SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 1998

/ / 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)	(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 February 15, 1999: $215,896,365 based on 5,265,765 shares at $41.00 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 February 15, 1999, 7,686,609 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 153,004 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's annual report to shareholders for the fiscal year ended December 31, 1998, contained in Appendix A to the Registrant's definitive Proxy Statement for the 1999 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 1999 Annual Meeting of Shareholders, to be filed with the Commission, are incorporated into Part III.

PART I

ITEM 1. BUSINESS.

UNITED AND THE BANKS

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 bank holding company registered under the Bank Holding Company Act of 1956. 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 of Fannin County, 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 Bank and Trust ("First Clayton"), which United acquired in 1997. UCB, Carolina, Peoples, Towns, White and First Clayton are collectively referred to in this report as the "Banks". United also operates two consumer finance companies - United Family Finance Co., which operates two offices in Georgia, and United Family Finance Co. of North Carolina, which operates two offices in North Carolina. In this report, both United Family Finance Co. and United Family Finance Co. of North Carolina are collectively referred to as ("UFFC").

The Banks are community-oriented, and offer a full range of retail and corporate banking services, including checking, savings and time deposit accounts, secured and unsecured loans, wire transfers, trust services and rental of safe deposit boxes. As of December 31, 1998, the Banks operated a total of 27 locations. In order to emphasize the commitment to community banking, both UCB and Peoples operate branches under trade names that are closely identified with the communities in which they are located. UCB operates two branches in Lumpkin County, Georgia, under the trade name "United Community Bank of Lumpkin County" and two branches in Habersham County, Georgia, under the trade name "First Bank of Habersham." Peoples operates one branch in Gilmer County, Georgia, under the trade name of "United Community Bank of Gilmer County." The operation of bank branches under trade names is permissible under current state and federal banking regulations and requires certain customer disclosures, which both UCB and Peoples provide.

The Mortgage People Company ("MPC"), a division of UCB, is a full-service retail 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. During 1998, MPC originated $145 million of residential mortgage loans for the purchase of homes and to refinance existing mortgage debt, of which over 99% were sold into the secondary market with no recourse to MPC.

FORWARD-LOOKING STATEMENTS

This Form 10-K, both in the Management's Discussion and Analysis section and elsewhere, contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Although United believes that the assumptions underlying the forward-looking statements contained in the discussion are reasonable, any of the assumptions could be inaccurate, and therefore, no assurance can be made that any of the forward-looking statements included in this discussion will be accurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to: economic conditions (both generally and in the markets where United operates); competition from other providers of financial services offered by United; government regulation and legislation; changes in interest rates; material unforeseen changes in the financial stability and liquidity of United's credit customers; material unforeseen complications related to the Year 2000 issues for United, its suppliers, customers and governmental agencies; and other risks detailed in United's filings with the Securities and Exchange Commission, all of which are difficult to predict and which may be beyond the control of United. United undertakes no obligation to revise forward-looking statements to reflect events or changes after the date of this discussion or to reflect the occurrence of unanticipated events.

YEAR 2000

A detailed discussion of United's state of readiness, budget and actual costs, material risks and contingency plans related to the "Year 2000" issue is contained in the MANAGEMENT'S DISCUSSION AND ANALYSIS section (Part II, Item 7) of this report.

RECENT DEVELOPMENTS

On January 21, 1999, United entered into a definitive agreement to acquire the stock of Adairsville Bancshares, Inc. ("Adairsville") in Bartow County, Georgia. This acquisition was closed on March 15, 1999 and was accounted for as a purchase transaction. As of December 31, 1998, Adairsville had $37.1 million of total assets and $4.0 million of total equity.

During 1998, three new branch offices of the Banks were opened. UCB opened an office in Clarkesville, Georgia, which operates under the trade name First Bank of Habersham, and Carolina opened new offices in Cherokee and Etowah, North Carolina. Construction of a new branch office of UCB located in Murrayville, Georgia, is scheduled for completion during the third quarter of 1999 and will operate under the trade name of United Community Bank of Hall County. In February, 1999, Carolina purchased a vacant banking facility in Brevard, North Carolina that is expected to be open for business during the second quarter of 1999.

In July, 1998, a statutory business trust ("United Community Capital Trust") was created by United which in July, 1998, issued guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures ("Trust Preferred Securities") to institutional investors in the amount of $21 million. This issuance represented the guaranteed preferred beneficial interests in $21.7 million in junior subordinated deferrable interest debentures ("Subordinated Debentures") issued by United to United Community Capital Trust. For regulatory purposes, the Trust Preferred Securities will be treated as Tier I capital of United. The subordinated debentures are the sole assets of United Community Capital Trust and bear an interest rate of 8.125% with a maturity date of July 15, 2028, which may be shortened to a date not earlier than July 15, 2018. If the subordinated debentures are redeemed in part or in whole prior to July 15, 2008, the redemption price of the Subordinated Debentures and the Trust Preferred Securities will include a premium ranging from 4.06% in 2008 to .41% in 2018.

On January 30, 1998, Peoples 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. This office is operated under the trade name of United Community Bank of Gilmer County.

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 that are beyond the control of the Banks, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities.

COMPETITION

The market for banking and bank-related services is highly competitive. The Banks actively compete in their respective market areas, which collectively covers northeastern Georgia and western North Carolina, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies and brokerage firms. he following table displays each of Banks and the respective percentage of total deposits in each county where the Bank has operations. The table also indicates the ranking by deposit size in each of the local markets. All information in the table was obtained from the Federal Deposit Insurance Corporation ("FDIC") Summary of Deposits as of June 30, 1998.

UNITED COMMUNITY BANKS, INC.
SHARE OF LOCAL MARKET DEPOSITS (COUNTY)
BANKS AND SAVINGS INSTITUTIONS

	MARKET SHARE	RANK IN MARKET
UCB		
Habersham	13%	4
Lumpkin	18%	3
Union	85%	1
CAROLINA		
Cherokee	43%	1
Clay	61%	1
Graham	38%	2
Haywood	7%	6
Henderson	NM	NM
Jackson	7%	5
Macon	7%	6
Swain	15%	3
Transylvania	5%	5
PEOPLES		
Fannin	57%	1
Gilmer	11%	4
WHITE		
White	47%	1
TOWNS		
Towns	35%	2
FIRST CLAYTON		
Rabun	26%	3

NM = Not Meaningful

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, 1998, consumer, real estate construction, real estate mortgage and commercial loans represented approximately 12.0%, 11.6%, 67.4% and 9.0% respectively, of United's total loan portfolio.

Specific risk elements associated with each of the Banks' lending categories include, but are not limited to:

Commercial	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and vehicles); lack of borrower management expertise, increased competition;

	use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payment.
Real estate - construction	Inadequate collateral and long-term financing agreements
Real estate - mortgage	Changes in local economy affecting borrower's employment; insufficient collateral value due to decline in property value.
Consumer	Loss of borrower's employment; changes in local economy; the inability to monitor collateral (vehicles, 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 limits, subject to an allowable amount of non-conforming loans as a percentage of capital. The Banks adopted the federal guidelines as their maximum allowable limits; however, policy exceptions are permitted for real estate loan customers with strong financial credentials.

