			249			223	
Investment securities		1,195			1,027			984	
Total taxable equivalent adjustments		1,333			1,276			1,207	
Net interest income		$43,232			33,815			25,015	

Consolidated Average Balances, Interest and Rates

The banking industry uses two key ratios to measure relative profitability of net interest income. The net interest rate spread measures the difference between the average yield on earning assets and the average rate paid on interest bearing sources of funds. 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 income as a percent of average total earning assets and takes into account the positive impact of investing non-interest bearing deposits.

The net interest spread was 4.05% in 1997, 4.33% in 1996 and 4.07% in 1995, while the net interest margin was 4.64% in 1997, 4.85% in 1996 and 4.64% in 1995. The decrease in the margin and spread are primarily due to a decrease in core deposits relative to total funding sources. Core deposits represent approximately 33% of total deposits in 1997, a decrease from 39% in 1996. Table 2 shows the change in net interest income for the past two years due to changes in volumes and rate.

Table 2 - Rate/Volume Variance Analysis
Taxable Equivalent Basis
(dollars in thousands)

	1997 Compared to 1996 Increase (decrease) due to changes in			1996 Compared to 1995 Increase (decrease) due to changes in		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
Interest earned on:						
Federal funds sold	$ 511	35	546	$ (32)	(186)	(218)
Interest bearing deposits with other banks	(101)	--	(101)	70	28	98
Investment securities:						
Taxable	1,935	427	2,362	1,639	(257)	1,382
Tax-exempt	687	(195)	492	271	(143)	128
Loans:						
Taxable	19,998	(1,041)	18,957	13,335	(36)	13,299
Tax-exempt	(272)	(52)	(324)	92	(13)	79
Total interest income	22,758	(826)	21,932	15,375	(607)	14,768
Interest paid on:						
Deposits:						
Demand	275	992	1,267	2,097	(485)	1,612
Savings	39	4	43	181	(134)	47
Time	10,605	(1,208)	9,397	4,079	94	4,173
Federal funds purchased	123	10	133	(2)	(3)	(5)
FHLB advances	1,280	121	1,401	304	(222)	82
Notes payable	130	(128)	2	59	(71)	(12)
Convertible subordinated debentures	225	(11)	214	--	--	--
Total interest expense	12,677	(220)	12,457	6,718	(821)	5,897
Net interest income	$10,081	(606)	9,475	8,657	214	8,871

Noninterest Income

Noninterest income consists primarily of revenues generated from service charges and fees on deposit accounts, mortgage loan and related fees and profits earned through sales of credit life insurance. In addition, gains or losses realized from the sale of investment portfolio securities are included in noninterest income. Total noninterest income for 1997 increased 23% or $1.3 million, with $439 thousand of the increase due to an increase in gains recognized on sales of investment securities during 1997 and a $515 thousand increase in service charges on demand deposits. Noninterest income for 1996 increased 25% or $1.1 million, more than $823 thousand of which was contributed as a result of an increase in service charges on demand deposits.

The growth in non-interest income was the result of United's continuing efforts to build stable sources of fee income, which includes services charges on deposits and mortgage loan and related fees. This growth is being accomplished through the building of customer market share and expansion of United's locations.

The primary contributor to non-interest income growth in both 1997 and 1996 was the continued growth in service charges on deposits. Fee income from service charges on deposit accounts increased over 17% in 1997 following a 38% increase in 1996. The growth in the number of accounts due to the branch expansions into new markets was the primary contributor to the increased levels of income for both years.

Net gains on sales of investment securities in 1997 increased $439 thousand from 1996 levels as management liquidated more investment securities to meet loan demand.

Mortgage loan and related fee income decreased 26% or $409 thousand during 1997 as compared to 1996 as the volume of loans originated and serviced decreased significantly from prior years.

Noninterest Expense

Noninterest expenses for 1997 increased 29% following an increase of 29% in 1996. The increase was primarily due to the start up costs in new markets. Salaries and employee benefits increased 32% in 1997 compared to 1996 due to employee additions resulting from the branch expansions together with the increases required to maintain continued growth.

Occupancy expense increased over $1.2 million or 32% in 1997 following a 21% increase in 1996. The increase for both years is due to the new physical locations associated with the new branches.

Other non-interest expenses, including advertising and stationery and supplies, increased $1.8 million or 22% compared to a 37% increase in 1996. Increases in both years are generally associated with expansion into new markets by branching. Management continues to emphasize the importance of expense management and productivity throughout United in order to further decrease the cost of providing expanded banking services to a growing market base.

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 income. The investment 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.

During 1997, gross investment securities sales were $32.1 million as compared to $18.1 million during 1996. Maturities and paydowns were $40.5 and $54.6 million, representing 21% and 36%, respectively, of the average total portfolio for the year. Net gains associated with the sales were approximately $426 thousand during 1997 with net losses of $13 thousand during 1996, accounting for less than 10% of non-interest income. Gross unrealized gains in the total portfolio amounted to approximately $2.8 million at December 31, 1997, and gross unrealized losses amounted to approximately $189 thousand.

Total average investment securities, including those available for sale, increased 27% during 1997. Average investment securities during 1996 increased 26% from the 1995 average levels.

Table 3 reflects the carrying amount of the investment securities portfolio for the past three years.

Table 3 - Carrying Value of Investments
(dollars in thousands)

	December 31,		
	1997	1996	1995
Securities held to maturity:			
U.S. Treasuries	$ 500	2,368	7,124
U.S. Government agencies	22,361	34,804	42,488
State and political subdivisions	42,330	33,036	28,055
Mortgage backed securities	4,368	7,118	7,937
	69,559	77,326	85,604
Securities available for sale:			
U.S. Treasuries	46,945	12,841	25,776
U.S. Government agencies	45,552	38,953	30,634
State and political subdivisions	11,860	6,833	6,595
Mortgage backed securities	33,347	18,635	4,290
Other	6,190	4,002	2,855
	143,894	81,264	70,150
Total	$213,453	158,590	155,754

Carrying Value of Investments

The December 31, 1997, market value of securities held to maturity, as a percentage of amortized cost was 102%, up from 100% at December 31, 1996. The market value of the portfolio of securities held to maturity will change as interest rates change and such unrealized gains or losses will not flow through the financial statements unless the related securities are called at prices which differ from the carrying value at the time of call.

United utilizes its investment portfolio to offset some of the natural mismatch of interest rate risk inherent in the loan and deposit portfolios. United experienced strong loan demand at all the Banks so there was little need for investments solely to augment income or utilize uninvested deposits.

United's investment portfolio consists of U.S. Government and agency securities, municipal securities, various equity securities and Government agency sponsored mortgage-backed securities. A mortgage-backed security relies on the underlying mortgage pools of loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because these borrowers may have the right to prepay obligations with or without prepayment penalties. Decreases in interest rates will generally cause prepayments to accelerate. In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets which have comparable yields. However, because the majority of the mortgage-backed securities have adjustable rates, the negative effects of changes in interest rates on earnings and the carrying values of these securities are mitigated. At December 31, 1997, United had 18% of its total investment portfolio in mortgage-backed pass-through securities, all of which are issued or backed by Federal agencies. At December 31, 1997, United did not have securities of any issuer in excess of 10% of equity.

Loans

During 1997, average net loans increased $186.8 million, or 34% and represented 77% of average interest earning assets and 72% of average total assets. This growth generally occurred proportionally among the various loan categories and can be attributed to additional products and services marketed to existing customers and business development efforts which resulted in market share gains from competitors.

The level of loans, when compared to the level of deposits, has been relatively strong over the last three years. The average loan to deposit ratio was 83%, 79% and 79% in 1997, 1996 and 1995, respectively.

Table 4 breaks down the composition of the loan portfolio for each of the past five years while Table 5 shows the amount of loans outstanding for selected categories as of December 31, 1997, with maturities based on the remaining scheduled repayments of principal.

Table 4 - Loan Portfolio
(dollars in thousands)

	December 31, 1997		1996		1995		1994		1993	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial, financial and agri-cultural	$105,462	12.8%	100,538	15.8%	64,727	13.6%	65,521	18.5%	49,192	16.9%
Real estate - construction	78,699	9.6%	51,425	8.1%	30,065	6.3%	20,274	5.7%	22,104	7.6%
Real estate - mortgage	523,629	63.6%	380,681	60.0%	294,724	62.1%	203,270	57.3%	163,940	56.2%
Consumer	115,534	14.0%	101,930	16.1%	85,341	18.0%	65,456	18.5%	56,551	19.3%
Total loans	823,324	100.0%	634,574	100.0%	474,857	100.0%	354,521	100.0%	291,787	100.0%
Less: Allowance for loan losses	10,352		8,125		6,884		4,230		3,464	
	$812,972		626,449		467,973		350,291		288,323	

Table 5 - Loan Portfolio Maturity
(dollars in thousands)

	Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total	Predetermined Interest Rate	Floating or Adjustable Rate
Commercial, financial and agri-cultural	$ 62,826	34,486	8,150	105,462	26,861	15,775
Real estate - construction	70,226	3,773	4,700	78,699	494	7,979
	$133,052	38,259	12,850	184,161	27,355	23,754

Provision and Allowance for Loan Losses

United manages asset quality and controls risk through diversification of the loan portfolio and the application of policies designed to foster sound underwriting and loan monitoring practices. United's loan administration function is charged with monitoring asset quality, establishing credit policies and procedures, and enforcing the consistent application of these policies and procedures across United.

