**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period Ended September 30, 2002**

**OR**

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

**For the Transition Period from ___________ to ___________**

**Commission file number 0-21656**

**UNITED COMMUNITY BANKS, INC.**

(Exact name of registrant as specified in its charter)

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

| **P.O. Box 398, 63 Highway 515**<br>**Blairsville, Georgia** | **30512** |
|---|---|
| **Address of Principal Executive Offices** | **(Zip Code)** |

**(706 ) 781-2265**

**(Telephone Number)**

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

**YES ☑ NO ☐**

**Common stock, par value $1 per share: 21,344,539 shares outstanding as of September 30, 2002**

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**Part I – FINANCIAL INFORMATION**
**Item 1 – Financial Statements**

**UNITED COMMUNITY BANKS, INC.**
**Consolidated Statement of Income**
**For the Three and Nine Months Ended September 30, 2002 and 2001**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in thousands, except per share data)* | 2002 | 2001 | 2002 | 2001 |
| **Interest revenue:** | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Interest and fees on loans | $ 42,533 | $ 43,173 | $ 126,167 | $ 133,572 |
| Interest on federal funds sold and deposits in banks | 76 | 450 | 427 | 1,525 |
| Interest on investment securities: | | | | |
| Taxable | 5,087 | 6,332 | 16,528 | 20,709 |
| Tax-exempt | 795 | 885 | 2,435 | 2,687 |
| Total interest revenue | 48,491 | 50,840 | 145,557 | 158,493 |
| **Interest expense:** | | | | |
| Interest on deposits: | | | | |
| Demand | 3,073 | 3,089 | 8,469 | 10,395 |
| Savings | 134 | 305 | 398 | 1,247 |
| Time | 11,303 | 15,398 | 34,355 | 51,585 |
| Other borrowings | 4,432 | 5,333 | 14,171 | 16,463 |
| Total interest expense | 18,942 | 24,125 | 57,393 | 79,690 |
| Net interest revenue | 29,549 | 26,715 | 88,164 | 78,803 |
| Provision for loan losses | 1,800 | 1,500 | 5,100 | 4,550 |
| Net interest revenue after provision for loan losses | 27,749 | 25,215 | 83,064 | 74,253 |
| **Fee revenue:** | | | | |
| Service charges and fees | 3,576 | 2,377 | 9,801 | 7,304 |
| Mortgage loan and related fees | 1,844 | 1,486 | 5,087 | 3,801 |
| Consulting fees | 1,216 | 1,112 | 3,381 | 3,732 |
| Brokerage fees | 467 | 389 | 1,456 | 953 |
| Securities gains, net | 64 | 27 | 64 | 219 |
| Other | 560 | 716 | 2,161 | 2,360 |
| Total fee revenue | 7,727 | 6,107 | 21,950 | 18,369 |
| **Total revenue** | 35,476 | 31,322 | 105,014 | 92,622 |
| **Operating expenses:** | | | | |
| Salaries and employee benefits | 14,352 | 12,490 | 42,786 | 36,820 |
| Occupancy | 2,047 | 1,921 | 6,223 | 5,866 |
| Communications and equipment | 1,685 | 1,556 | 4,708 | 4,446 |
| Postage, printing and supplies | 870 | 1,057 | 2,836 | 3,029 |
| Professional fees | 881 | 706 | 2,621 | 2,700 |
| Advertising and public relations | 639 | 659 | 2,358 | 2,058 |
| Amortization of intangibles | 85 | 190 | 255 | 570 |
| Other | 1,992 | 1,930 | 6,332 | 6,254 |
| Total operating expenses | 22,551 | 20,509 | 68,119 | 61,743 |
| Income before income taxes | 12,925 | 10,813 | 36,895 | 30,879 |
| Income taxes | 4,524 | 3,573 | 12,675 | 10,269 |
| **Net income** | $ 8,401 | $ 7,240 | $ 24,220 | $ 20,610 |
| Net income available to common stockholders | $ 8,375 | $ 7,214 | $ 24,142 | $ 20,515 |

| | | | | |
|---|---|---|---|---|
| Earnings per common share: | | | | |
| Basic | $ .39 | $ .34 | $ 1.13 | $ .97 |
| Diluted | .38 | .33 | 1.09 | .95 |
| Average common shares outstanding: | | | | |
| Basic | 21,392 | 21,090 | 21,402 | 21,063 |
| Diluted | 22,233 | 21,662 | 22,227 | 21,648 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| *($ in thousands)* | **September 30, 2002** | **December 31, 2001** | **September 30, 2001** |
|---|---|---|---|
| **ASSETS** | (Unaudited) | (Audited) | (Unaudited) |
| Cash and due from banks | $ 81,480 | $ 87,299 | $ 68,787 |
| Interest-bearing deposits in banks | 36,168 | 17,604 | 27,763 |
| Federal funds sold | 28,344 | 18,124 | 40,598 |
| Cash and cash equivalents | 145,992 | 123,027 | 137,148 |
| Securities available for sale | 487,437 | 494,274 | 477,092 |
| Mortgage loans held for sale | 24,766 | 16,538 | 13,589 |
| Loans, net of unearned income | 2,331,862 | 2,007,990 | 1,836,188 |
| Less - allowance for loan losses | 30,300 | 27,124 | 26,427 |
| Loans, net | 2,301,562 | 1,980,866 | 1,809,761 |
| Premises and equipment, net | 69,585 | 64,066 | 57,556 |
| Accrued interest receivable | 18,335 | 22,544 | 22,430 |
| Intangible assets | 12,853 | 13,109 | 8,050 |
| Other assets | 81,863 | 34,833 | 35,742 |
| **Total assets** | $ 3,142,393 | $ 2,749,257 | $ 2,561,368 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Liabilities: | | | |
| Deposits: | | | |
| Demand | $ 317,783 | $ 278,995 | $ 270,971 |
| Interest-bearing demand | 684,577 | 526,608 | 494,889 |
| Savings | 99,244 | 96,992 | 94,556 |
| Time | 1,285,358 | 1,213,904 | 1,138,959 |
| Total deposits | 2,386,962 | 2,116,499 | 1,999,375 |
| Accrued expenses and other liabilities | 71,473 | 22,294 | 32,578 |
| Federal funds purchased and repurchase agreements | 80,219 | 77,214 | 45,318 |
| Federal Home Loan Bank advances | 332,860 | 290,394 | 256,745 |
| Long-term debt and other borrowings | 55,449 | 48,191 | 42,706 |
| **Total liabilities** | 2,926,963 | 2,554,592 | 2,376,722 |
| Stockholders' equity: | | | |
| Preferred stock, $1 par value; $10 stated value; 10,000,000 shares authorized; 172,600 shares issued and outstanding | 1,726 | 1,726 | 1,726 |
| Common stock, $1 par value; 50,000,000 shares authorized; 21,805,924, 21,805,924 and 21,089,672 shares issued | 21,806 | 21,806 | 21,090 |
| Capital surplus | 62,419 | 62,829 | 49,384 |
| Retained earnings | 128,504 | 108,371 | 103,062 |
| Treasury stock; 461,385 and 294,948 shares, at cost | (9,401) | (5,749) | - |
| Accumulated other comprehensive income | 10,376 | 5,682 | 9,384 |
| **Total stockholders' equity** | 215,430 | 194,665 | 184,646 |
| **Total liabilities and stockholders' equity** | $ 3,142,393 | $ 2,749,257 | $ 2,561,368 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| *(in thousands)* | Preferred Stock | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2000** | $ 2,874 | $ 21,028 | $ 48,872 | $ 85,718 | $ - | $ (104) | $ 158,388 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 20,610 | | | 20,610 |
| Other comprehensive income: | | | | | | | |
| Unrealized holding gains on available for sale securities net of deferred tax expense and reclassification adjustment | | | | | | 8,112 | 8,112 |
| Unrealized gains on derivative financial instruments qualifying as cash flow hedges net of deferred tax expense | | | | | | 1,376 | 1,376 |
| Comprehensive income | | | | 20,610 | | 9,488 | 30,098 |
| Cash dividends declared ($.15 per share) | | | | (3,171) | | | (3,171) |
| Exercise of stock options (issued 61,774 shares) | | 62 | 512 | | | | 574 |
| Preferred stock retired (114,810 shares) | (1,148) | | | | | | (1,148) |
| Dividends declared on preferred stock ($.45 per share) | | | | (95) | | | (95) |
| **Balance, September 30, 2001** | $ 1,726 | $ 21,090 | $ 49,384 | $ 103,062 | $ - | $ 9,384 | $ 184,646 |
| **Balance, December 31, 2001** | $ 1,726 | $ 21,806 | $ 62,829 | $ 108,371 | $ (5,749) | $ 5,682 | $ 194,665 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 24,220 | | | 24,220 |
| Other comprehensive: | | | | | | | |
| Unrealized holding gains on available for sale securities net of deferred tax expense and reclassification adjustment | | | | | | 4,485 | 4,485 |
| Unrealized gains on derivative financial instruments qualifying as cash flow hedges net of deferred tax expense | | | | | | 209 | 209 |
| Comprehensive income | | | | 24,220 | | 4,694 | 28,914 |
| Cash dividends declared ($.1875 per share) | | | | (4,009) | | | (4,009) |
| Exercise of stock options (44,374 shares) | | | (429) | | 866 | | 437 |
| Acquisition of treasury stock (223,281 shares) | | | | | (4,761) | | (4,761) |
| Employee stock grant (12,470 shares) | | | | | 243 | | 243 |
| Tax benefit from option exercises | | | 19 | | | | 19 |
| Dividends declared on preferred stock ($.45 per share) | | | | (78) | | | (78) |
| **Balance, September 30, 2002** | $ 1,726 | $ 21,806 | $ 62,419 | $ 128,504 | $ (9,401) | $ 10,376 | $ 215,430 |