LENDING POLICY

The current lending policy of the Banks is to make loans primarily to persons who reside, work or own property in their primary market areas. Unsecured loans are generally 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. Exceptions to the policy are permitted on a case-by-case basis and require the approving officer to document in writing the reason for the exception. Policy exceptions made for borrowers whose total aggregate loans exceed the approving officer's credit limit must be submitted to the Bank Board of Directors for approval.

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. Loans in excess of individual officer credit authority must either be approved by a senior officer with sufficient approval authority, or be approved by the Bank Board of Directors.

LOAN REVIEW AND NONPERFORMING ASSETS

The Loan Review Department of United reviews each of the Banks' loan portfolios on an annual basis to determine any weaknesses in the portfolio and to assess the general quality of credit underwriting. 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. If an individual loan or credit relationship has a weakness identified during the review process the risk rating of the loan, or all loans comprising a credit relationship, will be downgraded to a classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, collateral and other secondary source of repayment, different loans in a relationship can be assigned different risk ratings. United utilizes an eight-grade rating system in which grades one through four are considered "pass", or acceptable, credit risk and grades five through eight are "adversely classified" credits that require management's attention. Both the pass and adversely classified ratings, and the entire eight-grade rating scale, provide for a higher numeric rating for increased risk. For example, a risk rating of one is the least risky of all credits and would be typical of a loan that is 100% secured by a deposit at one of the Banks. Risk ratings of two, three and four in the pass category each have incrementally more risk. The four adversely classified credit ratings and rating definitions are:

Five (Watch) - Weaknesses exist that could cause future impairment, including the

deterioration of financial ratios, past-due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Six (Substandard) - Specific and well-defined weaknesses that may include poor liquidity and deterioration of financial ratios. Loan may be past-due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.

Seven (Doubtful) - Specific weaknesses characterized by Substandard that are severe enough to make collection in full unlikely. No strong secondary source of repayment.

Eight (Loss) - Same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally recommended for charge-off at the next Bank Board of Directors meeting.

In addition, the Loan Review Department conducts a quarterly analysis to determine the adequacy of the Allowance for Loan Losses ("ALL") for each of the Banks. The aggregation of the ALL analyses for the Banks provides the consolidated analysis for United. The ALL analysis starts by taking total loans and deducting loans secured by deposit accounts at the Banks, which effectively have no risk of loss. Next, all loans with an adversely classified rating are deducted. The remaining loan balance is then multiplied by the average historical loss rate for the preceding five year period (1994 through 1998), which provides required minimum ALL for Pass credits (component "A"). The remaining total loans in each of the four adversely classified rating categories are then multiplied by a projected loss factor to determine the ALL allocation for adversely classified credits (component "B"). The loss factors currently used are: Watch (5%); Substandard (15%); Doubtful (50%); and Loss (100%). The sum of components A and B comprises the total allocated ALL. There is no current process utilized to measure or adjust for differences between the loss factors for adversely classified loans used in the ALL analysis and actual losses charged to the ALL.

The difference between the actual ALL (as presented in the consolidated financial statements) and the allocated ALL represents the unallocated ALL. The unallocated ALL provides for coverage of credit losses inherent in the loan portfolio but not provided for in the ALL analysis. United and the Banks determine the level of unallocated ALL primarily by assessing the ratio of ALL to total loans of peer bank holding companies and peer banks, using the Federal Reserve Uniform Bank Performance Report and other bank industry analytical publications.

ASSET/LIABILITY MANAGEMENT

Committees composed of officers of each of the Banks and the Chief Financial Officer and Treasurer 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 and 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. A more comprehensive discussion of United's Asset/Liability Management and interest rate risk is contained in the Management's Discussion and Analysis (Part II, Item 7) and QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Part II, Item 7A) sections of this report.

INVESTMENT POLICY
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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 Banks' 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 administer the policy and report information to the full Board of Directors of each of the Banks on a quarterly 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
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As of December 31, 1998, United and its subsidiaries had an aggregate of 638 full-time equivalent employees. Neither United nor any of the subsidiaries is a party to any collective bargaining agreement, and United believes that employee relations are good. None of United's or the Banks' executive officers is employed pursuant to an employment contract.

SUPERVISION AND REGULATION
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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 Georgia Department of Banking and Finance ("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, 1998, net assets available from the Banks to pay dividends without prior approval from regulatory authorities totaled approximately $17.2 million. For 1998, United's declared cash dividend payout to stockholders was 9.1 % 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 income 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. As of December 31, 1998 and 1997, the most recent notifications from the FDIC categorized each of the Banks as "well capitalized" under current regulations.

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. CRA became effective on January 1, 1996 and has not had 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 were 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") which provides deposit insurance coverage of up to $100,000 per bank customer (as defined by the FDIC). There have been no BIF deposit insurance assessments for the highest-rated depository institutions which includes all of the Banks - since 1995 when the BIF reached the target funding level mandated by Congress. All depository institutions covered by the BIF are, however, required to pay a special assessment to cover interest on the FICO bonds that were issued to fund the Savings and Loan industry bailout. The Banks paid total FICO bond assessments of $115 thousand in 1998. United expects to pay total FICO bond assessments of approximately $140 thousand in 1999 and no BIF assessment due to the continued strength of the banking industry.

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, 1998, are as follows:

Name (age)	Position with United or Banks	Officer of United Since
Jimmy C. Tallent	President, Chief Executive Officer and Director of United; Chief Executive Officer of UCB; Chairman of the Board of UCB, Towns and White; Director of Carolina, Peoples, First Clayton and UFFC.	1988
Thomas C. Gilliland (50)	President, Chief Executive Officer and Vice Chairman of the Board of Peoples; Executive Vice President and Director of United; Chairman of the Board of UFFC.	1992

Name (age)	Position with United or Banks	Officer of United Since
Billy M. Decker (55)	Senior Vice President, Director and Secretary of United and UCB; Director of Carolina.	1988
Guy W. Freeman (63)	President, Chief Executive Officer and Director of Carolina; Senior Vice President of United. Mr. Freeman served as President, Chief Executive Officer and Chairman of the Board of White prior to the merger with United.	1995
Christopher J. Bledsoe (35)	Senior Vice President and Chief Financial Officer of United and UCB; Director of UFFC.	1993
Roger L. Bishop (49)	Senior Vice President and Chief Operations and Information Officer of United since August, 1998; prior to joining United, he served as Senior Vice President of Brintech, Inc. of New Smyrna Beach, Florida, and was a Senior Consultant for Alex Sheshunoff Management Services, Inc. of Austin, Texas.	1998
L. Gene Sprayberry (53)	Executive Vice President of UCB; Assistant Secretary of United.	1988
Richard E. Martin, Jr. (50)	President and Director of Towns; Vice President of United.	1992
Robert L. Cochran (34)	Vice President and Treasurer of United and UCB; prior to joining United, he was an Accounting Manager for PNC Bank in Cincinnati, Ohio.	1995
Eugene B. White (54)	President and Director of White; Vice President of United. Prior to joining United in March, 1995, he served as Executive Vice President of First National Bank of Habersham in Cornelia, Georgia.	1995
J. Mark Smith (47)	President and Chief Executive Officer of First Clayton; Vice President of United. Mr. Smith served as President and Chief Executive Officer of First Clayton prior to the merger with United.	1996
Patrick J. Rusnak (35)	Vice President and Controller of United since September 1998; prior to joining United, he was Senior Assistant Controller of Trans Financial, Inc. in Bowling Green, Kentucky.	1998
Andrew M. Williams III (45)	President of UCB and Vice President of United since November , 1998. Prior to joining United, he served as President and Chief Executive Officer of Eagle Bancorp, Inc. in Statesboro, Georgia.	1998

None of the above officers is related to another and there are no arrangements or understandings between them and any other person pursuant to which any of them was elected as an officer, other than arrangements or understandings with directors or officers of United acting solely in their capacities as such.