The provision for loan losses is the annual cost of providing an adequate allowance for anticipated potential future losses on loans. The amount each year is dependent upon many factors including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of loan portfolio quality, the value of collateral, and economic factors and trends.

Reviews of non-performing, 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 made on a regular basis during the year. These reviews are made by the responsible lending officers, as well as a separate credit administration 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, and other factors, including prevailing and anticipated economic conditions.

Whenever a loan, or portion thereof, is considered by management to be uncollectible, it is charged against the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Banks' allowance for loan losses. Such agencies may require the Banks to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

The provision for loan losses increased 65% in 1997 compared to 1996 and increased 43% in 1996 compared to 1995. The allowance for loan losses as a percentage of total loans remained stable at 1.26% at December 31, 1997 compared to 1.28% at December 31, 1996. The increase in the provision for loan losses is a result of the large increase in loans outstanding during 1997.

Net loan charge-offs for 1997 increased 14% compared to 1996, although the average balance of loans increased 34%. United does not currently allocate the allowance for loan losses to the various loan categories. Net charge-offs during 1998 are expected to approximate those experienced during 1997.

Table 6 sets forth information with respect to United's allowance for loan losses for each of the last five years.

Table 6 - Analysis of the Allowance for Loan Losses
(dollars in thousands)

	Years Ended December 31,				
	1997	1996	1995	1994	1993
Allowance for loan losses at beginning of year	$ 8,125	6,884	4,231	3,465	2,776
Charge-offs:					
Commercial, financial and agricultural	73	329	148	27	6
Real estate - construction	--	--	24	--	--
Real estate - mortgage	99	13	337	49	54
Consumer	625	353	192	262	286
Total charge-offs	797	695	701	338	346
Recoveries:					
Commercial, financial and agricultural	22	251	157	6	1
Real estate - construction	--	--	--	--	--
Real estate - mortgage	224	39	188	1	28
Consumer	144	49	80	99	75
Total recoveries	390	339	425	106	104
Net charge-offs	407	356	276	232	242
Provisions charged to earnings	2,634	1,597	1,116	998	931
Allowance for loan losses acquired from White	--	--	1,813	--	--
Balance at end of year	$10,352	8,125	6,884	4,231	3,465
Ratio of net charge-offs to average loans outstanding during the period	0.06%	0.06%	0.07%	0.07%	0.09%

Asset Quality

Non-performing assets, comprised of nonaccrual loans, other real estate owned and loans for which payments are more than 90 days past due totaled $1.4 million compared to $1.7 million at year end 1996.

It is the general policy of the Banks to stop accruing interest income and place the recognition of interest on a cash basis when a loan is placed on nonaccrual status and any interest previously accrued but not collected is reversed against current income unless the collateral for the loan is sufficient to cover the accrued interest or a guarantor assures payment of interest. Loans made by the Banks to facilitate the sale of other real estate are made on terms comparable to loans of similar risk. An adequate investment by the buyer is required prior to the removal of other real estate from non-performing assets.

There were no commitments to lend additional funds on nonaccrual loans at December 31, 1997. Table 7 summarizes United's non-performing assets for each of the last five years.

Table 7 - Risk Elements
(dollars in thousands)

			December 31,		
	1997	1996	1995	1994	1993
Loans on nonaccrual	$ 515	984	2,017	569	585
Loans 90 days past due	536	487	291	102	219
Other real estate	386	210	65	--	--
Total non-performing assets	$1,437	1,681	2,373	671	804
Total non-performing loans as a percentage of loans	0.13%	0.23%	0.49%	0.19%	0.28%
Loans 90 days past due as a percentage of loans	0.07%	0.08%	0.06%	0.03%	0.08%

Risk Elements

There may be additional loans within United's portfolio that may become classified as conditions dictate; however, management was not aware of any such loans that are material in amount at December 31, 1997. At December 31, 1997, management was unaware of any known trends, events or uncertainties that will have, or that are reasonably likely to have a material effect on United's liquidity, capital resources or operations.

Deposits

All major categories of average interest bearing deposits increased during 1997. The largest dollar increase in average interest bearing deposits was in the time deposit category, rising over $168.7 million or 41% during 1997 as compared to 1996 followed by the increase in average interest bearing demand deposits of $6.2 million or 4%. Average non-interest bearing demand deposits increased $22.4 million or 31% after increasing 36% during 1996. The increases were primarily a result of internally generated growth, as well as the previously discussed expansions. Savings deposits, interest bearing demand deposits and non-interest bearing demand deposits comprised 35% of total average deposits during 1997. For 1996, these lower cost deposits comprised 41% of total average deposits. The maturities of time deposits of $100,000 or more issued by the Banks at December 31, 1997, are summarized in the following table:

Table 8 - Maturities of Time Deposits Over $100,000
(dollars in thousands)

Three months or less	$ 49,895
Over three months through six months	41,867
Over six months through twelve months	36,577
Over twelve months	28,464
	$156,803

At December 31, 1997, five of the Banks were shareholders in the Federal Home Loan Bank of Atlanta. Through this affiliation, advances totaling $43.3 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 to minimize interest rate risk and provide competitive, long-term fixed rate loans to its customers.

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 income 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.

During 1997 and 1996, United used derivative financial instruments to a limited extent in its interest rate risk management. Interest rate swap contracts with an aggregate notional amount of $35 million extending through various dates in 1998 and 1999 were executed to effectively convert certain fixed rate liabilities to variable rates. From October 1, 1996, through December 1997, United converted the effective interest rate of certain deposit liabilities from 7.25% to 6.46% with the execution of the swap agreements. Additionally, United entered into an interest rate floor contract for the notional amount of $50 million extending through January 1998. For a one time premium upon the execution of the contract, the floor agreement reduces United's interest rate risk in the event of rate declines below a predetermined level. Notional amounts of the swap and floor contracts only represent the basis for exchange of the cash flows and do not represent credit risk. Credit risk is limited to the positive market value of the derivative at a given date. United anticipates continued use of derivative interest rate contracts when appropriate in its asset-liability rate management.

United uses income simulation modeling as the primary tool in measuring interest rate risk and managing interest rate sensitivity. Simulation modeling considers not only the impact of changing market rates of interest on future net interest income, but also such other potential causes of variability as earning asset volume, mix, yield curve relationships, customer preferences and general market conditions.

Interest rate sensitivity is a function of the repricing characteristics of United's portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate movements on net interest income. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in United's current portfolio that are subject to repricing at various time horizons: immediate, one to three months, four to twelve months, one to five years, over five years, and on a cumulative basis. The differences are known as interest sensitivity gaps. Table 9 shows interest sensitivity gaps for these different intervals as of December 31, 1997.

Table 9 - Interest Rate Sensitivity Analysis
(dollars in thousands)

	December 31, 1997					
	Immediate	One Through Three Months	Four Through Twelve Months	One Through Five Years	Over Five Years and Non-Rate Sensitive	Total
Interest earning assets:						
Federal funds sold	$ 8,420	--	--	--	--	8,420
Investment securities	--	6,464	21,334	115,965	69,690	213,453
Mortgage loans held for sale	--	3,962	--	--	--	3,962
Loans	--	355,427	309,540	135,157	23,200	823,324
Total interest earning assets	8,420	365,853	330,874	251,122	92,890	1,049,159
Interest bearing liabilities:						
Deposits:						
Demand	--	189,280	--	--	--	189,280
Savings	--	--	45,280	--	--	45,280
Time	--	191,524	321,404	120,381	--	633,309
FHLB advances	31,736	72	2,386	7,855	1,272	43,321
Notes payable	12,722	352	995	--	--	14,069
Convertible subordinate debentures	--	--	--	--	3,500	3,500
Total interest bearing liabilities	44,458	381,228	370,065	128,236	4,772	928,759
Noninterest bearing sources of funds - net	--	--	--	--	109,210	109,210
Interest sensitivity gap	(36,038)	(15,375)	(39,191)	122,886	(21,092)	11,190
Cumulative interest sensitivity gap	$(36,038)	(51,413)	(90,604)	32,282	11,190	--

As seen in the preceding table, for the first 365 days 86% of earning liabilities funding sources will reprice compared to 67% of all interest earning assets. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly while the timing of repricing for both the asset and the liability remains the same, thus impacting net interest income. This characteristic is referred to as basis risk and generally relates to the possibility that the repricing characteristics of short-term assets tied to United's prime lending rate are different from those of short-term funding sources such as certificates of deposit.

Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities which are not reflected in the interest rate sensitivity analysis report. These prepayments may have significant effects on United's net interest margin. Because of these factors an interest sensitivity gap report may not provide a complete assessment of United's exposure to changes in interest rates.