* Comprehensive income for the third quarters of 2002 and 2001 was $9,062 and $11,423, respectively.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| *(in thousands)* | **2002** | **2001** |
|---|---|---|
| **Operating activities:** | (Unaudited) | (Unaudited) |
| Net income | $ 24,220 | $ 20,610 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 5,817 | 4,234 |
| Provision for loan losses | 5,100 | 4,550 |
| Gain on sale of securities available for sale | (64) | (219) |
| Gain on sale of other assets | (15) | (127) |
| Employee stock grant | 243 | - |
| Changes in assets and liabilities: | | |
| Other assets and accrued interest receivable | (1,906) | 79 |
| Accrued expenses and other liabilities | 5,238 | 3,991 |
| Mortgage loans held for sale | (8,228) | (7,464) |
| **Net cash provided by operating activities** | 30,405 | 25,654 |
| **Investing activities:** | | |
| Proceeds from sales of securities available for sale | 10,289 | 26,288 |
| Proceeds from maturities and calls of securities available for sale | 151,592 | 117,816 |
| Purchases of securities available for sale | (149,174) | (75,952) |
| Net increase in loans | (327,149) | (49,295) |
| Purchases of premises and equipment | (10,083) | (4,442) |
| Proceeds from sale of other real estate | 2,042 | 1,455 |
| **Net cash (used) provided by investing activities** | (322,483) | 15,870 |
| **Financing activities** | | |
| Net change in deposits | 270,463 | 3,510 |
| Net change in federal funds purchased and repurchase agreements | 3,005 | (7,322) |
| Net change in notes payable and other borrowings | 7,258 | 1,463 |
| Proceeds from FHLB advances | 256,699 | 115,000 |
| Repayments of FHLB advances | (214,233) | (115,480) |
| Proceeds from exercise of stock options | 437 | 574 |
| Retirement of preferred stock | - | (1,148) |
| Purchase of treasury stock | (4,761) | - |
| Cash dividends on common stock | (3,747) | (3,171) |
| Cash dividends on preferred stock | (78) | (95) |
| **Net cash provided (used) by financing activities** | 315,043 | (6,669) |
| **Net change in cash and cash equivalents** | 22,965 | 34,855 |
| Cash and cash equivalents at beginning of period | 123,027 | 102,293 |
| **Cash and cash equivalents at end of period** | $ 145,992 | $ 137,148 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the period for: | | |
| Interest | $ 59,768 | $ 81,643 |
| Income taxes | 14,556 | 3,583 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**United Community Banks, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1 - Accounting Policies**

The accounting and financial reporting policies of United Community Banks, Inc. ("United") and its subsidiaries conform to accounting principles generally accepted in the United States of America and general banking industry practices. The accompanying interim consolidated financial statements have not been audited. All material intercompany balances and transactions have been eliminated. A more detailed description of United's accounting policies is included in the 2001 annual report filed on Form 10-K.

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

**Note 2 - Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30 *(in thousands, except per share data).* All amounts have been restated to reflect the two for one stock split effective May 29, 2002, for shareholders of record May 15, 2002, that was announced on April 25, 2002.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| **Basic earnings per share:** | | | | |
| Weighted average shares outstanding | 21,392 | 21,090 | 21,402 | 21,063 |
| Net income available to common shareholders | $ 8,375 | $ 7,214 | $ 24,142 | $ 20,515 |
| Basic earnings per share | $ .39 | $ .34 | $ 1.13 | $ .97 |
| **Diluted earnings per share:** | | | | |
| Weighted average shares outstanding | 21,392 | 21,090 | 21,402 | 21,063 |
| Net effect of the assumed exercise of stock options based on the treasury \stock method using average market price for the period | 561 | 292 | 545 | 305 |
| Effect of conversion of subordinated debt | 280 | 280 | 280 | 280 |
| Total weighted average shares and common stock equivalents outstanding | 22,233 | 21,662 | 22,227 | 21,648 |
| Net income available to common shareholders | $ 8,375 | $ 7,214 | $ 24,142 | $ 20,515 |
| Income effect of conversion of subordinated debt, net of tax | 29 | 40 | 86 | 137 |
| Net income, adjusted for effect of conversion of subordinated debt, net of tax | 8,404 | 7,254 | 24,228 | 20,652 |
| Diluted earnings per share | $ .38 | $ .33 | $ 1.09 | $ .95 |

**Note 3 – Stock Split**

On April 25, 2002, United announced a two-for-one stock split in the form of a 100% stock dividend effective May 29, 2002 for shareholders of record May 15, 2002. All financial statements and per share amounts included in the financial statements and accompanying notes have been restated to reflect the change in the number of shares outstanding as of the beginning of the earliest period presented.

**Note 4 – Reclassification**

Certain amounts for the comparative periods of 2001 have been reclassified to conform to the 2002 presentation.

**Note 5 – New Accounting Pronouncements**

Effective October 1, 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 147, "Acquisitions of Certain Financial Institutions," which amends both SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions." It also requires that those transactions be accounted for in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142 "Goodwill and Other Intangible Assets."

Specifically, the requirement in paragraph 5 of SFAS 72 to recognize (and subsequently amortize) any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset no longer applies to business combinations within the scope of SFAS No. 72. In addition, this Statement amends SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that SFAS No. 144 requires for other long-lived assets that are held and used.

This new pronouncement will not have a significant impact on the financial position or results of operations of United.

**Part I**

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

### Forward-Looking Statements

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

### Overview

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

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

On May 15, 2002, United had a two-for-one stock split.  All financial information and per share amounts included in Management's Discussion and Analysis have been restated to reflect the change in the number of shares outstanding as of the beginning of the earliest period presented.

On July 18, 2002, United's Board of Directors approved the merger of its eight Georgia banking charters into a single charter.  The banks will continue to operate under the direction of their local bank presidents and affiliate board of directors.

At September 30, 2002, United had total consolidated assets of $3.1 billion, total loans of $2.3 billion, total deposits of $2.4 billion and stockholders' equity of $215 million.