ITEM 2. PROPERTIES.

The executive offices of United are located at 65 Highway 515, Blairsville, Georgia. United owns this property. The Banks conduct business from facilities primarily owned by the respective banks, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Banks provide services or perform operational functions at 30 locations, of which 25 locations are owned and 5 are leased. UFFC conducts operations at four locations, all of which are leased. Note 5 to United's Consolidated Financial Statements includes additional information regarding amounts invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 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 the fiscal year covered by this report.

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, 1998, there were 2,874 shareholders of record.

DIVIDENDS. United declared cash dividends of $.15 per common share in 1998 and $.10 per common share in 1997. Federal and state laws and regulations impose restrictions on the ability of United and the Banks to pay dividends. Additional information regarding this item is included in note 16 to the Consolidated Financial Statements and under the heading of "Supervision and Regulation" in Part I of this report.

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, 1998 appears under the caption "Selected Financial Data" on page A-2 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 15, 1999, 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 OPERATIONS.

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-1 through A-28 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

United's net interest income and the fair value of its financial instruments (interest earning assets and interest bearing liabilities) are influenced by changes in market interest rates. United actively manages its exposure to interest rate fluctuations through policies established by its Asset/Liability Management Committee (the "ALCO"). The ALCO meets regularly and is responsible for approving asset/liability management policies, developing and implementing strategies to improve balance sheet positioning and net interest income and assessing the interest rate sensitivity of the Banks.

United utilizes an interest rate simulation model to monitor and evaluate the impact of changing interest rates on net interest income. The estimated impact on United's net interest income sensitivity over a one-year time horizon as of December 31, 1998 and 1997 is indicated in the tables below. The tables assume an immediate and sustained parallel shift in interest rates of 100 basis points and no change in the composition of United's balance sheet.

NET INTEREST INCOME SENSITIVITY
DECEMBER 31, 1998
(in thousands)

	Principal/Notional Amounts of Earning Assets, Interest Bearing Liabilities and Caps at December 31, 1998	Percentate Increase (Decrease) in Interest Income/Expense Given Immediate and Sustained Parallel Interest Rate Shifts	
		Down 100 Basis Points	Up 100 Basis Points
Assets repricing in:			
One year or less	$ 693,174		
Over one year	693,803		
Total	$ 1,386,977	-4.87%	4.85%
Liabilities repricing in:			
One year or less	$ 974,889		
Over one year	274,234		
Total	$ 1,249,123	-7.14%	6.55%
Derivative hedge instruments	$ 20,000		
Net interest income sensitivity		-2.71%	3.40%

Does not include swap contracts that expired on January 2, 1999

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

United's ALCO policy requires that a 100 basis point shift in interest rates not result in a decrease of net interest income of more than 5%. The information presented in the tables above is based on the same assumptions set forth in United's ALCO policy.

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-30 through A-55 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 "Security Holdings of Certain Beneficial Owners and Management," 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, 1998 and 1997

Consolidated Statements of Income for the Years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Comprehensive Income for the Years ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Changes in Stockholders' Equity for the Years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the Years ended December 31, 1998, 1997 and 1996

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:

EXHIBIT NO.	EXHIBIT
2.1	Agreement and Plan of Reorganization between Adairsville Bancshares, Inc. and United Community Banks, Inc., dated as of January 21, 1999.
3.1	Articles of Incorporation of United, as amended (included as Exhibit 3.1 to United's Registration Statement on Form S-4, File No. 33-93286, filed with the Commission on July 24, 1997 (the "1997 S-4") and incorporated herein by reference).
3.2	Amended and Restated Bylaws of United, as amended (included as Exhibit 3.1 to United's Annual Report on Form 10-K, for the year ended December 31, 1997 (the "1997 10-K") previously filed with the Commission and incorporated herein by reference).
4.1(a)	Junior Subordinated Indenture of United with The Chase Manhattan Bank, as Trustee, relating to the Junior Subordinated Debentures (included as Exhibit 4.1 to United's Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998 (the "1998 S-4") and incorporated herein by reference).
4.1(b)	Form of Certificate of Junior Subordinated Debenture (included as Exhibit 4.2 to the 1998 S-4 previously filed with the Commission and incorporated herein by reference).

4.1(c) Certificate of Trust of United Community Capital Trust (included as Exhibit 4.3 to the 1998 S-4 previously filed with the Commission and incorporated herein by reference).

4.1(d) Amended and Restated Trust Agreement for United Community Capital Trust (included as Exhibit 4.4 to the 1998 S-4 previously filed with the Commission and incorporated herein by reference).

4.1(e) Form of New Capital Security Certificate for United Community Capital Trust (included as Exhibit 4.5 to

the 1998 S-4 previously filed with the Commission and incorporated herein by reference).

4.1(f)	Guarantee of United relating to the Capital Securities (included as Exhibit 4.6 to the 1998 S-4 previously filed with the Commission and incorporated herein by reference).
4.1(g)	Registration Rights Agreement (included as Exhibit 4.7 to the 1998 S-4 previously filed with the Commission and incorporated herein by reference).
4.1(h)	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, File No. 33-93278, filed with the Commission on June 8, 1995, and incorporated herein by reference).
4.1(i)	Form of Subscription Agreement (included as Exhibit A to United's Form S-1, File No. 333-20887, filed with the Commission on January 31, 1997 and incorporated by reference).
4.2(a)	See Exhibits 3.1 and 3.2 for provisions of Articles of Incorporation and By-Laws, as amended, which define the rights of the Shareholders.
10.1	United's 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 (the "1994 10-K"), previously filed with the Commission and incorporated herein by reference).*
10.2	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, File No. 33-93278, filed with the Commission on June 8, 1995 and incorporated herein by reference).
10.3	Split-Dollar Agreement between United and Jimmy C. Tallent dated June 1, 1994 (included as Exhibit 10.11 to the 1994 10-K, previously filed with the Commission and incorporated herein by reference).*
10.4	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 the 1997 S-4, previously filed with the Commission and incorporated herein by reference).
10.5	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 the 1997 S-4, previously filed with the Commission and incorporated herein by reference).
10.6	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 the 1997 S-4, previously filed with the Commission and incorporated herein by reference).