Table 9 indicates United is in a liability sensitive or negative gap position at twelve months. This liability sensitive position would generally indicate that United's net interest income would decrease should interest rates rise and would increase should interest rates fall. Due to the factors cited previously, current simulation results indicate only minimal sensitivity to parallel shifts in interest rates. Management also evaluates the condition of the economy, the pattern of market interest rates and other economic data to determine the appropriate mix and repricing characteristics of assets and liabilities required to produce an optimal net interest margin. Also see "Quantitative and Qualitative Disclosures about Market Risk" included elsewhere herein.

Table 10 represents the expected maturity of the total investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis assuming a 34% tax rate) at December 31, 1997. It should be noted that the composition and maturity/repricing distribution of the investment portfolio is subject to change depending on rate sensitivity, capital needs, and liquidity needs.

Table 10 - Expected Maturity of Investment Securities
(dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Totals
Securities held to maturity:									
U.S. Treasury securities	$ 500	7.12%	--	--	--	--	--	--	500
U.S. Government Agencies	17,817	5.57%	4,544	6.11%	--	--	--	--	22,361
State and political subdivisions	1,739	8.20%	17,132	7.37%	18,819	7.56%	4,640	8.11%	42,330
Mortgage backed securities	621	5.11%	1,721	6.65%	860	6.16%	1,166	7.89%	4,368
	20,677	5.81%	23,397	7.07%	19,679	7.50%	5,806	8.07%	69,559
Securities available for sale:									
U.S. Treasury securities	2,242	6.09%	42,573	6.20%	1,489	6.05%	--	--	46,304
U.S. Government agencies	8,150	5.77%	33,269	6.31%	3,898	6.17%	--	--	45,317
State and political subdivisions	2,569	9.03%	3,019	8.21%	4,103	7.02%	1,984	7.26%	11,675
Mortgage backed securities	2,499	6.93%	15,062	6.46%	7,416	6.24%	7,993	6.48%	32,970
Other	--	--	--	--	--	--	6,256	5.18%	6,256
	15,460	6.55%	93,923	6.35%	16,906	6.40%	16,233	6.07%	142,522
Total	$36,137	6.13%	117,320	6.49%	36,585	6.99%	22,039	6.60%	212,081

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 of United and to take advantage of income 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 high level of liquidity in all economic environments. Liquidity is defined as the ability of a company 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 day to day cash flow requirements of the Banks' customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, United would not be able to perform the primary functions of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves.

The primary function of asset and liability management is not only to assure adequate liquidity in order for United to meet the needs of its customer base, but to maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities so that the Company can also meet the investment requirements of its shareholders. Daily monitoring of the sources and use of funds is necessary to maintain an acceptable cash position that meets both requirements. In a banking environment, both assets and liabilities are considered sources of liquidity funding and both are, therefore, monitored on a daily basis.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments, maturities of investment securities and, to a lesser extent, sales of securities. Installment loan payments are becoming an increasingly important source of liquidity for United as this portfolio continues to grow. Mortgage loans held for sale totaled just over $3.9 million at December 31, 1997, and typically turn over every 45 days. Real estate-construction and commercial, financial and agricultural loans that mature in one year or less amounted to $133 million or 16% of the total loan portfolio at December 31, 1997. Investment securities maturing in the same time frame totaled $36 million or 17% of the total investment securities portfolio at year end 1997. Other short-term investments such as federal funds sold and maturing interest bearing deposits with other banks are additional sources of liquidity funding.

The liability portion of the balance sheet provides liquidity through various customers' interest bearing and non-interest bearing deposit accounts. Federal funds purchased and securities sold under agreements to repurchase are additional sources of liquidity and basically represent United's incremental borrowing capacity. These sources of liquidity are short-term in nature and are used as necessary to fund asset growth and meet short-term liquidity needs.

As disclosed in United's Consolidated Statements of Cash Flows included elsewhere herein, net cash provided by operating activities was approximately $14.0 million during 1997. The major sources of cash provided by operating activities are net income and changes in other assets and other liabilities. Net cash used in investing activities of $252.2 million consisted primarily of a net increase in loans of $189.1 million and securities purchased of $125.9 million funded largely by sales, maturities and paydowns of investment securities of $72.6 million. These changes resulted from management's continued efforts to reinvest new funds in higher-yielding loans rather than investment securities. Net cash provided by financing activities provided the remainder of funding sources for 1997. The $254.4 million of net cash provided by financing activities consisted primarily of a $203.8 million net increase in deposits coupled with a net increase in Federal Home Loan Bank advances of $8.2 million and federal funds purchases of $33.0 million at year end.

Management considers United's liquidity position at December 31, 1997, to be sufficient to meet its foreseeable cash flow requirements. Reference should be made to the Consolidated Statements of Cash Flows appearing in the Consolidated Financial Statements for a three-year analysis of the changes in cash and cash equivalents resulting from operating, investing and financing activities.

Capital Resources and Dividends

Stockholders' equity at December 31, 1997, increased 30% from December 31, 1996. Net earnings after dividends for 1997 provided $10.0 million of the increase in stockholders' equity while an offering of 300,000 shares of common stock offering added $6.5 million.

Dividends of $699 thousand or $.10 per share were declared on the Common Stock in 1997 and 1996. United has historically retained the majority of its earnings in order to keep pace with the rate at which assets have grown.

Average stockholders' equity as a percentage of total average assets is one measure used to determine capital strength. The ratio of average stockholders' equity to average assets for 1997 and 1996 was 6.47% and 6.82%, respectively. United's asset growth has continued to exceed the rate at which capital has been retained. Table 11 summarizes these and other key ratios for United for each of the last three years.

Table 11 - Equity Ratios

	Years Ended December 31,		
	1997	1996	1995
Return on average assets	1.05%	1.14%	1.10%
Return on average equity	16.18%	16.69%	15.84%
Dividend payout ratio	6.51%	7.58%	8.82%
Average equity to average assets	6.47%	6.82%	6.93%

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.

United's Tier I capital, which consists of stockholders' equity less goodwill and deposit-based intangibles, amounted to $68.2 million at December 31, 1997. Tier II capital components include supplemental capital components 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 $81.6 million at December 31, 1997. The percentage ratios, as calculated under the guidelines, were 8.59% and 10.28% for Tier I and Total Risk-based Capital, respectively, at December 31, 1997.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period end stockholders' equity adjusted for goodwill and deposit-based intangibles divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 4% 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 4% 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 ratio in tandem with the risk-based capital ratios to assess capital adequacy of banks and bank holding companies. United's leverage ratios at December 31, 1997 and 1996 were 5.76% and 5.98%, respectively.

Further analysis regarding the actual and required capital ratios of United and the Banks is provided in note 12 to the consolidated financial statements.

All three of the capital ratios of United and each bank currently exceed the minimum ratios required in 1997 as defined by federal regulators. United monitors these ratios to ensure that the company and the bank subsidiaries remain within regulatory guidelines. Increased regulatory activity in the financial industry as a whole will continue to impact the structure of the industry; however, management does not anticipate any negative impact on the capital resources or operations of United.

Income Tax Expense

Income tax expense increased 16% in 1997 as compared to 1996 and 61% in 1996 as compared to 1995. The effective tax rate as a percentage of pretax income was 31% in 1997 and 32% in 1996. These tax rates are lower than the statutory Federal tax rate of 34% primarily due to interest income on tax exempt loans and securities. See United's consolidated financial statements for an analysis of income taxes.

Impact of Inflation and Changing Prices. A bank's asset and liability structure is substantially different from that of an industrial company in that primarily all assets and liabilities of a bank are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Inflation does have 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 which attempts 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. Cost cutting and cost controlling measures have been implemented, including the constant search for technological advancements in order to improve efficiency and productivity.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

United's net interest income, and the fair value of its financial instruments, are primarily influenced by changes in the level of interest rates. United manages its exposure to fluctuations in interest rates through policies established by its Asset/Liability Management Committee (the "ALCO"). The ALCO meets regularly and has the responsibility for approving asset/liability management policies, formulating and implementing strategies to improve balance sheet positioning and/or earnings and reviewing the interest rate sensitivity of United and the Banks.

Management utilizes an interest rate simulation model to estimate the sensitivity of United's net interest income to changes in interest rates. Such estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, interest-bearing accounts repricing characteristics and the rate of prepayments.

The estimated impact on United's net interest income sensitivity over a one-year time horizon is shown below. Such analysis assumes an immediate and sustained parallel shift in interest rates, no balance sheet growth and United's estimate of how interest-bearing transaction accounts will reprice in each scenario.

	Principal/Notional Amounts of Earning Assets, Interest Bearing Liabilities and Swaps at December 31, 1997	Percentage Increase (Decrease) in Interest Income/Expense Given Immediate and Sustained Parallel Interest Rate Shifts	
		Down 100 Basis Points	Up 100 Basis Points
	(in thousands)		
Assets which reprice in:			
One year or less	705,147		
Over one year	344,012		
	$1,049,159	(4.79%)	4.72%
Liabilities which reprice in:			
One year or less	795,751		
Over one year	133,008		
	$ 928,759	(7.36%)	7.23%
Non-trading swaps	35,000	102.42%	(102.42%)
Net interest income sensitivity		(1.51%)	1.52%

The ALCO policy, with which United complies, is based on the same assumptions as the above table and provides that a 100 basis point increase or decrease in interest rates should not reduce net interest income by more than five percent (5%). Certain financial instruments have been excluded from the above analysis because of the no-growth assumption, including letters of credit and the commitments to extend credit.