### Critical Accounting Policies

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

## Results of Operations

## Table 1 – Financial Highlights

**UNITED COMMUNITY BANKS, INC.**
**For the Three and Nine Months Ended September 30, 2002**

| *(in thousands, except per share data; taxable equivalent)* | 2002 Third Quarter | 2002 Second Quarter | 2002 First Quarter | 2001 Fourth Quarter | 2001 Third Quarter |
|---|---|---|---|---|---|
| **OPERATING INCOME SUMMARY** [1] | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Interest revenue | $ 49,076 | $ 49,326 | $ 48,951 | $ 49,914 | $ 51,312 |
| Interest expense | 18,942 | 18,761 | 19,690 | 21,182 | 24,125 |
| Net interest revenue | 30,134 | 30,565 | 29,261 | 28,732 | 27,187 |
| Provision for loan losses | 1,800 | 1,800 | 1,500 | 1,450 | 1,500 |
| Total fee revenue | 7,727 | 7,302 | 6,921 | 6,898 | 6,107 |
| **Total revenue** | 36,061 | 36,067 | 34,682 | 34,180 | 31,794 |
| Operating expenses | 22,551 | 23,195 | 22,373 | 22,163 | 20,509 |
| Income before taxes | 13,510 | 12,872 | 12,309 | 12,017 | 11,285 |
| Income taxes | 5,109 | 4,773 | 4,589 | 4,312 | 4,045 |
| **Net income** | $ 8,401 | $ 8,099 | $ 7,720 | $ 7,705 | $ 7,240 |
| **PER COMMON SHARE** [1] | | | | | |
| Basic | $ .39 | $ .38 | $ .36 | $ .36 | $ .34 |
| Diluted | .38 | .36 | .35 | .35 | .33 |
| Cash dividends declared | .0625 | .0625 | .0625 | .05 | .05 |
| Book value | 10.01 | 9.71 | 9.11 | 8.97 | 8.67 |
| **KEY PERFORMANCE RATIOS** [1] | | | | | |
| Return on common equity [3] | 16.56 % | 16.67 % | 16.52 % | 16.93 % | 16.77% |
| Return on average assets | 1.12 | 1.12 | 1.12 | 1.14 | 1.12 |
| Efficiency ratio | 59.66 | 61.25 | 61.83 | 62.19 | 61.65 |
| Net interest margin | 4.31 | 4.51 | 4.51 | 4.59 | 4.51 |
| Dividend payout ratio | 16.03 | 16.45 | 17.36 | 13.89 | 14.71 |
| Average equity to average assets | 7.15 | 6.95 | 7.02 | 7.11 | 6.96 |
| **ASSET QUALITY** | | | | | |
| Allowance for loan losses | $ 30,300 | $ 29,190 | $ 28,134 | $ 27,124 | $ 26,427 |
| Non-performing assets | 9,591 | 9,221 | 9,130 | 9,670 | 9,176 |
| Net charge-offs | 690 | 745 | 490 | 1,757 | 724 |
| Allowance for loan losses to loans | 1.30 % | 1.29 % | 1.31 % | 1.35 % | 1.44% |
| Non-performing assets to total assets | .31 | .31 | .32 | .35 | .36 |
| Net charge-offs to average loans | .12 | .14 | .10 | .36 | .16 |
| **AVERAGE BALANCES** | | | | | |
| Loans | $ 2,300,681 | $ 2,211,980 | $ 2,085,153 | $ 1,930,400 | $ 1,844,934 |
| Earning assets [2] | 2,780,276 | 2,717,074 | 2,624,650 | 2,491,762 | 2,399,920 |
| Total assets | 2,976,509 | 2,911,514 | 2,806,575 | 2,673,769 | 2,571,098 |
| Deposits | 2,378,656 | 2,286,231 | 2,169,845 | 2,061,461 | 1,997,273 |
| Stockholders' equity | 212,703 | 202,319 | 196,895 | 190,008 | 179,041 |
| Common shares outstanding: | | | | | |
| Basic | 21,392 | 21,407 | 21,407 | 21,276 | 21,090 |
| Diluted | 22,233 | 22,383 | 22,063 | 21,893 | 21,662 |
| **AT PERIOD END** | | | | | |
| Loans | $ 2,331,862 | $ 2,269,973 | $ 2,153,743 | $ 2,007,990 | $ 1,836,188 |
| Earning assets | 2,908,577 | 2,823,262 | 2,680,066 | 2,554,530 | 2,395,230 |
| Total assets | 3,142,393 | 3,014,608 | 2,871,843 | 2,749,257 | 2,561,368 |
| Deposits | 2,386,962 | 2,340,376 | 2,256,236 | 2,116,499 | 1,999,375 |
| Stockholders' equity | 215,430 | 209,587 | 196,703 | 194,665 | 184,646 |
| Common shares outstanding | 21,345 | 21,414 | 21,400 | 21,511 | 21,090 |
| **REPORTED RESULTS** | | | | | |
| Net income | $ 8,401 | $ 8,099 | $ 7,720 | $ 6,621 | $ 7,240 |
| Earnings per share: | | | | | |
| Basic | .39 | .38 | .36 | .31 | .34 |
| Diluted | .38 | .36 | .35 | .30 | .33 |
| Return on common equity [3] | 16.56 % | 16.67 % | 16.52 % | 14.54 % | 16.77% |
| Return on average assets | 1.12 | 1.12 | 1.12 | .98 | 1.12 |
| Efficency ratio | 59.66 | 61.25 | 61.83 | 66.73 | 61.65 |
| Dividend payout ratio | 16.03 | 16.45 | 17.36 | 16.13 | 14.71 |

(1) Presented on an operating basis which excludes after-tax nonrecurring charges totaling $1.1 million or $.05 per diluted common share recorded in the fourth quarter of 2001.
(2) Excludes unrealized gains and losses on securities available for sale.
(3) Return on common equity is calculated by dividing net income available to common stockholders by average realized common equity which excludes accumulated other comprehensive income.

**UNITED COMMUNITY BANKS, INC.**
**For the Three and Nine Months Ended September 30, 2002**

## (Table 1 - continued)

| *(in thousands, except per share data; taxable equivalent)* | Third Quarter 2002-2001 Change | For the Nine Months Ended 2002 | 2001 | YTD 2002-2001 Change |
|---|---|---|---|---|
| | | (Unaudited) | (Unaudited) | |
| **OPERATING INCOME SUMMARY** (1) | | | | |
| Interest revenue | | $ 147,353 | $ 160,122 | |
| Interest expense | | 57,393 | 79,690 | |
| Net interest revenue | 11 % | 89,960 | 80,432 | 12 % |
| Provision for loan losses | | 5,100 | 4,550 | |
| Total fee revenue | 27 | 21,950 | 18,369 | 19 |
| **Total revenue** | 13 | 106,810 | 94,251 | 13 |
| Operating expenses | 10 | 68,119 | 61,743 | 10 |
| Income before taxes | 20 | 38,691 | 32,508 | 19 |
| Income taxes | | 14,471 | 11,898 | |
| **Net income** | 16 | $ 24,220 | $ 20,610 | 18 |
| **PER COMMON SHARE** (1) | | | | |
| Basic | 15 | $ 1.13 | $ .97 | 16 |
| Diluted | 15 | 1.09 | .95 | 15 |
| Cash dividends declared | 25 | .1875 | .15 | 25 |
| Book value | 15 | 10.01 | 8.67 | 15 |
| **KEY PERFORMANCE RATIOS** (1) | | | | |
| Return on common equity (3) | | 16.58 % | 16.65 % | |
| Return on average assets | | 1.12 | 1.08 | |
| Efficiency ratio | | 60.90 | 62.63 | |
| Net interest margin | | 4.44 | 4.49 | |
| Dividend payout ratio | | 16.59 | 15.46 | |
| Average equity to average assets | | 7.04 | 6.71 | |
| **ASSET QUALITY** | | | | |
| Allowance for loan losses | | $ 30,300 | $ 26,427 | |
| Non-performing assets | | 9,591 | 9,176 | |
| Net charge-offs | | 1,924 | 2,821 | |
| Allowance for loan losses to loans | | 1.30 % | 1.44 % | |
| Non-performing assets to total assets | | .31 | .36 | |
| Net charge-offs to average loans | | .12 | .21 | |
| **AVERAGE BALANCES** | | | | |
| Loans | 25 | $ 2,200,061 | $ 1,829,551 | 20 |
| Earning assets (2) | 16 | 2,707,904 | 2,394,587 | 13 |
| Total assets | 16 | 2,898,823 | 2,555,473 | 13 |
| Deposits | 19 | 2,279,009 | 1,992,799 | 14 |
| Stockholders' equity | 19 | 204,030 | 171,472 | 19 |
| Common shares outstanding: | | | | |
| Basic | 1 | 21,402 | 21,063 | 2 |
| Diluted | 3 | 22,227 | 21,648 | 3 |
| **AT PERIOD END** | | | | |
| Loans | 27 | $ 2,331,862 | $ 1,836,188 | 27 |
| Earning assets | 21 | 2,908,577 | 2,395,230 | 21 |
| Total assets | 23 | 3,142,393 | 2,561,368 | 23 |
| Deposits | 19 | 2,386,962 | 1,999,375 | 19 |
| Stockholders' equity | 17 | 215,430 | 184,646 | 17 |
| Common shares outstanding | 1 | 21,345 | 21,090 | 1 |
| **REPORTED RESULTS** | | | | |
| Net income | 16 | $ 24,220 | $ 20,610 | 18 |
| Earnings per share: | | | | |
| Basic | 15 | 1.13 | .97 | 16 |
| Diluted | 15 | 1.09 | .95 | 15 |
| Return on common equity (3) | | 16.58 % | 16.65 % | |
| Return on average assets | | 1.12 | 1.08 | |
| Efficency ratio | | 60.90 | 62.63 | |
| Dividend payout ratio | | 16.59 | 15.46 | |