10.7	Purchase and Assumption Agreement by and between Carolina Bank and NationsBank, N.A. dated May 25, 1995 (included as Exhibit 10.16 to United's Registration Statement on Form S-1, File No. 33-93278, filed with the Commission on June 8, 1995 and incorporated herein by reference).
10.8	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, File No. 333-20887, previously filed with the Commission on January 31, 1997, 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, File No. 333-20887, filed with the Commission on January 31, 1997, 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, File No. 333-31997, filed with the Commission on July 24, 1997, and incorporated herein by reference).
12.1	Computation of ratio of earnings to fixed charges (included as Exhibit 12.1 to the 1998 S-4 previously filed with the Commission and incorporated herein by reference).
21.1	Subsidiaries of United
23.1	Consent of Porter Keadle Moore, LLP
24.1	Power of Attorney of certain officers and directors of United (included on Signature Page)
27.1	Financial Data Schedule
99.1	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 1998.

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 17th of March, 1999.

UNITED COMMUNITY BANKS, INC.
(Registrant)

By: /s/ Jimmy C. Tallent
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 and 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 17th of March, 1999.

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
____________________________ John R. Martin	Director
/s/ Clarence William Mason, Sr. Clarence William Mason, Sr.	Director
/s/ Zell B. Miller Zell B. Miller	Director
____________________________ W. C. Nelson, Jr.	Director
/s/ Charles E. Parks Charles E. Parks	Director
/s/ Christopher J. Bledsoe Christopher J. Bledsoe	Chief Financial Officer (PRINCIPAL FINANCIAL OFFICER)
/s/ Patrick J. Rusnak Patrick J. Rusnak	Controller (PRINCIPAL ACCOUNTING OFFICER)

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Reorganization between Adairsville Bancshares, Inc. and United Community Banks, Inc., dated as of January 21, 1999.
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.

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (the "Agreement") is made and entered into as of this 21st day of January, 1999, by and between ADAIRSVILLE BANCSHARES, INC., a Georgia business corporation (hereinafter "Adairsville," and unless the context otherwise requires, the term "Adairsville" shall include both Adairsville Bancshares, Inc. and its subsidiary Bank of Adairsville ("Adairsville Bank")), and UNITED COMMUNITY BANKS, INC., a Georgia business corporation (hereinafter "United," and unless the context otherwise requires, the term "United" shall include United Community Banks, Inc. and its subsidiaries.

R E C I T A L S:

WHEREAS, the respective boards of directors of Adairsville and United deem it advisable and in the best interests of each such entity and their respective shareholders that Adairsville be acquired by United and that such acquisition be accomplished by a merger of Adairsville and Adairsville Interim Corporation, a Georgia business corporation and a wholly-owned subsidiary of United ("Interim"), pursuant to which Interim will merge with and into Adairsville with each of the issued and outstanding shares of common stock, $4 par value per share, of Adairsville ("Adairsville Stock") being converted into the right to receive $18.50 in cash, all upon the terms and conditions hereinafter set forth and as set forth in the Agreement and Plan of Merger attached hereto as Exhibit A and incorporated herein by reference (the "Merger Agreement");

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which as legally sufficient consideration are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

CLOSING

The transactions contemplated herein shall be consummated (the "Closing") at the offices of Adairsville Bank in Adairsville, Georgia, or some other mutually agreeable location, on the first business day following the later to occur of (i) the receipt of all approvals from any governmental authorities having jurisdiction over the transactions contemplated by this Agreement and the Merger Agreement, and the expiration of any waiting or similar period required by applicable law and (ii) the satisfaction of all other conditions to consummation of the Merger (the "Closing Date"), or at such other time and place as may be mutually satisfactory to the parties hereto.

ARTICLE II

MERGER

Pursuant to the terms and conditions provided herein, on the Closing Date Adairsville and Interim shall be merged in accordance with and in the manner set forth in the Merger Agreement. The surviving corporation following the Merger will operate under the Articles of Incorporation of Adairsville and will be a wholly-owned subsidiary of United. Upon the terms and conditions of this Agreement and the Merger Agreement, United shall make available on or before the Closing Date (as defined in the Merger Agreement) for delivery to the holders of Adairsville Stock sufficient funds to provide for cash payments of $18.50 per share (the "Purchase Price"); provided that if the Closing Date is ninety days after the date hereof (the "Threshold Date"), then the consideration per share payable shall be increased by the amount of the net earnings per share of Adairsville between January 1, 1999 and the Closing Date. Net earnings for the purpose of this Article shall be reduced by the amount of any non-operating earnings and not reduced by any reserves or charges made pursuant to Section 3.13 hereof.

ARTICLE III

OTHER AGREEMENTS

3.1 Meeting of Shareholders of Adairsville. Adairsville shall take all actions in accordance with the laws of Georgia and its Articles of Incorporation and Bylaws to call a special meeting of its shareholders (the "Special Meeting") to be held not more than sixty (60) days from the date hereof for the purpose of submitting the Merger Agreement to such shareholders for their approval. In connection with the Special Meeting, Adairsville shall prepare and submit to its shareholders a notice of meeting and information statement (the "Adairsville Information Materials").

3.2 Absence of Brokers. Except for $10,000 payable by Adairsville to Dr. Bob Swasky, each party hereto represents and warrants to the other that no broker, finder or other financial consultant has acted on its behalf in connection with this Agreement or the transactions contemplated hereby. Each party agrees to indemnify the other and hold and save it harmless from any claim or demand for commissions or other compensation by any broker, finder, financial consultant or similar agent claiming to have been employed by or on behalf of such party.

3.3 Access to Properties, Books, Etc. Adairsville shall allow United and its authorized representatives reasonable access during normal business hours from and after the date hereof and prior to the Closing Date to all of the respective properties, books, contracts, commitments and records of Adairsville and its subsidiaries and shall furnish United and its authorized representatives such information concerning its affairs and the affairs of its subsidiaries as United may reasonably request provided that such request shall be reasonably related to the transactions contemplated by this Agreement and shall not interfere unreasonably with normal operations. Adairsville shall require its personnel to assist United in making any such investigation and shall cause the counsel (subject to attorney-client privilege), accountants, employees and other representatives of

Adairsville to be available to United for such purposes. Such investigation will be conducted in a manner designed to be the least disruptive of the affairs of Adairsville as possible. During such investigation, United and its authorized representatives shall have the right, subject to the confidentiality provisions of this Agreement, to make copies of such records, files, tax returns and other materials as it may deem advisable and shall advise Adairsville of those items of which copies are made. No investigation made heretofore or hereafter by either party and its authorized representatives shall affect the representations and warranties of either such party hereunder.

3.4 Confidentiality. The parties agree that the Confidentiality Agreement between Adairsville and United dated December 15, 1998 (the "Confidentiality Agreement") shall survive termination, for any reason whatsoever, of this Agreement and remain in full force and effect in accordance with its terms.

3.5 Full Cooperation. The parties shall cooperate fully with each other in connection with any acts or actions required to be taken as part of their respective obligations under this Agreement.