United enters into various interest rate contracts to manage United's interest rate sensitivity. Such contracts generally have a fixed notional principal amount and include interest rate swaps where a company typically receives or pays a fixed rate and a counterparty pays or receives a floating rate based on a specific index, generally prime rate or London Interbank Offered Rate ("LIBOR") and interest rate floors purchased where the Company receives interest if the specific index falls below the floor rate. The interest rate risk factor in these contracts is considered in the overall interest management strategy of United's interest risk management program. The income or expense associated with these interest rate derivatives is ultimately reflected as adjustments to interest income or expense. Changes in the estimated fair value of interest rate protection contracts are not reflected in the financial statements until realized.

MARKET AND DIVIDEND DATA

Stock. There is no established public trading market for United's Common Stock. At December 31, 1997, there were 2,534 holders of record of Common Stock.

Dividends. United paid cash dividends of $.10 per share of Common Stock to shareholders of record in 1997 and 1996. United intends to pay cash dividends on a quarterly basis. However, the amount and frequency of dividends will be determined by United's Board of Directors in light of the earnings, capital requirements and the financial condition of United, and no assurance can be given that dividends will be paid in the future.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 1997, 1996 and 1995

(with Independent Accountants' Report thereon)

[PORTER KEADLE MOORE, LLP LOGO]

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
United Community Banks, Inc.
Blairsville, Georgia

We have audited the consolidated balance sheets of United Community Banks, Inc. and subsidiaries as of December 31, 1997 and 1996 and the related statements of earnings, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Community Banks, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

\s\ PORTER KEADLE MOORE, LLP

Atlanta, Georgia
March 6, 1998

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 1997 and 1996
Assets

	1997	1996
	(In Thousands)	
Cash and due from banks, including reserve requirements of $11,000 and $6,234	$ 60,414	28,085
Federal funds sold	8,420	24,585
Cash and cash equivalents	68,834	52,670
Securities held to maturity (estimated fair value of $70,845 and $77,625)	69,559	77,326
Securities available for sale	143,894	81,264
Mortgage loans held for sale	3,962	6,727
Loans	823,324	634,574
Less: Allowance for loan losses	10,352	8,125
Loans, net	812,972	626,449
Premises and equipment, net	27,737	20,108
Accrued interest receivable	10,985	8,559
Other assets	15,424	13,000
	$1,153,367	886,103

Liabilities and Stockholders' Equity

	1997	1996
Deposits:		
Demand	$ 109,210	82,138
Interest-bearing demand	189,280	167,372
Savings	45,280	41,963
Time	476,506	346,838
Time, in excess of $100,000	156,803	134,989
Total deposits	977,079	773,300
Accrued expenses and other liabilities	7,274	6,101
Federal funds purchased	33,011	--
FHLB advances	43,321	35,074
Notes payable	14,069	10,453
Convertible subordinated debentures	3,500	3,500
Total liabilities	1,078,254	828,428
Commitments		
Stockholders' equity:		
Preferred stock	--	--
Common stock, $1 par value; 10,000,000 shares authorized; 7,385,105 and 7,084,621 shares issued and outstanding	7,385	7,085
Capital surplus	24,699	18,516
Retained earnings	42,198	32,162
Net unrealized gain (loss) on securities available for sale, net of tax	831	(88)
Total stockholders' equity	75,113	57,675
	$1,153,367	886,103

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
For the Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
	(In Thousands Except Per Share Data)		
Interest income:			
Interest and fees on loans	$76,722	57,978	44,626
Interest on deposits with other banks	--	102	4
Interest on federal funds sold	1,642	1,096	1,315
Interest on investment securities:			

U.S. Treasury & U.S. Government agencies	9,097	6,735	5,354
State and political subdivisions	2,319	1,995	1,910
Total interest income	89,780	67,906	53,209
Interest expense:			
Interest on deposits:			
Demand	6,712	5,445	3,833
Savings	1,190	1,147	1,100
Time	34,966	25,569	21,396
	42,868	32,161	26,329
Notes payable, subordinated debentures, federal funds purchased and FHLB advances	3,680	1,930	1,865
Total interest expense	46,548	34,091	28,194
Net interest income	43,232	33,815	25,015
Provision for loan losses	2,634	1,597	1,116
Net interest income after provision for loan losses	40,598	32,218	23,899
Noninterest income:			
Service charges and fees	3,505	2,990	2,167
Gain (loss) on sales of investment securities	426	(13)	4
Mortgage loan and other related fees	1,157	1,566	1,582
Other noninterest income	1,892	1,123	770
Total noninterest income	6,980	5,666	4,523
Noninterest expense:			
Salaries and employee benefits	17,695	13,373	10,504
Occupancy	4,726	3,570	2,948
Other noninterest expense	9,656	7,900	5,752
Total noninterest expense	32,077	24,843	19,204
Earnings before income taxes	15,501	13,041	9,218
Income taxes	4,766	4,114	2,549
Net earnings	$10,735	8,927	6,669
Earnings per common share	$ 1.47	1.29	1.03
Earnings per common share - assuming dilution	$ 1.46	1.26	1.01

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 1997, 1996 and 1995

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) On Securities Available for Sale Net of Tax	Total
	(In Thousands Except Share and Per Share Data)					
Balance, December 31, 1994, as previously reported	5,589,365	$5,589	7,474	17,363	(209)	30,217
Adjustment in connection with pooling of interests	685,240	686	3,550	468	(56)	4,648
Balance, December 31, 1994, as restated	6,274,605	6,275	11,024	17,831	(265)	34,865
Issuance of common shares for bank acquisition	455,400	455	4,828	--	--	5,283
Proceeds from common stock offering, net of offering cost	215,515	216	2,218	--	--	2,434
Change in unrealized gain (loss) on securities available for sale, net of tax	--	--	--	--	545	545
Cash dividends declared, ($.08 per share)	--	--	--	(588)	--	(588)
Purchase and retirement of treasury stock of pooled entity	(737)	(1)	(6)	--	--	(7)
Net earnings	--	--	--	6,669	--	6,669
Balance, December 31, 1995	6,944,783	6,945	18,064	23,912	280	49,201
Change in unrealized gain (loss) on securities available for sale, net of tax	--	--	--	--	(368)	(368)
Cash dividends declared, ($.10 per share)	--	--	--	(677)	--	(677)
Common stock issued in conversion of debentures	178,568	179	821	--	--	1,000
Purchase and retirement of treasury stock of pooled entity	(38,730)	(39)	(369)	--	--	(408)
Net earnings	--	--	--	8,927	--	8,927
Balance, December 31, 1996	7,084,621	7,085	18,516	32,162	(88)	57,675
Change in unrealized gain (loss) on securities available for sale, net of tax	--	--	--	--	919	919
Cash dividends declared, ($.10 per share)	--	--	--	(699)	--	(699)
Net earnings	--	--	--	10,735	--	10,735
Proceeds from common stock offering, net of offering cost	300,000	300	6,177	--	--	6,477
Proceeds from resale of treasury stock of pooled entity	484	--	6	--	--	6
Balance, December, 31, 1997	7,385,105	$7,385	24,699	42,198	831	75,113

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
		(In Thousands)	
Cash flows from operating activities:			
Net earnings	$ 10,735	8,927	6,669
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,448	2,347	1,882
Provision for loan losses	2,634	1,597	1,116
Provision for deferred income tax expense (benefit)	(404)	82	(95)
(Gain) loss on sale of securities available for sale	(426)	13	(4)
Change in assets and liabilities, net of effects of purchase acquisitions:			
Interest receivable	(2,426)	(1,430)	(1,831)
Interest payable	1,340	267	1,370
Other assets	(2,020)	(9)	1,003
Accrued expenses and other liabilities	(659)	1,059	(1,335)
Change in mortgage loans held for sale	2,765	5,321	347
Net cash provided by operating activities	13,987	18,174	9,122
Cash flows from investing activities, net of effects of purchase acquisitions:			
Cash acquired from acquisitions and branch purchases	--	2,650	25,867
Proceeds from maturities and calls of securities held to maturity	18,009	21,920	14,317
Purchases of securities held to maturity	(10,418)	(13,762)	(29,075)
Proceeds from sales of securities available for sale	32,105	18,065	17,520
Proceeds from maturities and calls of securities available for sale	22,470	32,652	11,299
Purchases of securities available for sale	(115,501)	(62,631)	(64,143)
Net increase in loans	(189,157)	(140,507)	(68,874)
Purchases of premises and equipment	(9,702)	(3,143)	(2,236)
Net cash used in investing activities	(252,194)	(144,756)	(95,325)
Cash flows from financing activities, net of effects of purchase acquisitions:			
Net change in demand and savings deposits	52,297	49,312	23,824
Net change in time deposits	151,482	62,394	92,333
Net change in federal funds purchased	33,011	--	(8,300)
Proceeds from convertible subordinated debentures	--	3,500	--
Proceeds from notes payable	4,747	--	2,539
Proceeds from FHLB advances	15,636	29,375	8,596
Repayments of notes payable	(1,131)	(856)	(630)
Repayments of FHLB advances	(7,389)	(3,302)	(11,744)
Proceeds from sale of common stock	6,477	--	2,434
Purchase of treasury stock of pooled entity	--	(408)	(7)
Proceeds from resale of treasury stock of pooled entity	6	--	--
Cash paid for dividends	(765)	(677)	(588)
Net cash provided by financing activities	254,371	139,338	108,457
Net change in cash and cash equivalents	16,164	12,756	22,254
Cash and cash equivalents at beginning of period	52,670	39,914	17,660
Cash and cash equivalents at end of period	$ 68,834	52,670	39,914

See accompanying notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles followed by United Community Banks, Inc. (United or the Company) and its subsidiaries and the methods of applying these principles conform with generally accepted accounting principles and with general practices within the banking industry. The following is a description of the more significant of those policies.