(1) Presented on an operating basis which excludes after-tax nonrecurring charges totaling $1.1 million or $.05 per diluted common share recorded in the fourth quarter of 2001.
(2) Excludes unrealized gains and losses on securities available for sale.
(3) Return on common equity is calculated by dividing net income available to common stockholders by average realized common equity which excludes accumulated other comprehensive income.

Net operating income was $8.4 million for the three months ended September 30, 2002, an increase of $1.2 million, or 16%, from the same period in 2001. Diluted earnings per share was $.38 for the three months ended September 30, 2002, compared with $.33 for the same period in 2001, an increase of 15%. Return on average common stockholders' equity for the third quarter of 2002 was 16.56%, compared with 16.77% for the third quarter of 2001. Return on average assets for the three months ended September 30, 2002 was 1.12%, unchanged from the three months ended September 30, 2001.

For the nine months ended September 30, 2002, net operating income was $24.2 million, an increase of $3.6 million or 18% over the first nine months of 2001. Diluted earnings per share was $1.09 for the nine months ended September 30, 2002, compared with $.95 for the same period in 2001, an increase of 15%. Return on average common stockholders' equity for the first nine months of 2002 was 16.58%, compared with 16.65% for the first nine months of 2001. Return on average assets for the nine months ended September 30, 2002 was 1.12%, compared to 1.08% for the nine months ended September 30, 2001.

***Net Interest Revenue (Taxable Equivalent)***

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and liabilities) is the single largest component of United's total revenue. United actively manages this revenue source to provide an optimal level of revenue while balancing interest rate, credit and liquidity risks. Net interest revenue for the quarter of $30.1 million was up 11% over last year, with year-to-date up 12% at $90.0 million. The main driver of this increase was loan growth. Average loans increased $456 million or 25% from the third quarter of last year. This was due to a rise in demand starting late in the fourth quarter of 2001, the addition of seasoned commercial lenders in the metro Atlanta market and the merger with Peoples Bancorp, Inc. ("United Community Bank West Georgia") completed in the latter half of 2001. The period end total loans balance increased $496 million over last year, $257 million was across United's markets in north Georgia and western North Carolina. The balance of the increase, $239 million was in the metro Atlanta market, including $62 million relating to the merger, as well as strong growth in the remainder of our metro Atlanta market.

Average interest-earning assets increased $380 million, or 16%, for the quarter and $313 million, or 13%, year-to-date, over the same periods for 2001, reflecting the growth in loans net of attrition in the investment securities portfolio. The majority of the increase in interest-earning assets was funded by interest-bearing sources as the increases in average interest-bearing liabilities for the quarter and year-to-date were approximately $333 million and $285 million over 2001.

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

For the three months ended September 30, 2002 and 2001, United's net interest spread was 3.91% and 3.92%, respectively, while the net interest margin was 4.31% and 4.51%, respectively. For the nine months ended September 30, 2002 and 2001, United's net interest spread was 4.04% and 3.84%, respectively, while the net interest margin was 4.44% and 4.49%, respectively. Though net interest spread for the quarter was down only slightly from the third quarter of 2001, and the year-to-date net interest spread increased over the same period in 2001, the net interest margin was down in both the quarterly and year-to-date comparisons. The decline in the net interest margin was primarily caused by the effects of the low interest rate environment on the growing floating rate loan portfolio. At September 30, 2002, United had approximately $950 million in loans indexed to the daily Wall Street prime rate compared with $390 million a year ago. United also had $75 million in notional value of receive-fixed swap contracts that matured late in the second and early in the third quarters. The combination of the maturing swaps and increase in floating rate loans increased the asset sensitivity of the balance sheet and compressed the net interest margin. The effect of the margin compression was partially offset by improvement in asset and liability mix caused by the increase in loans and interest-bearing deposits. Deposit incentive programs begun earlier in the year to attract certificates of deposits and money market accounts also contributed to the margin compression.

The average yield on interest-earning assets for the third quarter of 2002 was 7.01%, compared with 8.49% in the third quarter of 2001. For the first nine months of 2002, the average yield on interest-earning assets was 7.27% compared with 8.94% for the first nine months of 2001. The main driver of this decrease was loan yields which for the three and nine months ended September 30, 2002 were down 193 and 209 basis points, respectively, compared to the same periods in 2001. A shift toward floating rate loans contributed to the decline caused by the lower rate environment.

The average cost of interest-bearing liabilities for the third quarter 2002 was 3.10%, a decrease of 147 basis points from third quarter 2001. For the nine months ended September 30, 2002 and 2001, the average cost of interest-bearing liabilities was 3.23% and 5.10%, respectively, a decrease of 187 basis points. Both the quarterly and year-to-date decreases were primarily due to lower rates paid on interest-bearing demand deposits and savings accounts and lower pricing on new and renewed time deposits. For the third quarter of 2002, average core deposits, which include transaction accounts, savings accounts and non-brokered certificates of deposit less than $100,000, increased $240 million, or 15%, to $1.8 billion from a year ago.

The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2002 and 2001.

**Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis**
For the Three Months Ended September 30,
*(In thousands, taxable equivalent)*

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Avg. Rate | Average Balance | Interest | Avg. Rate |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income (1) | $ 2,300,681 | $ 42,470 | 7.32 % | $ 1,844,934 | $ 43,022 | 9.25 % |
| Taxable securities (3) | 365,199 | 5,087 | 5.57 | 394,371 | 6,332 | 6.42 |
| Tax-exempt securities (1) | 69,834 | 1,308 | 7.49 | 75,781 | 1,328 | 7.01 |
| Federal funds sold and other interest-earning assets | 44,562 | 211 | 1.89 | 84,834 | 630 | 2.97 |
| **Total interest-earning assets** | 2,780,276 | 49,076 | 7.01 | 2,399,920 | 51,312 | 8.49 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (30,038) | | | (26,220) | | |
| Cash and due from banks | 76,611 | | | 69,813 | | |
| Premises and equipment | 68,761 | | | 57,771 | | |
| Other assets | 80,899 | | | 69,814 | | |
| **Total assets** | $ 2,976,509 | | | $ 2,571,098 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Transaction accounts | $ 671,576 | $ 3,073 | 1.82 | $ 479,478 | $ 3,089 | 2.56 |
| Savings deposits | 99,723 | 134 | .53 | 93,382 | 305 | 1.30 |
| Certificates of deposit | 1,294,296 | 11,303 | 3.46 | 1,154,127 | 15,398 | 5.29 |
| Total interest-bearing deposits | 2,065,595 | 14,510 | 2.79 | 1,726,987 | 18,792 | 4.32 |
| Federal Home Loan Bank advances | 290,542 | 3,233 | 4.41 | 274,553 | 3,846 | 5.56 |
| Long-term debt and other borrowings | 71,452 | 1,199 | 6.66 | 93,147 | 1,487 | 6.33 |
| Total borrowed funds | 361,994 | 4,432 | 4.86 | 367,700 | 5,333 | 5.75 |
| **Total interest-bearing liabilities** | 2,427,589 | 18,942 | 3.10 | 2,094,687 | 24,125 | 4.57 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 313,061 | | | 270,286 | | |
| Other liabilities | 23,156 | | | 27,084 | | |
| Total liabilities | 2,763,806 | | | 2,392,057 | | |
| Stockholders' equity | 212,703 | | | 179,041 | | |
| **Total liabilities and stockholders' equity** | $ 2,976,509 | | | $ 2,571,098 | | |
| **Net interest revenue** | | $ 30,134 | | | $ 27,187 | |
| Net interest-rate spread | | | 3.91 % | | | 3.92 % |
| **Net interest margin (2)** | | | 4.31 % | | | 4.51 % |

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities.
(2) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.
(3) Securities available for sale are reported at amortized cost. Pretax unrealized gains of $13.6 million in 2002 and $8.8 million in 2001 are included in other assets for purposes of this presentation.