3.6 Expenses. All of the expenses incurred by United in connection with the authorization, preparation, execution and performance of this Agreement and the Merger Agreement including, without limitation, all fees and expenses of its agents, representatives, counsel and accountants and the fees and expenses related to filing of all regulatory applications with state and federal authorities in connection with the transactions contemplated hereby and thereby, shall be paid by United. All expenses incurred by Adairsville in connection with the authorization, preparation, execution and performance of this Agreement and the Merger Agreement, including, without limitation, all fees and expenses of its agents, representatives, counsel and accountants for Adairsville and the cost of reproducing and mailing the Adairsville Information Materials, shall be paid by Adairsville.

3.7 Preservation of Goodwill. Adairsville shall use reasonable efforts to preserve its business organization and the business organization of its subsidiaries consistent with past practices, to keep available the services of its present employees and of the present employees of its subsidiaries, and to preserve the goodwill of customers and others having business relations with Adairsville or its subsidiaries.

3.8 Approvals and Consents. Each party hereto represents and warrants to and covenants with the other that it will use its best efforts, and will cause its officers, directors, employees and agents and its subsidiaries and any subsidiary's officers, directors, employees and agents to use their best efforts, to obtain as soon as is reasonably practicable all approvals and consents of state and federal departments or agencies required or deemed necessary for consummation of the transactions contemplated by this Agreement and the Merger Agreement. In particular, within 30 days of the date of this Agreement, United shall file all applications required to obtain all consents and approvals of bank regulatory authorities for the

transactions contemplated by this Agreement. United shall provide drafts of the public sections of applications to Adairsville prior to filing the same, and shall promptly provide Adairsville with copies of all correspondence to and from regulatory authorities with respect to the transactions contemplated by this Agreement.

3.9 Agreement by Certain Adairsville Shareholders. Contemporaneously with the execution of this Agreement, each of the shareholders of Adairsville whose signatures are set forth on Exhibit B will execute and deliver to United an agreement, the form of which is attached hereto as Exhibit B, pursuant to which each of them agrees to vote the Adairsville Stock owned or controlled by them in favor of the Merger.

3.10 Press Releases. Prior to the Closing Date, Adairsville and United shall agree with each other as to the form and substance of any press release or other public disclosure materially related to this Agreement or any other transaction contemplated hereby; provided, however, that nothing in this Section 3.10 shall be deemed to prohibit any Party from making any disclosure which its counsel deems necessary or advisable in order to satisfy such Party's disclosure obligations imposed by law.

3.11 Employees of Adairsville Bank. For purposes of any length of service requirements, waiting periods, vesting periods or benefits based on length of service in any benefit plan of Adairsville Bank for which an employee may be eligible after the Closing, United shall ensure that service by such employee with Adairsville Bank shall be deemed to have been service with United.

3.12 "Run-off" Liability Insurance Coverage. Adairsville shall acquire for the benefit of its officers and directors "run-off" liability insurance coverage to survive the Closing Date, which coverage shall be satisfactory to Adairsville. Alternatively, United shall obtain coverage for the officers and directors of Adairsville under its officer and director liability policy satisfactory to Adairsville.

3.13 Letter re Accounting Issues.

(a) Within fifteen (15) days period prior to the Closing Date, at the written request of United, Adairsville shall establish and take such reserves and accruals as United shall request to conform Adairsville's loan, accrual and reserve policies to United's policies, shall establish and take such accruals, reserves and charges in order to implement such policies and to recognize, for financial accounting purposes, such expenses of the Merger and restructuring charges related to or to be incurred in connection with the Merger, in each case at such times as are mutually agreeable to United and Adairsville; provided, however, that Adairsville shall not be required to take any such action that is not consistent with GAAP.

(b) No accrual or other adjustment made by Adairsville pursuant to the provisions of this Section 3.13 shall constitute an acknowledgment by Adairsville or create any implication, for any purpose, that such accrual or adjustment was necessary for any purpose other than to comply with the provisions of this Section 3.13.

(c) No accrual or other adjustment made by Adairsville pursuant to the provisions of this Section 3.13 shall be considered in determining the existence of, or comprise the basis for, a material adverse change as contemplated by Section 10.1 of this Agreement.

3.14 McCool Bonus. Notwithstanding anything to the contrary contained herein, in the event that Jerrell McCool, the President of Adairsville Bank, shall be in the employ of Adairsville Bank as of the Closing Date, then Adairsville, or Adairsville Bank, shall be entitled to pay to McCool, and shall pay to McCool, a bonus in the amount of twenty thousand dollars ($20,000). If Adairsville or Adairsville Bank shall not have paid such bonus prior to the Closing Date, United shall be responsible for the payment of such amount to McCool.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF ADAIRSVILLE

As an inducement to United to enter into this Agreement and to consummate the transactions contemplated hereby, Adairsville represents, warrants, covenants and agrees as follows:

4.1 Adairsville Disclosure Memorandum. By February 11, 1999, Adairsville will deliver to United a memorandum (the "Adairsville Disclosure Memorandum") containing certain information regarding Adairsville as indicated at various places in this Agreement. All information set forth in the Adairsville Disclosure Memorandum or in documents incorporated by reference in the Adairsville Disclosure Memorandum is true, correct and complete, does not omit to state any fact necessary in order to make the statements therein not misleading, and shall be deemed for all purposes of this Agreement to constitute part of the representations and warranties of Adairsville under this Article IV. The information contained in the Adairsville Disclosure Memorandum shall be deemed to be part of and qualify all representations and warranties contained in this Article IV and the covenants in Article V to the extent applicable. All information in each of the documents and other writings furnished to United pursuant to this Agreement or the Adairsville Disclosure Memorandum is or will be true, correct and complete and does not and will not omit to state any material fact necessary in order to make the statements therein not misleading. Adairsville shall promptly provide United with written notification of any event, occurrence or other information necessary to maintain the Adairsville Disclosure Memorandum and all other documents and writings furnished to United pursuant to this Agreement as true, correct and complete in all material respects at all times prior to and including the Closing. Adairsville agrees that upon receipt of the Adairsville Disclosure Memorandum, United shall have until February 18, 1999 to review the Adairsville Disclosure Memorandum and to terminate this Agreement if for any reason in its sole discretion United believes that proceeding with the Merger in light of the contents of such memorandum would be detrimental to United.

4.2 Corporate and Financial.

4.2.1 Authority. Subject to the approval of various state and federal regulators and Adairsville Shareholders, the execution, delivery and performance of this Agreement and the other

transactions contemplated or required in connection herewith will not, with or without the giving of notice or the passage of time, or both, (a) violate any provision of federal or state law applicable to Adairsville, the violation of which could be reasonably expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of Adairsville; (b) violate any provision of the articles of incorporation or bylaws of Adairsville; (c) conflict with or result in a breach of any provision of, or termination of, or constitute a default under any instrument, license, agreement, or commitment to which Adairsville is a party, which, singularly or in the aggregate, could reasonably be expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of Adairsville; or (d) constitute a violation of any order, judgment or decree to which Adairsville is a party, or by which Adairsville or any of its assets or properties are bound. Assuming this Agreement constitutes the valid and binding obligation of United, this Agreement constitutes the valid and binding obligation of Adairsville, and is enforceable in accordance with its terms, except as limited by laws affecting creditors' rights generally and by the discretion of courts to compel specific performance.