Organization and Basis of Presentation
United is a six bank holding company whose business is conducted by its wholly-owned bank subsidiaries. United is subject to regulation under the Bank Holding Company Act of 1956. The consolidated financial statements include the accounts of United Community Banks, Inc. and its wholly-owned commercial bank subsidiaries, United Community Bank, Blairsville, Georgia (UCB), Carolina Community Bank (Carolina), Peoples Bank, Blue Ridge, Georgia (Peoples), Towns County Bank, Hiawassee, Georgia (Towns) White County Bank, Cleveland, Georgia (White) and First Clayton Bank and Trust Company, Clayton, Georgia (Clayton) (collectively, the "Bank Subsidiaries") and United Family Finance Company, Inc. (Finance), a finance company subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items in prior years' financial statements have been reclassified to conform with the current financial statement presentations.

The Bank Subsidiaries are commercial banks which serve markets throughout North Georgia and Western North Carolina and provide a full range of customary banking services. The Bank Subsidiaries are insured and subject to the regulation of the Federal Deposit Insurance Corporation.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with these valuations, management obtains independent appraisals for significant properties.

A substantial portion of United's loans are secured by real estate located in North Georgia and Western North Carolina. Accordingly, the ultimate collectibility of a substantial portion of United's loan portfolio is susceptible to changes in the real estate market conditions of this market area.

Investment Securities
United classifies its securities in one of three categories: held to maturity, available for sale, or trading. Trading securities are bought and held principally for the purpose of selling them in the near term. United does not have investments classified in the trading category. Held to maturity securities are those securities for which United has the ability and intent to hold until maturity. All other securities are classified as available for sale.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held to maturity to available for sale are recorded as a separate component of stockholders' equity. The unrealized holding gains or losses included in the separate component of stockholders' equity for securities transferred from available for sale to held to maturity are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investment Securities, continued
A decline in the market value of any available for sale or held to maturity investment below cost that is deemed other than temporary is charged to earnings and establishes a new cost basis for the security.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Mortgage Loans Held for Sale
Mortgage loans held for sale are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net earnings of the period in which the change occurs. No market valuation allowances were required at December 31, 1997 or 1996.

Loans and Allowance for Loan Losses
All loans are stated at principal amount outstanding. Interest on loans is primarily calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest income on loans. Generally, payments on nonaccrual loans are applied to principal.

A loan is impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recognized using the cash-basis method of accounting during the time within the period in which the loans were impaired. The Bank Subsidiaries had no material amounts of impaired loans at December 31, 1997 or 1996.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific problem loans.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review United's allowance for loan losses. Such agencies may require United to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the related assets. Costs incurred for maintenance and repairs are expensed currently. The range of estimated useful lives for buildings and improvements is 15 to 40 years, and for furniture and equipment, 3 to 10 years.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Goodwill and Deposit-Based Intangibles
Goodwill , arising from the excess cost over the fair value of net assets acquired of purchased bank subsidiaries, is amortized on a straight-line basis over periods not exceeding 25 years. Deposit assumption premiums paid in connection with the branch bank purchases are being amortized over 15 years, the estimated life of the deposit base acquired. On an ongoing basis, management reviews the valuation and amortization periods of goodwill and the deposit assumption premiums to determine if events and circumstances require the remaining lives to be reduced.

Mortgage Servicing Rights
United's mortgage banking division accounts for mortgage servicing rights as a separate asset regardless of whether the servicing rights are acquired through purchase or origination. United's mortgage servicing rights represent the unamortized cost of purchased and originated contractual rights to service mortgages for others in exchange for a servicing fee and ancillary loan administration income. Mortgage servicing rights are amortized over the period of estimated net servicing income and are periodically adjusted for actual and anticipated prepayments of the underlying mortgage loans. Impairment analysis is performed quarterly after stratifying the rights by interest rate. Impairment, defined as the excess of the asset's carrying value over its current fair value, is recognized through a valuation allowance. At December 31, 1997 and 1996, no valuation allowances were required for United's mortgage servicing rights.

United recognized approximately $15,000, $137,000 and $790,000 in servicing assets during 1997, 1996 and 1995, respectively, and recognized amortization expense relating to servicing assets of approximately $144,000, $267,000, and $283,000 during 1997, 1996 and 1995, respectively. During 1996, United sold mortgage loan servicing rights with a net book value of approximately $1,254,000. No such sales occurred during 1997 or 1995.

Income Taxes
Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of United's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies.

Interest Rate Risk Management
As part of United's overall interest rate risk management, interest rate swaps and interest rate floors are utilized. These contracts are designated by United as hedges of interest rate exposures, and interest income or expense derived from these contracts is recorded over the life of the contract as an adjustment to interest income or expense of the instruments hedged.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Recent Accounting Pronouncements

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 127 "Deferral of the Effective Date of Certain Provisions of SFAS No. 125" ("SFAS 127"), Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 127 simply defers, until January 1, 1998, the effective date of selected provisions of a previously issued accounting and disclosure standard. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS 131 specifies the presentation and disclosure of operating segment information reported in the annual report and interim reports issued to stockholders. The provisions of SFAS 130 and 131 are effective for fiscal years beginning after December 15, 1997. The management of the Company believes that the adoption of these statements will not have a material impact on the Company's financial position, results of operations, or liquidity.

Earnings Per Common Share

SFAS No. 128 "Earnings Per Common Share" ("SFAS 128") became effective for the Company for the year ended December 31, 1997. This new standard specifies the computation, presentation and disclosure requirements for earnings per common share and is designed to simplify previous earnings per common share standards and to make domestic and international practices more compatible. Earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in earnings per common share-assuming dilution. All earnings per common share amounts have been restated to conform to the provisions of SFAS 128.

SFAS 128 requires earnings per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants to be presented on the face of the statements of earnings. Additionally, the new statement requires the reconciliation of the amounts used in the computation of both earnings per common share and earnings per common share-assuming dilution. Earnings per common share amounts for the years ended December 31, 1997, 1996 and 1995 are as follows (dollars in thousands, except for per share data):

For the Year Ended December 31, 1997

	Net Earnings (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Earnings per common share	$10,735	7,300,874	$1.47
Effect of dilutive securities:			
Stock options	--	46,680	
Convertible debentures	189	140,000	
Earnings per common share - assuming dilution	$10,924	7,487,554	$1.46

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements, continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Earnings Per Common Share, continued

For the Year Ended December 31, 1996

	Net Earnings (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Earnings per common share:	$ 8,927	6,919,437	$1.29
Effect of dilutive securities:			
Stock options	--	30,098	
Convertible debentures	56	161,311	
Earnings per common share - assuming dilution	$ 8,983	7,110,846	$1.26

For the Year Ended December 31, 1995

	Net Earnings (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Earnings per common share	$ 6,669	6,499,264	$1.03
Effect of dilutive securities:			
Stock options	--	6,897	
Convertible debentures	56	178,568	
Earnings per common share - assuming dilution	$ 6,725	6,684,729	$1.01

(1) Mergers and Acquisitions
Effective September 12, 1997, the Company acquired, for 646,257 shares of its $1 par value common stock and approximately $7,000 paid for fractional shares, all of the outstanding common stock of First Clayton Bancshares, Inc., a $73 million one bank holding company, located in Clayton, Georgia. The acquisition was accounted for as a pooling of interests and accordingly, the consolidated financial statements for all periods presented have been restated to include the financial position and results of operations as if the combination had occurred on January 1, 1995.

(1) Mergers and Acquisitions, continued

The following is a reconciliation of the amounts of net interest income and net earnings previously reported with the restated amounts (in thousands):

	1997	1996	1995
Net interest income:			
The Company, as previously reported in 1996 and 1995	$40,288	31,368	22,919
Clayton	2,944	2,447	2,096
As restated	$43,232	33,815	25,015
Net earnings:			
The Company, as previously reported in 1996 and 1995	$ 9,974	8,201	6,051
Clayton	761	726	618
As restated	$10,735	8,927	6,669

On September 28, 1996, UCB assumed deposits of $23.7 million and purchased certain assets totaling $33.2 million of a branch in Cornelia, Georgia.