The following table shows the relationship between interest revenue and expense and the average balances of interest-earning assets and interest-bearing liabilities for the nine months ended September 30, 2002 and 2001.

**Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis (continued)**

For the Nine Months Ended September 30,

*(In thousands, taxable equivalent)*

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Average Balance** | **Interest** | **Avg. Rate** | **Average Balance** | **Interest** | **Avg. Rate** |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income (1) | $ 2,200,061 | $ 125,988 | 7.66 % | $ 1,829,551 | $ 133,414 | 9.75 % |
| Taxable securities (3) | 379,437 | 16,528 | 5.81 | 414,490 | 20,709 | 6.66 |
| Tax-exempt securities (1) | 70,513 | 4,006 | 7.57 | 77,462 | 4,032 | 6.94 |
| Federal funds sold and other interest-earning assets | 57,893 | 831 | 1.91 | 73,084 | 1,967 | 3.59 |
| **Total interest-earning assets** | 2,707,904 | 147,353 | 7.27 | 2,394,587 | 160,122 | 8.94 |
| Non-interest-earning assets: | | | | | | |
| Allowance for loan losses | (28,947) | | | (25,810) | | |
| Cash and due from banks | 75,412 | | | 60,097 | | |
| Premises and equipment | 67,291 | | | 57,358 | | |
| Other assets | 77,163 | | | 69,241 | | |
| **Total assets** | $ 2,898,823 | | | $ 2,555,473 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Transaction accounts | $ 621,811 | $ 8,469 | 1.82 | $ 450,399 | $ 10,395 | 3.09 |
| Savings deposits | 97,875 | 398 | .54 | 90,017 | 1,247 | 1.85 |
| Certificates of deposit | 1,262,046 | 34,355 | 3.64 | 1,183,114 | 51,585 | 5.83 |
| Total interest-bearing deposits | 1,981,732 | 43,222 | 2.92 | 1,723,530 | 63,227 | 4.90 |
| Federal Home Loan Bank advances | 288,484 | 10,282 | 4.77 | 275,094 | 11,804 | 5.74 |
| Long-term debt and other borrowings | 104,379 | 3,889 | 4.98 | 90,512 | 4,659 | 6.88 |
| Total borrowed funds | 392,863 | 14,171 | 4.82 | 365,606 | 16,463 | 6.02 |
| **Total interest-bearing liabilities** | 2,374,595 | 57,393 | 3.23 | 2,089,136 | 79,690 | 5.10 |
| Non-interest-bearing liabilities: | | | | | | |
| Non-interest-bearing deposits | 297,277 | | | 269,269 | | |
| Other liabilities | 22,921 | | | 25,596 | | |
| Total liabilities | 2,694,793 | | | 2,384,001 | | |
| Stockholders' equity | 204,030 | | | 171,472 | | |
| **Total liabilities and stockholders' equity** | $ 2,898,823 | | | $ 2,555,473 | | |
| **Net interest revenue** | | $ 89,960 | | | $ 80,432 | |

| | | |
|---|---|---|
| Net interest-rate spread | 4.04 % | 3.84 % |
| **Net interest margin [(2)]** | 4.44 % | 4.49 % |

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities.
(2) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.
(3) Securities available for sale are reported at amortized cost. Pretax unrealized gains of $9.5 million in 2002 and $7.7 million in 2001are included in other assets for purposes of this presentation.

The following table shows the relative impact on net interest revenue for changes in the average outstanding balances (volume) of interest-earning assets and interest-bearing liabilities and the rates earned and paid by United on such assets and liabilities. Variances resulting from a combination of changes in rate and volume are allocated in proportion to the absolute dollar amounts of the change in each category.

**Table 3 - Change in Interest Revenue and Expense on a Tax Equivalent Basis**
*(in thousands)*

| | Three Months Ended September 30, 2002 Compared to 2001 Increase (decrease) due to changes in | | | Nine Months Ended September 30, 2002 Compared to 2001 Increase (decrease) due to changes in | | |
|---|---|---|---|---|---|---|
| | **Volume** | **Rate** | **Total** | **Volume** | **Rate** | **Total** |
| **Interest-earning assets:** | | | | | | |
| Loans | $ 9,426 | $ (9,978) | $ (552) | $ 24,203 | $ (31,629) | $ (7,426) |
| Taxable securities | (446) | (799) | (1,245) | (1,662) | (2,519) | (4,181) |
| Tax-exempt securities | (108) | 88 | (20) | (135) | 109 | (26) |
| Federal funds sold and other interest-earning assets | (238) | (181) | (419) | (350) | (786) | (1,136) |
| **Total interest-earning assets** | 8,634 | (10,870) | (2,236) | 22,056 | (34,825) | (12,769) |
| **Interest-bearing liabilities:** | | | | | | |
| Transaction accounts | 1,029 | (1,045) | (16) | 3,175 | (5,101) | (1,926) |
| Savings deposits | 19 | (190) | (171) | 100 | (949) | (849) |
| Certificates of deposit | 1,702 | (5,797) | (4,095) | 3,247 | (20,477) | (17,230) |
| Total interest-bearing deposits | 2,750 | (7,032) | (4,282) | 6,522 | (26,527) | (20,005) |
| Federal Home Loan Bank advances | 214 | (827) | (613) | 553 | (2,075) | (1,522) |
| Long-term debt and other borrowings | (361) | 73 | (288) | 643 | (1,413) | (770) |
| Total borrowed funds | (147) | (754) | (901) | 1,196 | (3,488) | (2,292) |
| **Total interest-bearing liabilities** | 2,603 | (7,786) | (5,183) | 7,718 | (30,015) | (22,297) |
| **Increase in net interest revenue** | $ 6,031 | $ (3,084) | $ 2,947 | $ 14,338 | $ (4,810) | $ 9,528 |

***Provision for Loan Losses***

The provision for loan losses was $1.8 million for the third quarter of 2002, compared with $1.5 million for the same period in 2001. For the first nine months of 2002, the provision was $5.1 million , compared to $4.6 million for the first nine months of 2001. As a percentage of average outstanding loans (on an annualized basis), the third quarter and year-to-date 2002 provision for loan losses was .31%, while for third quarter and year-to-date 2001 it was .33%. United continues to experience strong credit quality and a relatively stable level of non-performing assets. Net loan charge-offs as a percentage of average outstanding loans for the three months ended September 30, 2002 were .12% as compared with .16% for the same period in 2001. For the nine months ended September 30, 2002 and 2001, net loan charge-offs as a percentage of average outstanding loans were .12% and .21%, respectively.

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

***Fee Revenue***

Fee revenue for the second quarter of 2002, totaled $7.7 million, compared with $6.1 million for 2001. Fee revenue was approximately 21% of total revenue for both the quarter and year-to-date, compared with 19% for the same periods a year ago. United is focused on increasing fee revenue through new products and services. The following table presents the components of fee revenue for the third quarter and year-to-date for 2002 and 2001.