4.2.2 Corporate Status. Adairsville is a business corporation duly organized, validly existing and in good standing under the laws of the state of Georgia and has no direct or indirect subsidiaries other than Adairsville Bank. Adairsville Bank is a banking corporation duly organized and validly existing under the laws of the State of Georgia. Adairsville and Adairsville Bank have all of the requisite corporate power and authority and are entitled to own or lease their respective properties and assets and to carry on their respective businesses as and in the places where such properties or assets are now owned, leased or operated and such businesses are now conducted.

4.2.3 Capital Structure. (a) Adairsville has an authorized capital stock consisting of 1,000,000 shares, $4 par value of common stock, of which 381,116 shares of common stock are issued and outstanding as of the date hereof. Adairsville Bank has an authorized capital stock consisting solely of 4,000 shares of common stock, par value $100.00 ("Adairsville Bank Stock"), of which 4,000 shares are issued and outstanding as of the date hereof. All of the outstanding shares of Adairsville Stock and Adairsville Bank stock are duly and validly issued, fully paid and non-assessable and were offered, issued and sold in compliance with all applicable federal and state securities laws. No person has any right of rescission or claim for damages under federal or state securities laws with respect to the issuance of any shares of Adairsville Stock or Adairsville Bank Stock previously issued. None of the shares of Adairsville Stock or Adairsville Bank Stock has been issued in violation of any preemptive or other rights of its shareholders. All of the issued and outstanding shares of Adairsville Bank Stock are owned by Adairsville.

(b) Except as set forth in the Adairsville Disclosure Memorandum, Adairsville does not have outstanding any securities which are either by their terms or by contract convertible or exchangeable into shares of Adairsville Stock, or any other securities or debt, of

Adairsville, or any preemptive or similar rights to subscribe for or to purchase, or any options or warrants or agreements or understandings for the purchase or the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its capital stock or securities convertible into shares of Adairsville Stock. Adairsville is not subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire, or to register, any shares of its capital stock.

(c) Except as set forth in the Disclosure Memorandum, there is no agreement, arrangement or understanding to which Adairsville is a party restricting or otherwise relating to the transfer of any shares of capital stock of Adairsville.

(d) All shares of Adairsville Stock or other capital stock, or any other securities or debt, of Adairsville, which have been purchased or redeemed by Adairsville have been purchased or redeemed in accordance with all applicable federal, state and local laws, rules, and regulations, including, without limitation, all federal and state securities laws and rules and regulations of any securities exchange or system on which such stock, securities or debt are, or at such time were, traded, and no such purchase or redemption has resulted or will, with the giving of notice or lapse of time, or both, result in a default or acceleration of the maturity of, or otherwise modify, any agreement, note, mortgage, bond, security agreement, loan agreement or other contract or commitment of Adairsville.

4.2.4 Corporate Records. The stock records and minute books of Adairsville, whether heretofore or hereafter furnished or made available to United by Adairsville, (a) fully and accurately reflect all issuances, transfers and redemptions of the Common Stock, (b) correctly show the record addresses and the number of shares of such stock issued and outstanding on the date hereof held by the shareholders of Adairsville, (c) correctly show all corporate action taken by the directors and shareholders of Adairsville (including actions taken by consent without a meeting) and (d) contain true and correct copies or originals of the respective articles of incorporation and all amendments thereto, bylaws as amended and currently in force, and the minutes of all meetings or consent actions of its directors and shareholders. No resolutions, regulations or bylaws have been passed, enacted, consented to or adopted by such directors or shareholders except those contained in the minute books. All corporate records have been maintained in accordance with all applicable statutory requirements and are complete and accurate in all material respects.

4.2.5 Tax Returns; Taxes. (a) Adairsville has duly filed (i) all required federal and state tax returns and reports, and (ii) all required returns and reports of other governmental units having jurisdiction with respect to taxes imposed upon its income, properties, revenues, franchises, operations or other assets or taxes imposed which might create a material lien or encumbrance on any of such assets or affect materially and adversely its business or operations. Such returns or reports are, and when filed will be, true, complete and correct, and Adairsville has paid, to the extent such taxes or other governmental charges have become due, all taxes and other governmental charges set forth in such returns or reports. All federal, state and local taxes and other governmental charges paid or payable by Adairsville have been paid, or have been accrued or

reserved on its books in accordance with generally accepted accounting principles ("GAAP") applied on a basis consistent with prior periods. Adequate reserves for the payment of taxes have been established on the books of Adairsville for all periods through the date hereof, whether or not due and payable and whether or not disputed. Until the Closing Date, Adairsville shall continue to provide adequate reserves for the payment of expected tax liabilities in accordance with GAAP applied on a basis consistent with prior periods. Adairsville has not received any notice of a tax deficiency or assessment of additional taxes of any kind and, to the knowledge of the officers of Adairsville (collectively, "Management"), there is no threatened claim against Adairsville, or any basis for any such claim, for payment of any additional federal, state, local or foreign taxes for any period prior to the date of this Agreement in excess of the accruals or reserves with respect to any such claim shown in the 1998 Adairsville Financial Statements described in Section 4.2.6 below or disclosed in the notes with respect thereto. There are no waivers or agreements by Adairsville for the extension of time for the assessment of any taxes. The federal income tax returns of Adairsville have not been examined by the Internal Revenue Service for any period since January 1, 1994.

(b) Except as set forth in the Adairsville Disclosure Memorandum, proper and accurate amounts have been withheld by Adairsville from its employees for all periods in full and complete compliance with the tax withholding provisions of applicable federal, state and local tax laws, and proper and accurate federal, state and local tax returns have been filed by Adairsville for all periods for which returns were due with respect to withholding, social security and unemployment taxes, and the amounts shown thereon to be due and payable have been paid in full.

4.2.6 Financial Statements. Adairsville has delivered to United true, correct and complete copies of unaudited financial statements of Adairsville for the 11 month period ended November 30, 1998, including a balance sheet and statement of income (the unaudited financial statements for the 11 month period ended November 30, 1998 being referred to as the "1998 Adairsville Financial Statements"). The 1998 Adairsville Financial Statements have been prepared in accordance with GAAP consistently applied and present fairly the assets, liabilities and financial condition of Adairsville as of the dates indicated therein and the results of its operations for the period then ended except that such financial statements do not include the footnote disclosure required by GAAP.

4.2.7 Regulatory Reports. Adairsville has made available to United for review and inspection the year-end Report of Condition and Income as filed by Adairsville Bank with the Board of Governors of the Federal System (the "Federal Reserve") for each of the two years ended December 31, 1997 and 1996, together with all such other reports filed for the same three-year period with the Department of Banking and Finance of the State of Georgia (the "Department of Banking"), and other applicable regulatory agencies and the Form F.R. Y-6 filed by Adairsville with the Federal Reserve for each of the years ended December 31, 1997 and 1996 (collectively, the "Adairsville Reports"). All of the Adairsville Reports, as amended, have been prepared in accordance with applicable rules and regulations applied on a basis consistent with prior periods and contain in all material respects all information required to be presented therein in accordance with such rules and regulations.