On August 31, 1995, United acquired all the outstanding common stock of White County Bancshares, Inc., (White Bancshares) the parent company of White County Bank, Cleveland, Georgia. United issued 455,400 shares of its common stock and approximately $10,000 in cash for fractional shares, in exchange for all the outstanding common shares of White Bancshares. Additionally, United exercised its option to convert the exchangeable payable in kind debenture previously acquired during 1994, and the related accrued interest into a majority interest in White County Bank. At the date of acquisition, White County Bank had total assets of $71 million and liabilities of $63 million. The original purchase price was allocated to assets and liabilities acquired based on their fair values at the date of acquisition. This transaction was accounted for as a purchase and, therefore, is not included in United's results of operations or statements of financial position prior to the date of acquisition.

(2) Cash Flows

United paid approximately $45 million, $34 million and $27 million in interest on deposits and other liabilities during 1997, 1996 and 1995, respectively. In connection with United's 1995 acquisition of White, assets having a fair value of $71 million were acquired and liabilities totaling $63 million were assumed.

	For the Years Ended December 31,		
	1997	1996	1995
Schedule of noncash investing and financing activities (in thousands):			
Conversion of subordinated debentures into 178,568 shares of common stock	$ --	1,000	--
Common stock issued and conversion of exchangeable payable in kind debenture in connection with the acquisition of White	$ --	--	8,384
Change in unrealized gain (loss) on securities available for sale, net of tax	$ 919	(368)	545
(Decrease) increase in dividends payable	$ (66)	--	--

(3) Investment Securities

Investment securities at December 31, 1997 and 1996 are as follows (in thousands):

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale:				
U.S. Treasuries	$ 46,304	642	1	46,945
U.S. Government agencies	45,317	268	33	45,552
State and political subdivisions	11,675	189	4	11,860
Mortgage-backed securities	32,970	387	10	33,347
Other	6,256	--	66	6,190
Total	$142,522	1,486	114	143,894
Securities Held to Maturity:				
U.S. Treasuries	$ 500	6	--	506
U.S. Government agencies	22,361	35	57	22,339
State and political subdivisions	42,330	1,211	8	43,533
Mortgage-backed securities	4,368	109	10	4,467
Total	$ 69,559	1,361	75	70,845

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale:				
U.S. Treasuries	$ 12,771	71	1	12,841
U.S. Government agencies	39,169	59	275	38,953
State and political subdivisions	6,685	162	14	6,833
Mortgage-backed securities	18,644	46	55	18,635
Other	4,104	--	102	4,002
Total	$ 81,373	338	447	81,264
Securities Held to Maturity:				
U.S. Treasuries	$ 2,368	6	--	2,374
U.S. Government agencies	34,804	42	301	34,545
State and political subdivisions	33,036	646	173	33,509
Mortgage-backed securities	7,118	103	24	7,197
Total	$ 77,326	797	498	77,625

The amortized cost and estimated fair value of the securities portfolio at December 31, 1997, by contractual maturity, is presented in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(3) Investment Securities, continued

	Securities Held to Maturity December 31, 1997		Securities Available for Sale December 31, 1997	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
U.S. Treasuries:				
Within 1 year	$ 500	506	2,242	2,247
1 to 5 years	--	--	42,573	43,184
5 to 10 years	--	--	1,489	1,514
	$ 500	506	46,304	46,945
U.S. Government agencies:				
Within 1 year	$17,817	17,801	8,150	8,150
1 to 5 years	4,544	4,538	33,269	33,495
5 to 10 years	--	--	3,898	3,907
	$22,361	22,339	45,317	45,552
State and political subdivisions:				
Within 1 year	$ 1,739	1,753	2,569	2,582
1 to 5 years	17,132	17,516	3,019	3,103
5 to 10 years	18,819	19,452	4,103	4,169
More than 10 years	4,640	4,812	1,984	2,006
	$42,330	43,533	11,675	11,860
Other:				
More than 10 years	$ --	--	6,256	6,190
Total securities other than mortgage-backed securities:				
Within 1 year	$20,056	20,060	12,961	12,979
1 to 5 years	21,676	22,054	78,861	79,782
5 to 10 years	18,819	19,452	9,490	9,590
More than 10 years	4,640	4,812	8,240	8,196
Mortgage-backed securities	4,368	4,467	32,970	33,347
	$69,559	70,845	142,522	143,894

There were no sales of securities held to maturity during 1997, 1996 and 1995. Proceeds from sales of securities available for sale during 1997, 1996 and 1995 were $ 32 million, $18 million and $18 million, respectively. Gross gains of $451,000, $53,000 and $113,000 for 1997, 1996 and 1995, respectively, along with gross losses of $25,000, $66,000 and $109,000 for 1997, 1996 and 1995, respectively, were realized on those sales.

Securities with a carrying value of $65 million and $52 million at December 31, 1997 and 1996, respectively, were pledged to secure public deposits as required by law.

(4) Loans and Allowance for Loan Losses

Major classifications of loans at December 31, 1997 and 1996 are summarized as follows (in thousands):

	1997	1996
Commercial, financial and agricultural	$105,462	100,538
Real estate - construction	78,699	51,425
Real estate - mortgage	523,629	380,681
Consumer	115,534	101,930
Total loans	823,324	634,574
Less: Allowance for loan losses	10,352	8,125
Loans, net	$812,972	626,449

The Bank Subsidiaries grant loans and extensions of credit to individuals and a variety of firms and corporations located primarily in counties in northern Georgia and western North Carolina. Although the Bank Subsidiaries have diversified loan portfolios, a substantial portion of the loan portfolios is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

During 1997 and 1996, certain executive officers and directors of United and its Bank Subsidiaries, including their immediate families and companies with which they are associated, maintained a variety of banking relationships with the Bank Subsidiaries. Total loans outstanding to these persons at December 31, 1997 and 1996 amounted to $15,811,000 and $13,520,000, respectively. The change from December 31, 1996 to December 31, 1997 reflects payments amounting to $8,408,000 and advances of $10,699,000. Such loans are made in the ordinary course of business at normal credit terms, including interest rate and collateral requirements, and do not represent more than normal credit risk.

Changes in the allowance for loan losses are summarized as follows (in thousands):

	1997	1996	1995
Balance at beginning of year	$ 8,125	6,884	4,231
Allowance for loan losses acquired from White	--	--	1,813
Provisions charged to earnings	2,634	1,597	1,116
Loans charged off	(797)	(695)	(701)
Recoveries of loans previously charged off	390	339	425
Balance at end of year	$10,352	8,125	6,884

United serviced approximately $103.5 and $117.4 million of mortgage loans for others at December 31, 1997 and 1996, respectively.

(5) Premises and Equipment

Premises and equipment at December 31, 1997 and 1996 are summarized as follows (in thousands):

	1997	1996
Land and land improvements	$ 6,102	4,770
Building and improvements	14,001	12,667
Furniture and equipment	15,018	10,771
Construction in progress	2,919	167
	38,040	28,375
Less: Accumulated depreciation	10,303	8,267
	$27,737	20,108

Depreciation expense was approximately $2.1 million, $1.6 million and $1.4 million in 1997, 1996 and 1995, respectively.

(6) Time Deposits

At December 31, 1997, contractual maturities of time deposits are summarized as follows (in thousands):

Maturing In:	
1998	$509,837
1999	92,144
2000	15,482
2001	13,394
2002 and thereafter	2,452
	$633,309

(7) FHLB Advances

The Bank Subsidiaries have advances from the Federal Home Loan Bank (FHLB) with monthly interest payments and principal payments due at various maturity dates and interest rates ranging from 5.51% to 7.81% at December 31, 1997. The majority of the advances represent draws to fund mortgage loans to customers over payment terms longer than those normally given. The FHLB advances are collateralized by first mortgage loans, FHLB stock and other U.S. agency securities.

Advances from FHLB outstanding at December 31, 1997 mature as follows (in thousands):

Year	
1998	$24,468
1999	15,033
2000	808
2001	307
2002	1,432
2003 and thereafter	1,273
	$43,321

(8) Notes Payable

Notes payable at December 31, 1997 and 1996 consisted of the following (in thousands):

	1997	1996
Note payable, due in quarterly installments of $321,455, plus interest, through January 2005, secured by common stock of the Bank Subsidiaries. Interest is variable based on the prime rate less 1.25%. The loan agreement contains covenants and restrictions pertaining to the maintenance of certain financial ratios, limitations on the incurrence of additional debt, and the declaration of dividends or other capital transactions.	$12,722	10,453
Commercial paper of Finance, due at maturity during 1998 and unsecured. Interest is from 7.15% to 7.25% and is payable monthly.	1,347	--
	$14,069	10,453

Aggregate maturities required on the notes payable at December 31, 1997 are as follows:

1998	$ 2,633
1999	1,286
2000	1,286
2001	1,286
2002	1,286
2003 and thereafter	6,292
	$14,069

(9) Convertible Subordinated Debentures

On December 31, 1996, the holders of convertible debentures of the Company due July 1, 2000 (the "2000 Debentures"), which bore interest at a fixed rate of 9% per annum, converted the 2000 Debentures into an aggregate of 178,568 shares of common stock in accordance with their terms and pursuant to an additional six month period for conversion extended by the Company in order to comply with certain obligations of the Company to provide the holders with notice of the conversion termination date.