**Table 4 - Fee Revenue**
For the Three and Nine Months Ended September 30,

*(in thousands, taxable equivalent)*

| | Three Months Ended September 30, | | Change | Nine Months Ended September 30, | | Change |
|---|---|---|---|---|---|---|
| | **2002** | **2001** | **2002-2001** | **2002** | **2001** | **2002-2001** |
| Service charges and fees | $ 3,576 | $ 2,377 | 50 % | $ 9,801 | $ 7,304 | 34 % |
| Mortgage loan and related fees | 1,844 | 1,486 | 24 | 5,087 | 3,801 | 34 |
| Consulting fees | 1,216 | 1,112 | 9 | 3,381 | 3,732 | (9) |
| Brokerage fees | 467 | 389 | 20 | 1,456 | 953 | 53 |
| Securities gains, net | 64 | 27 | | 64 | 219 | |
| Other | 560 | 716 | (22) | 2,161 | 2,360 | (8) |
| Total | $ 7,727 | $ 6,107 | 27 | $ 21,950 | $ 18,369 | 19 |

The main driver of fee revenue growth was service charges on deposit accounts of $3.6 million, up $1.2 million, or 50%, over the third quarter of 2001, and $9.8 million for the first nine months of 2002, up $2.5 million, or 34% over the first nine months of 2001. The increase in service charges and fees was primarily due to higher fees related to new products and services introduced in 2002, as well as an increase in the number of accounts and transaction activity.

Another contributor to the increase in fee revenue this quarter was mortgage loan and related fees of $1.8 million, up $358,000. Year-to-date, mortgage loan and related fees of $5.1 million were up $1.3 million, or 34% from the same period in 2001. Mortgage loan originations in United's markets for the third quarter of 2002 were up from the third quarter of 2001 and second quarter 2002, as mortgage rates fell in the third quarter of 2002 with the flattening of the yield curve. Substantially all of these originated residential mortgages were sold into the secondary market, including the right to service these loans.

Consulting fees for the quarter were $1.2 million, up $104,000, or 9% from a year ago. Year-to-date, consulting fees of $3.4 million were down 9% from the same period in 2001. The events of third quarter 2001 slowed business dramatically for a good portion of the fourth quarter of 2001. Late in the first quarter of 2002 business started to show signs of a rebound, and continued to recover throughout the second and third quarters.

Brokerage fees of $.5 million were up 20% over the amount reported in the third quarter of 2001. Year-to-date they were up 53% over the first nine months of 2001. Over the last two years, United has been building its brokerage business by recruiting brokers and offering brokerage services to its existing customer base.

Other fee revenue for the three months ended September 30, 2002 was down $156,000 compared to the same period in 2001. The majority of the decrease was due to a gain recorded on the sale of branch property in the third quarter of last year.

*Operating Expenses*

For the three months ended September 30, 2002, total operating expenses were $22.6 million, compared with $20.5 million for 2001, while year-to-date total operating expenses for 2002 were $68.1 million, compared with $61.7 million for the same period in 2001. The following table presents the components of operating expenses for the three and nine months ended September 30, 2002 and 2001.

**Table 5 - Operating Expenses**
For the Three and Nine Months Ended September 30,
*(in thousands)*

| | **Three Months Ended September 30,** | | | **Nine Months Ended September 30,** | | |
|---|---|---|---|---|---|---|
| | **2002** | **2001** | **Change 2002-2001** | **2002** | **2001** | **Change 2002-2001** |
| Salaries and employee benefits | $ 14,352 | $ 12,490 | 15 % | $ 42,786 | $ 36,820 | 16 % |
| Occupancy | 2,047 | 1,921 | 7 | 6,223 | 5,866 | 6 |
| Communications and equipment | 1,685 | 1,556 | 8 | 4,708 | 4,446 | 6 |
| Postage, printing and supplies | 870 | 1,057 | (18) | 2,836 | 3,029 | (6) |
| Professional fees | 881 | 706 | 25 | 2,621 | 2,700 | (3) |
| Advertising and public relations | 639 | 659 | (3) | 2,358 | 2,058 | 15 |
| Amortization of intangibles | 85 | 190 | (55) | 255 | 570 | (55) |
| Other | 1,992 | 1,930 | 3 | 6,332 | 6,254 | 1 |
| Total | $ 22,551 | $ 20,509 | 10 | $ 68,119 | $ 61,743 | 10 |

Salaries and benefits for the third quarter of 2002 totaled $14.4 million, an increase of 15% over the same period in 2001. For the first nine months of 2002, salaries and benefits of $42.8 million were up 16% over the first nine months of 2001. United's full-time equivalent staff increased to 1,098, up 114 from a year ago. The head count growth was evenly divided between a merger, business development and infrastructure. The merger with United Community Bank West Georgia added approximately 30 staff. Business development at various banks added approximately 40 staff, including lenders in the metro Atlanta market, plus five new banking and commercial loan office locations and other customer support. The holding company and operations added approximately 40 staff, which included staff for a regional credit function, two new processing centers and other support areas. An increase in variable incentive compensation resulting from higher mortgage loan production and brokerage fees accounted for most of the remaining increase.

Postage, printing and supplies in the third quarter of $870,000, and year-to-date of $2.8 million, are down 18% and 6%, respectively, from the same periods last year. This decrease was due to the write off of old stationary and printed products in the third quarter of last year as United's banking subsidiaries came under a common brand name.

Professional fees of $881,000 were up $175,000 or 25% from the third quarter of 2001, while for the first nine months of 2002, these expenses were $2,621,000, down 3% over the same period in 2001. The main driver of this increase has been the reliance on professional services to support additional business as the company has grown.

Amortization of intangibles of $85,000 for the quarter and $255,000 year-to-date decreased 55% from prior periods. This decrease was due to adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangibles" which discontinued amortization of goodwill effective January 1, 2002.

The efficiency ratio measures total operating expenses as a percentage of total revenue, excluding the provision for loan losses and net securities gains and losses. United's efficiency ratio for the third quarter of 2002 was 59.66% as compared with 61.65% for the third quarter of 2001. For the first nine months of 2002 and 2001, the efficiency ratios were 60.90% and 62.63%, respectively. The improvement in the efficiency ratio is due to management's focus on controlling operating expenses.

### *Income Taxes*

Income taxes, excluding taxable equivalent adjustments, were $4.5 million in the third quarter of 2002, compared with $3.6 million in the third quarter of 2001. For the first nine months of 2002, income taxes were $12.7 million, compared with $10.3 million over the same period in 2001. The effective tax rates (as a percentage of pre-tax net income) for third quarter 2002 and 2001 were 35.0% and 33.0%, respectively. For the first nine months of 2002 and 2001, the effective tax rates were 34.4% and 33.3%, respectively. These effective tax rates are lower than the statutory tax rate primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes. The increase in the effective tax rates from 2001 is due to less tax-exempt revenue in 2002 on a growing revenue base. Additional information regarding income taxes can be found in Note 10 to the Consolidated Financial Statements filed with United’s 2001 Form 10-K.

## Balance Sheet Review

Total assets at September 30, 2002 were $3.142 billion, 14% higher than the $2.749 billion as of December 31, 2001 and 23% higher than the $2.561 billion as of September 30, 2001. Average total assets for the third quarter of 2002 were $2.977 billion, up $405 million from the average assets in the third quarter of 2001.

### *Loans*

At September 30, 2002, total loans were $2.332 billion, an increase of $496 million, or 27% from September 30, 2001 and an increase of $324 million, or 16%, from December 31, 2001. Average total loans for the third quarter of 2002 were $2.301 billion, an increase of $456 million, or 25% over third quarter of 2001. Over the past five years, United has experienced strong loan growth in all markets, with particular strength in loans secured by real estate, both residential and non-residential. Substantially all of United’s loans are to customers located in Georgia and North Carolina, the immediate market areas of the Banks. This includes loan customers who have a seasonal residence in the Banks’ market areas. After some softness in the first three quarters of 2001, loan growth began to pick up in the fourth quarter of 2001 and continued through the first nine months of 2002. Approximately $230 million of the increase occurred in construction and land development loans which was split evenly between residential and commercial. Growth has also been strong in residential and commercial real estate loans which grew $127 million and $129 million, respectively from September 30, 2001.

### *Asset Quality and Risk Elements*

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

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

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

The following table presents a summary of changes in the allowance for loan losses for the three and nine months ended September 30, 2002 and 2001.