4.2.8 Accounts. The Adairsville Disclosure Memorandum contains a list of each and every bank and other institution in which Adairsville maintains an account or safety deposit box, the account numbers, and the names of all persons who are presently authorized to draw thereon, have access thereto or give instructions regarding distribution of funds or assets therein.

4.2.9 Notes and Obligations. Except as set forth in the Adairsville Disclosure Memorandum or as provided for in the loss reserve, all notes receivable or other obligations owned by Adairsville or due to it shown in the 1998 Adairsville Financial Statements and any such notes receivable and obligations on the date hereof and on the Closing Date are and will be genuine, legal, valid, and to Adairsville's knowledge, collectible obligations of the respective makers thereof and are not and will not be subject to any offset or counterclaim. All such notes and obligations are evidenced by written agreements, true and correct copies of which will be made available to United for examination prior to the Closing Date. All such notes and obligations were entered into by Adairsville in the ordinary course of its business and, to Adairsville's knowledge, in compliance with all applicable laws and regulations.

4.2.10 Liabilities. Adairsville has no debt, liability or obligation of any kind required to be shown pursuant to GAAP on the 1998 Adairsville Financial Statements, whether accrued, absolute, known or unknown, contingent or otherwise, including, but not limited to (a) liability or obligation on account of any federal, state or local taxes or penalty, interest or fines with respect to such taxes, (b) liability arising from or by virtue of the distribution, delivery or other transfer or disposition of goods, personal property or services of any type, kind or variety, (c) unfunded liabilities with respect to any pension, profit sharing or employee stock ownership plan, whether operated by Adairsville or any other entity covering employees of Adairsville, or (d) environmental liabilities, except (i) those reflected in the 1998 Adairsville Financial Statements, and (ii) as disclosed in the Adairsville Disclosure Memorandum.

4.2.11 Absence of Changes. Except as specifically provided for in this Agreement or specifically set forth in the Adairsville Disclosure Memorandum, since November 30, 1998:

(a) there has been no change in the business, assets, liabilities, results of operations or financial condition of Adairsville, or in any of its relationships with customers, employees, lessors or others, other than changes in the ordinary course of business, none of which individually or in the aggregate has had, or which the Adairsville Management believes may have, a material adverse effect on such businesses or properties;

(b) there has been no material damage, destruction or loss to the assets, properties or business of Adairsville, whether or not covered by insurance, which has had, or which the Adairsville Management believes may have, an adverse effect thereon;

(c) the business of Adairsville has been operated in the ordinary course, and not otherwise;

(d) the properties and assets of Adairsville used in its business have been maintained in good order, repair and condition, ordinary wear and tear excepted;

(e) the books, accounts and records of Adairsville have been maintained in the usual, regular and ordinary manner;

(f) there has been no declaration, setting aside or payment of any dividend or other distribution on or in respect of the capital stock of Adairsville;

(g) there has been no increase in the compensation or in the rate of compensation or commissions payable or to become payable by Adairsville to any director or executive officer, or to any employee earning $35,000 or more per annum, or any general increase in the compensation or in the rate of compensation payable or to become payable to employees of Adairsville earning less than $35,000 per annum ("general increase" for the purpose hereof meaning any increase generally applicable to a class or group of employees, but not including increases granted to individual employees for merit, length of service, change in position or responsibility or other reasons applicable to specific employees and not generally to a class or group thereof), or any director, officer, or employee hired at a salary in excess of $35,000 per annum, or any increase in any payment of or commitment to pay any bonus, profit sharing or other extraordinary compensation to any employee;

(h) there has been no change in the articles of incorporation or bylaws of Adairsville;

(i) there has been no labor dispute, unfair labor practice charge or employment discrimination charge, nor, to the knowledge of Adairsville, any organizational effort by any union, or institution or threatened institution, of any effort, complaint or other proceeding in connection therewith, involving Adairsville, or affecting its operations;

(j) there has been no issuance, sale, repurchase, acquisition, or redemption by Adairsville of any of its capital stock, bonds, notes, debt or other securities, and there has been no modification or amendment of the rights of the holders of any outstanding capital stock, bonds, notes, debt or other securities thereof;

(k) there has been no mortgage, lien or other encumbrance or security interest (other than liens for current taxes not yet due or purchase money security interests arising in the ordinary course of business) created on or in (including without limitation, any deposit for security consisting of) any asset or assets of Adairsville or assumed by it with respect to any asset or assets;

(l) there has been no indebtedness or other liability or obligation (whether absolute, accrued, contingent or otherwise) incurred by Adairsville which would be required to be reflected on a balance sheet of Adairsville prepared as of the date hereof in accordance with GAAP applied on a consistent basis, except as incurred in the ordinary course of business;

(m) no obligation or liability of Adairsville has been discharged or satisfied, other than in the ordinary course of business;

(n) there have been no sales, transfers or other dispositions of any asset or assets of Adairsville, other than sales in the ordinary course of business; and

(o) there has been no amendment, termination or waiver of any right of Adairsville under any contract or agreement or governmental license, permit or permission which has had or may have an adverse effect on its business or properties.

4.2.12 Litigation and Proceedings. Except as set forth on the Adairsville Disclosure Memorandum, there are no actions, decrees, suits, counterclaims, claims, proceedings or governmental actions or investigations, pending or, to the knowledge of Adairsville, threatened against, by or affecting Adairsville, or any officer, director, employee or agent in such person's capacity as an officer, director, employee or agent of Adairsville or relating to the business or affairs of Adairsville, in any court or before any arbitrator or governmental agency, and no judgment, award, order or decree of any nature has been rendered against or with respect thereto by any agency, arbitrator, court, commission or other authority, nor does Adairsville have any unasserted contingent liabilities which might have an adverse effect on its assets or on the operation of its businesses or which might prevent or impede the consummation of the transactions contemplated by this Agreement.

4.3 Business Operations.

4.3.1 Customers. Adairsville has no knowledge of any presently existing facts which could reasonably be expected to result in the loss of any material borrower or depositor or in Adairsville's inability to collect amounts due therefrom or to return funds deposited thereby, except as set forth on the Adairsville Disclosure Memorandum.

4.3.2 Permits; Compliance with Law. (a) Adairsville has all permits, licenses, approvals, authorizations and registrations under all federal, state, local and foreign laws required for Adairsville to carry on its business as presently conducted, and all of such permits, licenses, approvals, authorizations and registrations are in full force and effect, and no suspension or cancellation of any of them is pending or, to the knowledge of Adairsville, threatened.

(b) Except as set forth in the Disclosure Memorandum, Adairsville has complied with all laws, regulations, and orders applicable to it or its business, except for any non-compliance which would not have a material adverse effect on Adairsville. The Adairsville Disclosure Memorandum contains a list of any known violations of such laws, regulations, ordinances or rules by any present officer, director, or employee of Adairsville which occurred since December 31, 1993, and which resulted in any order, proceeding, judgment or decree which would be required to be disclosed pursuant to Item 401(f) of Regulation S-K promulgated by the Securities and Exchange Commission if Adairsville had been subject to the reporting requirements under the 1933 Act or the Securities Exchange Act of 1934. Except as set forth in the Disclosure Memorandum, no past violation of any such law, regulation, ordinance or rule has occurred which could impair the right or ability of Adairsville to conduct its business.