On December 31, 1996, United also completed a private placement of convertible subordinated debentures due December 31, 2006 (the "2006 Debentures"). The 2006 Debentures bear interest at the rate of one quarter of one percentage point over the prime rate per annum, payable in quarterly installments commencing on April 1, 1997. The 2006 Debentures may be redeemed, in whole or in part, on or after January 1, 1998, at the option of United upon at least 20 days and not more than 60 days notice, at a redemption price equal to 100% of the principal amount of the Debentures to be redeemed plus interest accrued and unpaid as of the date of redemption. The holders of the 2006 Debentures not called for redemption will have the right, exercisable at any time up to December 31, 2006, to convert such Debenture at the principal amount thereof into shares of common stock of United at the conversion price of $25 per share, subject to adjustment for stock splits and stock dividends.

Certain directors and executive officers of United held convertible debentures totaling $3,025,000 at December 31, 1997 and 1996.

(10) Income Taxes

During 1997, 1996 and 1995, United made income tax payments of approximately $5.5 million, $4.0 million and $2.7 million, respectively.

The components of income tax expense for the years ended December 31, 1997, 1996 and 1995 are as follows (in thousands):

	1997	1996	1995
Current	$5,170	4,032	2,644
Deferred (reduction)	(404)	82	(95)
	$4,766	4,114	2,549

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate (34 percent) to earnings before income taxes are as follows (in thousands):

	1997	1996	1995
Pretax income at statutory rates	$5,270	4,434	3,134
Add (deduct):			
Tax-exempt interest income	(878)	(828)	(789)
Nondeductible interest expense	147	127	130
Other	227	381	74
	$4,766	4,114	2,549

The following summarizes the sources and expected tax consequences of future taxable deductions (income) which comprise the net deferred tax asset at December 31, 1997 and 1996 (in thousands):

	1997	1996
Deferred tax assets:		
Allowance for loan losses	$3,531	2,549
Net operating loss and credit carryforwards	42	349
Unrealized loss on securities available for sale	--	6
Other	32	172
Gross deferred tax assets	3,605	3,076
Deferred tax liabilities:		
Premises and equipment	(1,326)	(1,159)
Unrealized gain on securities available for sale	(541)	--
Other	(65)	(101)
Gross deferred tax liabilities	(1,932)	(1,260)
Net deferred tax asset	$1,673	1,816

At December 31, 1997, United has a loss carryforward of approximately $1 million for state income taxes which will begin to expire in 2008. The use of this carryforward is limited to future taxable earnings of United and to annual limitations imposed by the tax code.

(11) Employee Benefit Plans

United has contributory employee benefit plans covering substantially all employees, subject to certain minimum service requirements. United's contribution to the plans is determined annually by the Board of Directors and amounted to approximately $803,000, $583,000 and $566,000 in 1997, 1996, and 1995, respectively.

(12) Regulatory Matters

The Bank Subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, action by regulators that, if undertaken, could have a direct material effect on the Bank Subsidiaries' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank Subsidiaries must meet specific capital guidelines that involve quantitative measures of the Bank Subsidiaries' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank Subsidiaries' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank Subsidiaries to maintain minimum amounts and ratios of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 1997, that the Bank Subsidiaries meet all capital adequacy requirements to which they are subject.

Minimum ratios required by the Bank Subsidiaries to ensure capital adequacy are 8% for total capital to risk weighted assets and 4% each for Tier 1 capital to risk weighted assets and Tier 1 capital to average assets. Minimum ratios required by the Bank Subsidiaries to be well capitalized under prompt corrective action provisions are 10% for total capital to risk weighted assets, 6% for Tier 1 capital to risk weighted assets and 5% for Tier 1 capital to average assets. Minimum amounts required for capital adequacy purposes and to be well capitalized under prompt corrective action provisions are presented below for United and its most significant subsidiaries (in thousands). Prompt corrective action provisions do not apply to bank holding companies.

	Minimum Total Risk Based		Minimum Tier 1 Risk Based		Minimum Tier 1 Leverage	
1997	Capital Adequacy	Prompt Corrective Action	Capital Adequacy	Prompt Corrective Action	Capital Adequacy	Prompt Corrective Action
Consolidated	$63,520	N/A	31,777	N/A	47,374	N/A
UCB	24,391	30,488	12,195	18,293	15,503	19,379
Carolina	17,213	21,516	8,606	12,910	12,980	16,226
1996						
Consolidated	$48,893	N/A	24,446	N/A	34,159	N/A
UCB	19,746	24,682	9,873	14,809	12,401	15,502
Carolina	11,736	14,670	5,868	8,802	8,870	11,807

(12) Regulatory Matters, continued

Actual capital amounts and ratios for United and its most significant subsidiaries as of December 31, 1997 and 1996 are as follows (in thousands):

	Actual Total Risk Based		Actual Tier 1 Risk Based		Actual Tier 1 Leverage	
1997	Actual Amount	Ratio	Actual Amount	Ratio	Actual Amount	Ratio
Consolidated	$81,614	10.28%	68,184	8.59%	68,184	5.76%
UCB	33,303	10.92%	29,733	9.75%	29,733	7.67%
Carolina	23,260	10.81%	20,566	9.56%	20,566	6.34%
1996						
Consolidated	$62,241	10.18%	51,102	8.36%	51,102	5.98%
UCB	25,036	10.14%	22,518	9.12%	22,518	7.26%
Carolina	17,052	11.62%	15,259	10.40%	15,259	6.88%

As of December 31, 1997 and 1996, the most recent notification from the Federal Deposit Insurance Corporation categorized each Bank subsidiary as well capitalized under the regulatory framework for prompt corrective action.

(13) Commitments

The Bank Subsidiaries are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit, letters of credit and financial guarantees. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank Subsidiaries have in particular classes of financial instruments.

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit and financial guarantees written is represented by the contractual amount of these instruments. The Bank Subsidiaries use the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments. In most cases collateral or other security is required to support financial instruments with credit risk.

The following table summarizes, as of December 31, the contract or notional amount of off-balance sheet instruments (in thousands):

	1997	1996
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$106,040	64,091
Standby letters of credit	$ 2,520	1,721
Interest rate contracts:		
Swap agreements	$ 35,000	35,000
Floors purchased	$ 50,000	50,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank Subsidiaries evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

(13) Commitments, continued

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank Subsidiaries to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to local businesses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank Subsidiaries hold real estate, certificates of deposit, equipment and automobiles as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments varies.

Derivative financial instruments include forwards, futures, swaps, options, and other instruments with similar characteristics. In general terms, derivative instruments are contracts or agreements whose value can be derived from interest rates, currency exchange rates and financial indices. The Bank Subsidiaries use interest rate contracts in balance sheet management activities, the objective of which is to minimize the risk inherent in the asset and liability interest rate structure. The Bank Subsidiaries do not use derivative financial instruments for trading purposes. Interest rate contracts include an agreement with a counterparty to exchange cash flow based on the movement of an underlying interest rate included such as the prime rate or the London International Borrowing Rate (LIBOR). A swap agreement involves the exchanges of a series of interest payments, either at a fixed or variable rate, based on a notional amount without the exchange of the underlying principal. An interest rate floor contract allows a party, for a purchase premium, to receive income if a predetermined interest rate falls below a predetermined level. Income or expense on interest rate contracts used by the Bank Subsidiaries to manage interest rate exposure is recorded on an accrual basis as an adjustment to the yield of the related interest earning asset or interest bearing liability over the period covered by the contracts. Amounts accrued relating to such contracts are included in accrued expenses and other liabilities as of the balance sheet date.

The Bank Subsidiaries' exposure from these interest rate contracts results from the possibility that one party may default on its contractual obligation (credit risk) or from the movement of interest rates (market risk). Credit risk is limited to the positive market value of the derivative, which is significantly less than its notional value since the notional amount only represents the basis for determining the exchange of the cash flows. Credit risk is minimized by performing credit reviews of the counterparties to the contract or by conducting activities through organized exchanges.

(14) Preferred Stock

United may issue preferred stock in one or more series as established by resolution of the Board of Directors, up to a maximum of 10,000,000 shares. Each resolution shall include the number of shares issued, preferences, special rights and limitations as determined by the Board of Directors. At December 31, 1997 and 1996, there were no preferred shares issued or outstanding.

(15) Stockholders' Equity

Dividends paid by the Bank Subsidiaries are the primary source of funds available to United for payment of dividends to its stockholders and other needs. Applicable federal and state statutes and regulations impose restrictions on the amount of dividends that may be declared by the Bank Subsidiaries. At December 31, 1997, approximately $12.9 million of the Bank Subsidiaries' net assets were available for payment of dividends without prior approval from the regulatory authorities. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of each Bank Subsidiary's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank Subsidiaries.

During 1997, United issued 300,000 shares of common stock for approximately $6,477,000, net of offering costs. The proceeds from this sale of stock were used to inject capital into the Bank Subsidiaries and for general corporate purposes.

During 1995, the Board of Directors adopted the Key Employee Stock Option Plan. Under this plan, options can be granted for up to 300,000 shares of United's common stock at a price equal to the fair market value at the date of grant. At December 31, 1997, 128,296 shares were available for grant under this plan. No options were exercised in 1997, 1996 or 1995.