**Table 6 - Summary of Loan Loss Experience**
For the Three and Nine Months Ended September 30,
*(in thousands)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Balance beginning of period | $ 29,190 | $ 25,651 | $ 27,124 | $ 24,698 |
| Loans charged-off | (1,031) | (949) | (2,875) | (3,516) |
| Recoveries | 341 | 225 | 951 | 695 |
| Net charge-offs | (690) | (724) | (1,924) | (2,821) |
| Provision for loan losses | 1,800 | 1,500 | 5,100 | 4,550 |
| Balance end of period | $ 30,300 | $ 26,427 | $ 30,300 | $ 26,427 |
| Total loans: | | | | |
| At period end | $ 2,331,862 | $ 1,836,188 | $ 2,331,862 | $ 1,836,188 |
| Average | 2,300,681 | 1,844,934 | 2,200,061 | 1,829,551 |
| As a percentage of average loans: | | | | |
| Net charge-offs | .12 % | .16 % | .12 % | .21 % |
| Provision for loan losses | .31 | .33 | .31 | .33 |
| Allowance as a percentage of period end loans | 1.30 | 1.44 | 1.30 | 1.44 |
| Allowance as a percentage of non-performing loans | 334 | 363 | 334 | 363 |

Management believes that the allowance for loan losses at September 30, 2002 is adequate to absorb losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Banks, may require additional charges to the provision for loan losses in future periods if the results of their review warrant such additions.

***Non-performing Assets***

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days, totaled $9.1 million at September 30, 2002, compared with $8.6 million at December 31, 2001 and $7.3 million at September 30, 2001. There is no concentration of non-performing loans attributable to any specific industry. At September 30, 2002, the ratio of non-performing loans to total loans was .39%, compared with .43% at December 31, 2001 and .40% at September 30, 2001. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled $9.6 million at September 30, 2002, compared with $9.7 million at December 31, 2001 and $9.2 million at September 30, 2001.

United's policy is to place loans on non-accrual status when, in the opinion of management, the principal and interest on a loan is not likely to be repaid in accordance with the loan terms or when the loan becomes 90 days past due and is not well secured and in the process of collection. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current interest revenue. Depending on management's evaluation of the borrower and loan collateral, interest revenue on a non-accrual loan may be recognized on a cash basis as payments are received.

There were no commitments to lend additional funds to customers whose loans were on non-accrual status at September 30, 2002. The table below summarizes United's non-performing assets.

**Table 7 - Non-Performing Assets**
*(in thousands)*

| | September 30, 2002 | December 31, 2001 | September 30, 2001 |
|---|---|---|---|
| Non-accrual loans | $ 9,022 | $ 8,610 | $ 6,905 |
| Loans past due 90 days or more and still accruing | 47 | - | 366 |
| Total non-performing loans | 9,069 | 8,610 | 7,271 |
| Other real estate owned | 522 | 1,060 | 1,905 |
| Total non-performing assets | $ 9,591 | $ 9,670 | $ 9,176 |
| Total non-performing loans as a percentage of total loans | .39% | .43% | .40% |
| Total non-performing assets as a percentage of total assets | .31 | .35 | .36 |

At September 30, 2002, United had $16.4 million of loans that were not classified as non-performing but for which known information about the borrowers' financial condition caused management to have concern about the ability of the borrowers to comply with the repayment terms of the loans. These loans were identified through the loan review process described in the *Asset Quality and Risk Elements* section of this discussion above that provides for assignment of a risk rating based on a ten-grade scale to all commercial and commercial real estate loans. Based on the evaluation of current market conditions, loan collateral, other secondary sources of repayment and cash flow generation, management does not anticipate any significant losses related to these loans. These loans are subject to continuing management attention and are considered in the determination of the allowance for loan losses.

***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 securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits.

Total average investment securities decreased 7% from third quarter of 2001 primarily due to accelerated prepayment of mortgages underlying mortgage-backed securities, brought on by the current lower rate environment, as well as other scheduled maturities.

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

***Deposits***

Total deposits at September 30, 2002 were $2.387 billion, an increase of $388 million from September 30, 2001. Total non-interest-bearing demand deposit accounts increased $47 million and interest-bearing demand accounts increased $190 million from the third quarter of 2001. Total time deposits as of September 30, 2002 were $1.285 billion, an increase of $146 million from the third quarter 2001.

Time deposits of $100,000 and greater totaled $396 million at September 30, 2002, compared with $347 million at September 30, 2001. United utilizes "brokered" time deposits, issued in certificates of less than $100,000, as an alternative source of cost-effective funding. Brokered time deposits outstanding at September 30, 2002 and September 30, 2001 were $138 and $60 million, respectively.

***Wholesale Funding***

At September 30, 2002, all of the Banks were shareholders in the Federal Home Loan Bank of Atlanta. Through this affiliation, secured advances totaling $333 million were outstanding at rates competitive with time deposits of like maturities. United anticipates continued utilization of this short and long term source of funds. The FHLB advances outstanding at September 30, 2002 had both fixed and floating interest rates ranging from 1.93% to 7.81%. Approximately 23% of the FHLB advances mature prior to December 31, 2002. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 8 to the consolidated financial statements filed with United's 2001 Form 10-K.

**Interest Rate Sensitivity Management**

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

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

One of the tools management utilizes to estimate the sensitivity of net interest revenue to changes in interest rates is an interest rate simulation model. Such estimates are based upon a number of assumptions for various scenarios, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments. The simulation model measures the potential change in net interest revenue over a twelve-month period under six interest rate scenarios. The first scenario assumes rates remain flat ("flat rate scenario") over the next twelve months and is the scenario that all others are compared to in order to measure the change in net interest revenue. The second scenario is a most likely scenario that projects the most likely change in rates over the next twelve months based on the slope of the yield curve. United runs ramp scenarios that assume gradual increases and decreases of 100 basis points each over the next twelve months. United's policy for net interest revenue simulation is limited to a change from the flat rate scenario of less than 5% for the up or down 100 basis point ramp scenarios over twelve months. At September 30, 2002, United's simulation model indicated that a 100 basis point increase in rates over the next twelve months would cause an approximate 3% increase in net interest revenue and a 100 basis point decrease in rates over the next twelve months would cause an approximate 2% decrease in net interest revenue.

In order to assist in achieving a desired level of interest rate sensitivity, United uses off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost and capital effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. At September 30, 2002, United was a party to interest rate swap contracts under which United pays a variable rate and receives a fixed rate.

The following table presents United's interest rate swap contracts outstanding at September 30, 2002.

**Table 8 - Interest Rate Swap Contracts**
As of September 30, 2002
*(in thousands)*

| Type/Maturity | Notional Amount | Rate Received | Rate Paid (1) | Fair Value |
|---|---|---|---|---|
| **Fair Value Contracts** | | | | |
| January 2, 2003 | $ 15,000 | 7.21 % | 4.75 % | $ 95 |
| **Cash Flow Contracts** | | | | |
| March 24, 2003 | $ 25,000 | 7.80 | 4.75 | 395 |
| June 18, 2003 | 25,000 | 7.85 | 4.75 | 595 |
| December 31, 2003 | 100,000 | 4.85 | 4.75 | 292 |
| **Total Cash Flow Contracts** | 150,000 | 5.84 | 4.75 | 1,282 |
| **Total/weighted average** | $ 165,000 | 5.97% | 4.75% | $ 1,377 |

(1) Based on prime rate at September 30, 2002

United's derivative financial instruments are classified as fair value and cash flow hedges. Fair value hedges recognize currently in earnings both the impact of change in the fair value of the derivative financial instrument and the offsetting impact of the change in fair value of the hedged asset or liability. United's fair value hedges consist of one interest rate swap contract, where United receives a fixed interest rate and pays a floating interest rate based on Wall Street Prime. The swap is designated as hedging fixed rate deposit liabilities. The change in fair value of cash flow hedges is recognized in other comprehensive income. United's cash flow hedges consist of three interest rate swap contracts that are designated as hedges of daily repricing prime based loans. Under these contracts, United receives a fixed interest rate and pays a floating rate based on Wall Street Prime.

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

**Liquidity Management**

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs 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 sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability of a bank to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the daily cash flow requirements of the Banks' customers, both depositors and borrowers.

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

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities. Mortgage loans held for sale totaled $24.8 million at September 30, 2002, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. Other short-term investments such as federal funds sold are additional sources of liquidity.

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

As disclosed in United's consolidated statements of cash flows, net cash provided by operating activities was $30.4 million for the nine months ended September 30, 2002. The major contributors in this category were net income of $24.2 million and an increase in accrued expenses and other liabilities of $5.2 million, net of $8.2 million used to fund the increase in mortgage loans held for sale. Net cash used by investing activities of $322.5 million consisted primarily of a net increase in loans totaling $327.1 million, as well as a net decrease in investment securities of $12.7 million and an increase in premises and equipment of $10.1 million. Net cash provided by financing activities consisted primarily of a $270.5 million increase in deposits, net proceeds from FHLB advances of $42.5 million, a net increase of $7.3 million in notes payable and other borrowings and a net increase in federal funds purchased and repurchase agreements of $3.0 million, partially offset by cash paid to purchase treasury stock of $4.8 million and cash dividends payments on common stock of $3.7 million. In the opinion of management, United's liquidity position at September 30, 2002, is sufficient to meet its expected cash flow requirements.

**Capital Resources and Dividends**

Stockholders' equity at September 30, 2002 was $215.4 million, an increase of $30.8 million from September 30, 2001. Accumulated other comprehensive income (loss) is not included in the calculation of regulatory capital adequacy ratios. Excluding the change in the accumulated other comprehensive gain, stockholders' equity increased by 17% from September 30, 2001. Dividends of $1.3 million, or $.0625 per share, were declared on common stock during the third quarter of 2002 bringing the total for the year to $4.0 million, or $.1875 per share, an increase of 25% per share from the amount declared in 2001. The dividend payout ratio for the third quarters of 2002 and 2001 were 16% and 15%, respectively, while the payout ratio for the first nine months of 2002 was 17% compared to the first nine months of 2001 at 15%. United has historically retained the majority of its earnings in order to provide a cost effective source of capital for continued growth and expansion. However, in recognition that cash dividends are an important component of shareholder value, management has instituted a dividend program that provides for increased cash dividends when earnings and capital levels permit.

During 2001, United's Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company's common stock through the end of 2002 for general corporate purposes. On October 17, 2002, the Board of Directors increased the authorization to 1,500,000 and extended it to December 31, 2003. Through September 30, 2002, United repurchased a total of 518,229 shares under this authorization.

On March 18, 2002, United began trading on The Nasdaq Stock Market under the symbol UCBI. Previously, the stock was listed on the over-the-counter market on the Pink Sheets. The closing price for the period ended September 30, 2002 was $24.30. Below is a schedule of high and low stock prices for the first three quarters of 2002 and all quarters in 2001. For periods prior to March 18, 2002, prices are based on information available to United at that time.

**Table 9 - Stock Price Information**
(All prior period amounts have been restated to reflect the 2 for 1 stock split announced April 25, 2002)

| | **2002** | | **2001** | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| First quarter | $ 28.60 | $ 19.00 | $ 19.50 | $ 14.50 |
| Second quarter | 30.00 | 23.90 | 19.00 | 15.00 |
| Third quarter | 29.55 | 23.15 | 22.50 | 17.50 |
| Fourth quarter | | | 20.00 | 17.50 |

The following table presents the cash dividends declared in the first three quarters of 2002 and all quarters of 2001 and the respective payout ratios as a percentage of net income.

**Table 10 - Dividend Payout Information**
(All prior period amounts have been restated to reflect the 2 for 1 stock split announced April 25, 2002)

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | **Dividend** | **Payout %** | **Dividend** | **Payout %** |
| First quarter | $ .0625 | 17 | $ .05 | 16 |
| Second quarter | .0625 | 16 | .05 | 15 |
| Third quarter | 0625 | 16 | .05 | 15 |
| Fourth quarter | | | .05 | 14 |

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

The following table shows United’s capital ratios, as calculated under regulatory guidelines, at September 30, 2002 and September 30, 2001.

**Table 11 - Capital Ratios**
*(in thousands)*

| | | 2002 | | 2001 | |
|---|---|---|---|---|---|
| | **Well Capitalized** | **Actual Amount** | **Regulatory Minimum** | **Actual Amount** | **Regulatory Minimum** |
| Tier I Leverage: | | | | | |
| Amount | | $ 228,203 | $ 88,910 | $ 203,214 | $ 76,891 |
| Ratio | 5.00% | 7.70% | 3.00% | 7.90% | 3.00% |
| Tier I Risk Based: | | | | | |
| Amount | | $ 228,203 | $ 92,214 | $ 203,214 | $ 73,654 |
| Ratio | 6.00% | 9.90% | 4.00% | 11.00% | 4.00% |
| Total Risk Based: | | | | | |
| Amount | | $ 259,918 | $ 184,427 | $ 229,628 | $ 147,307 |
| Ratio | 10.00% | 11.27% | 8.00% | 12.40% | 8.00% |

United's Tier I capital, which excludes other comprehensive income, consists of stockholders' equity and qualifying capital securities less goodwill and deposit-based intangibles, totaled $228 million at September 30, 2002. Tier II capital components include supplemental capital items such as a qualifying allowance for loan losses and qualifying subordinated debt. Tier I capital plus Tier II capital components is referred to as Total Risk-based capital and was $260 million at September 30, 2002. The capital ratios, as calculated under the guidelines, were 9.90% and 11.27% for Tier I and Total Risk-based capital, respectively, at September 30, 2002.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 3% is required for the highest-rated bank holding companies which are not undertaking significant expansion programs, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. Financial institutions with a leverage ratio exceeding 5% are considered to be well capitalized. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies. United's leverage ratios at September 30, 2002 and September 30, 2001 were 7.70% and 7.90%, respectively.

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

***Impact of Inflation and Changing Prices***

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

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

**Part I**

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

There have been no material changes in United’s quantitative and qualitative disclosures about market risk as of September 30, 2002 from that presented in United’s Annual Report on Form 10-K for the year ended December 31, 2001. United’s interest rate sensitivity position at September 30, 2002 is included in management’s discussion and analysis on page 18 of this report.

**Item 4. Controls and Procedures**

United’s management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the company’s disclosure controls and procedures (as defined in federal securities rules) within 90 days prior to the filing of this report. Based on that evaluation, United’s Chief Executive Officer and Chief Financial Officer have concluded that United’s disclosure controls and procedures were effective as of the date of that evaluation.

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

**Part II. Other Information**

Item 1. Legal Proceedings – None

Item 2. Changes in Securities – None

Item 3. Defaults upon Senior Securities – None

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

Item 5. Other Information – None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K - None

**Signatures**

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

**UNITED COMMUNITY BANKS, INC.**

By: ***/s/ Jimmy C. Tallent***
Jimmy C. Tallent
President and Chief Executive Officer
(Principal Executive Officer)

By ***/s/ Rex S. Schuette***
Rex S. Schuette
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: November 14, 2002

**Certifications**

I, Jimmy C. Tallent, President and Chief Executive Officer of United, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Community Banks, Inc. (“United”);

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of United as of, and for, the periods presented in this quarterly report;

4. United’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for United and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to United, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of United’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. United’s other certifying officers and I have disclosed, based on our most recent evaluation, to United’s auditors and the audit committee of United’s board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect United’s ability to record, process, summarize and report financial data and have identified for United’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in United’s internal controls; and

6. United’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

Date: November 14, 2002

I, Rex S. Schuette, Executive Vice President and Chief Financial Officer of United, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Community Banks, Inc. (“United”);

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of United as of, and for, the periods presented in this quarterly report;

4. United’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for United and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to United, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of United’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. United’s other certifying officers and I have disclosed, based on our most recent evaluation, to United’s auditors and the audit committee of United’s board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect United’s ability to record, process, summarize and report financial data and have identified for United’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in United’s internal controls; and

6. United’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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

Date: November 14, 2002

**Exhibit 99.1**

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

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

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of United.

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

By: ***/s/ Rex S. Schuette***

Rex S. Schuette
Executive Vice President and
Chief Financial Officer

Date: November 14, 2002