(15) Stockholder's Equity, continued

SFAS No. 123, "Accounting for Stock-Based Compensation," became effective for the Company January 1, 1996. This statement encourages, but does not require, entities to compute the fair value of options at the date of grant and to recognize such costs as compensation expense immediately if there is no vesting period or ratably over the vesting period of the options. The Company has chosen not to adopt the cost recognition principles of this statement. No compensation expense has been recognized in 1997, 1996 or 1995 related to the stock option plan. Had compensation cost been determined based upon the fair value of the options at the grant dates consistent with the method of the new statement, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

		1997	1996	1995
Net earnings	As reported	$10,735	8,927	6,669
	Pro forma	$10,526	8,893	6,574
Earnings per common share	As reported	$ 1.47	1.29	1.03
	Pro forma	$ 1.44	1.29	1.01
Earnings per common share-assuming dilution	As reported	$ 1.46	1.26	1.01
	Pro forma	$ 1.43	1.25	.99

The fair value of each option granted is estimated on the date of grant using the minimum value method with the following weighted average assumptions used for grants in 1997, 1996 and 1995, respectively: dividend yield of 1%, risk free interest rates of 6%, 6% and 5%, and an expected life of 10 years.

A summary of activity in the Company's stock option plan is presented below:

	Option Shares	Weighted Average Option Price Per Share	Range of Price Per Share
Options outstanding at December 31, 1995	50,000	$10.00	$10.00
Options granted in 1996	42,000	$18.00	$18.00
Options outstanding at December 31, 1996	92,000	$13.65	$10.00 - 18.00
Options granted in 1997	79,704	$22.15	$22.00 - 22.51
Options outstanding at December 31, 1997	171,704	$17.60	$10.00 - 22.51

Options on 102,104 and 58,400 shares were exercisable at December 31, 1997 and 1996, respectively. The weighted average grant-date fair value of options granted in 1997 and 1996 was $7.93 and $6.45, respectively. Such options have a weighted average remaining contractual life of approximately 8 years as of December 31, 1997.

(16) Supplemental Financial Data

Components of other operating expenses in excess of 1% of total interest and other noninterest income for the years ended December 31, 1997, 1996 and 1995 are as follows (in thousands):

	1997	1996	1995
Stationery and supplies	$ 831	1,152	512
Advertising	1,486	704	646

(17) United Community Banks, Inc. (Parent Company Only) Financial Information

Balance Sheets

December 31, 1997 and 1996

	1997	1996
	(In thousands)	
Assets		
Cash	$ 281	1,550
Investment in subsidiaries	82,902	65,559
Other assets	8,995	5,455
	$92,178	72,564
Liabilities and Stockholders' Equity		
Other liabilities	$ 843	936
Notes payable	12,722	10,453
Convertible subordinated debentures	3,500	3,500
Stockholders' equity	75,113	57,675
	$92,178	72,564

(17) United Community Banks, Inc. (Parent Company Only) Financial Information, continued

Statements of Earnings

For the Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
	(In thousands)		
Income:			
Dividends from Bank Subsidiaries	$ 1,150	5,361	1,680
Other	730	87	170
Total income	1,880	5,448	1,850
Expenses:			
Interest on notes payable and subordinated debentures	1,045	882	910
Other	2,097	1,266	428
Total expense	3,142	2,148	1,338
Earnings (loss) before income tax benefit and equity in undistributed earnings of subsidiaries	(1,262)	3,300	512
Income tax benefit	823	739	350
Earnings (loss) before equity in undistributed earnings of subsidiaries	(439)	4,039	862
Equity in undistributed earnings of subsidiaries	11,174	4,888	5,807
Net earnings	$10,735	8,927	6,669

(17) United Community Banks, Inc. (Parent Company Only) Financial Information, continued

Statements of Cash Flows

For the Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
		(In thousands)	
Cash flows from operating activities:			
Net earnings	$10,735	8,927	6,669
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of Bank Subsidiaries	(11,174)	(4,888)	(5,807)
Depreciation, amortization and accretion	300	203	185
Change in:			
Other assets	(2,567)	(33)	(205)
Accrued interest payable	27	(39)	39
Other liabilities	(54)	(263)	(18)
Net cash provided by (used in) operating activities	(2,733)	3,907	863
Cash flows from investing activities:			
Purchase of premises and equipment	(1,273)	--	--
Cash paid in lieu of fractional shares	--	--	(10)
Capital contributions to Bank Subsidiaries	(5,250)	(4,275)	(4,500)
Net cash used in investing activities	(6,523)	(4,275)	(4,510)
Cash flows from financing activities:			
Proceeds from convertible subordinated debentures	--	3,500	--
Proceeds from notes payable	3,400	--	2,539
Repayments of notes payable	(1,131)	(856)	(630)
Proceeds from sale of common stock	6,477	--	2,434
Purchase and retirement of treasury stock of pooled entity	--	(408)	(7)
Proceeds from resale of treasury stock of pooled entity	6	--	--
Dividends paid	(765)	(677)	(588)
Net cash provided by financing activities	7,987	1,559	3,748
Net change in cash	(1,269)	1,191	101
Cash at beginning of year	1,550	359	258
Cash at end of year	$ 281	1,550	359

(18) Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of United's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of United or its Bank Subsidiaries, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by United since purchase, origination, or issuance.

(18) Fair Value of Financial Instruments, continued

Cash and Cash Equivalents

For cash, due from banks and federal funds sold the carrying amount is a reasonable estimate of fair value.

Securities Held to Maturity and Securities Available for Sale

Fair values for investment securities are based on quoted market prices.

Loans and Mortgage Loans Held for Sale

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value.

Deposits

The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Federal Funds Purchased

The carrying amount of federal funds purchased is a reasonable estimate of fair value.

FHLB Advances

The fair value of United's fixed rate borrowings are estimated using discounted cash flows, based on United's current incremental borrowing rates for similar types of borrowing arrangements. For variable rate borrowings the carrying amount is a reasonable estimate of fair value.

Notes Payable and Convertible Subordinated Debentures

Notes payable and convertible subordinated debentures are made using variable rates, thus, the carrying amount is a reasonable estimate of fair value.

Interest Rate Swaps and Interest Rate Floors

The fair value of interest rate swaps and interest rate floors is obtained from dealer quotes. These values represent the estimated amount United would receive to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written

Because commitments to extend credit and standby letters of credit are made using variable rates, the contract value is a reasonable estimate of fair value.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time United's entire holdings of a particular financial instrument. Because no market exists for a significant portion of United's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

(18) Fair Value of Financial Instruments, continued

The carrying amount and estimated fair values of United's financial instruments at December 31, 1997 and 1996 are as follows (in thousands):

	December 31, 1997		December 31, 1996	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 68,834	68,834	52,670	52,670
Securities held to maturity	69,559	70,845	77,326	77,625
Securities available for sale	143,894	143,894	81,264	81,264
Mortgage loans held for sale	3,962	3,962	6,727	6,727
Loans, net	812,972	814,855	626,449	629,107
Liabilities:				
Deposits	977,079	981,580	773,300	778,068
Federal funds purchased	33,011	33,011	--	--
FHLB advances	43,321	43,087	35,074	34,863
Notes payable	14,069	14,070	10,453	10,453
Convertible subordinated debentures	3,500	3,500	3,500	3,500
Unrecognized financial instruments:				
Commitments to extend credit	106,040	106,040	64,091	64,091
Standby letters of credit	2,520	2,520	1,721	1,721
Swap agreements	12	156	17	97
Floors purchased	3	--	33	21

[ATTACHMENT - PROXY CARD]

COMMON STOCK
OF UNITED COMMUNITY BANKS, INC.

THIS PROXY IS SOLICITED BY THE BOARD OF
DIRECTORS FOR THE 1998 ANNUAL MEETING OF SHAREHOLDERS.

This undersigned hereby appoints Jimmy C. Tallent or Robert L. Head, Jr. the proxy of the undersigned to vote the Common Stock of the undersigned at the Annual Meeting of Shareholders of UNITED COMMUNITY BANKS, INC. to be held on April 16, 1998, and any adjournment thereof.

1. [box] FOR all nominees for director listed below (except as indicated to the contrary):

Jimmy C. Tallent; Billy M. Decker; Thomas C. Gilliland; Robert L. Head, Jr.; Charles E. Hill; Hoyt O. Holloway; P. Deral Horne; John R. Martin; Clarence W. Mason, Sr.; W. C. Nelson, Jr.; Charles E. Parks

(Instruction: To withhold authority to vote for any individual nominee, write that nominee's name on the space provided below)

[box] WITHHOLD AUTHORITY to vote for all nominees listed above.

2. In accordance with their best judgment with respect to any other matters that may properly come before the meeting.

THE BOARD OF DIRECTORS FAVORS A VOTE "FOR" THE ELECTION AS DIRECTORS OF THE PERSONS NAMED IN THE PROXY AND UNLESS INSTRUCTIONS TO THE CONTRARY ARE INDICATED IN THE SPACE PROVIDED, THIS PROXY WILL BE SO VOTED.

Please sign this Proxy exactly as name appears on the Proxy.

Note: When signing as an attorney, trustee, administrator or guardian, please give your title as such. In the case of joint tenants, each joint owner must sign.

Date: _________________________________