(c) Except as set forth in the Adairsville Disclosure Memorandum, no notice or warning from any governmental authority with respect to any failure or alleged failure of Adairsville to comply in any respect with any law, regulation or order has been received, nor

is any such notice or warning proposed or, to the knowledge of Adairsville, threatened.

4.3.3 Environmental. (a) Except as set forth in the Adairsville Disclosure Memorandum, Adairsville

(i) has not caused or permitted, and has no knowledge of, any claim regarding the environmental condition of any properties or facilities currently owned or leased by Adairsville or adjacent to any properties so owned or leased or the generation, manufacture, use, or handling or the release or presence of, any hazardous substances or hazardous wastes, including petroleum, on, in, under or from any properties or facilities currently owned or leased by Adairsville or adjacent to any properties so owned or leased; and

(ii) has complied in all material respects with, and has kept all records and made all filings or reports required by, and is otherwise in compliance with all applicable federal, state and local laws, regulations, orders, permits and licenses relating to the generation, treatment, manufacture, use, handling, release or presence of any hazardous substances or hazardous wastes, including petroleum and asbestos, on, in, under or from any properties or facilities currently owned or leased by Adairsville.

(b) Except as set forth in the Adairsville Disclosure Memorandum, neither Adairsville nor any of its officers, directors, employees or agents, in the course of such individual's employment by Adairsville, has given advice with respect to, or participated in any respect in, the management or operation of any entity or concern whose business relates in any way to the generation, storage, handling, disposal, transfer, production, use or processing of hazardous substances or hazardous wastes, including petroleum, nor to Adairsville's knowledge has Adairsville foreclosed on any property on which there is a threatened release of any hazardous substances or hazardous wastes, including petroleum, or on which there has been such a release and full remediation has not been completed, or any property on which contained (non-released) hazardous substances or hazardous wastes, including petroleum, are or were located.

(c) Except as set forth in the Adairsville Disclosure Memorandum, neither Adairsville, nor any of its officers, directors, employees, or agents, is aware of, has been told of, or has observed, the presence of any hazardous substance or hazardous wastes, including petroleum, on, in, under, or around property on which Adairsville holds a legal or security interest, in violation of, or creating liability under, federal, state, or local environmental statutes, regulations, or ordinances.

(d) The term hazardous substances or hazardous waste does not include those substances which are normally and reasonably used in connection with the occupancy or operation of office buildings (such as cleaning fluids, and supplies normally used in the day to day operation of business offices).

4.3.4 Insurance. The Adairsville Disclosure Memorandum contains a complete list and description (including the expiration date, premium amount and coverage thereunder) of all policies of insurance and bonds presently maintained by, or providing coverage for, Adairsville or any of its officers, directors and employees, all of which are, and will be maintained through the Closing Date (or a reasonable substitute obtained), in full force and effect, together with a complete list of all pending claims under any of such policies or bonds. All terms, obligations and provisions of each of such policies and bonds have been complied with, all premiums due thereon have been paid, and no notice of cancellation with respect thereto has been received. Adairsville will not as of the Closing Date have any liability for premiums or for retrospective premium adjustments for any period prior to the Closing Date. Adairsville has heretofore made, or will hereafter make, available to United a true, correct and complete copy of each insurance policy and bond in effect since January 1, 1994 with respect to the business and affairs of Adairsville.

4.4 Properties and Assets.

4.4.1 Contracts and Commitments. Other than loans, mortgages and other security instruments or devices entered into within the ordinary course of business, the Adairsville Disclosure Memorandum contains a list identifying and briefly describing all written contracts, purchase orders, agreements, security deeds, guaranties or commitments to which Adairsville is a party or by which it may be bound involving the payment or receipt, actual or contingent, of more than $50,000 or having a term or requiring performance over a period of more than one (1) year. Each such contract, agreement, guaranty and commitment of Adairsville is in full force and effect and is valid and enforceable in accordance with its terms, and constitutes a legal and binding obligation of the respective parties thereto and is not the subject of any notice of default, termination, partial termination or of any ongoing, pending, completed or threatened investigation, inquiry or other proceeding or action that may give rise to any notice of default, termination or partial termination. Adairsville has complied in all material respects with the provisions of such contracts, agreements, guaranties and commitments. A true and complete copy of each such document has been or will be made available to United for examination.

4.4.2 Licenses; Intellectual Property. Adairsville has no patents, trademarks, trade names, service marks, or copyrights. Except as described in the Adairsville Disclosure Memorandum, Adairsville is not a party, either as licensor or licensee, to any agreement for any patent, process, trademark, service mark, trade name, copyright, trade secret or other confidential information and there are no rights of third parties with respect to any trademark, service mark, trade secrets, confidential information, trade name, patent, patent application, copyright, invention, device or process owned or used by Adairsville or presently expected to be used by it in the future. Adairsville has complied with all applicable laws relating to the filing or registration of "fictitious names" or trade names.

4.4.3 Personal Property. Adairsville has good and marketable title to all of its personalty, tangible and intangible, reflected in the 1998 Adairsville Financial Statements (except as since sold or otherwise disposed of by it in the ordinary course of business), free and clear of all encumbrances, liens or charges of any kind or character, except (i) those described in the Adairsville Disclosure Memorandum and (ii) liens for taxes not due and payable.

4.4.4 Adairsville Leases. (a) All leases (the "Adairsville Leases") pursuant to which Adairsville is lessor or lessee of any real or personal property (such property, the "Leased Property") are valid and enforceable in accordance with their terms; there is not under any of the Adairsville Leases any default or, to the knowledge of Adairsville, any claimed default by Adairsville, or event of default or event which with notice or lapse of time, or both, would constitute a default by Adairsville and in respect of which adequate steps have not been taken to prevent a default on its part from occurring.

(b) The copies of the Adairsville Leases heretofore or hereafter furnished or made available by Adairsville to United are true, correct and complete, and the Adairsville Leases have not been modified in any respect other than pursuant to amendments, copies of which have been concurrently delivered or made available to United, and are in full force and effect in accordance with their terms.

(c) Except as set forth in the Adairsville Disclosure Memorandum, there are no contractual obligations, agreements in principle or present plans for Adairsville to enter into new leases of real property or to renew or amend existing Adairsville Leases prior to the Closing Date.

4.4.5 Real Property. (a) Adairsville does not own any interest in any real property (other than as lessee) except as set forth in the Adairsville Disclosure Memorandum (such properties being referred to herein as "Adairsville Realty"). Except as disclosed in the Adairsville Disclosure Memorandum, Adairsville has good title to the Adairsville Realty and the titles to the Adairsville Realty are covered by title insurance policies providing coverage in the amount of the original purchase price, true, correct and complete copies of which have been or will be furnished to United with the Adairsville Disclosure Memorandum. Adairsville has not encumbered the Adairsville Realty since the effective dates of the respective title insurance policies.

(b) Except as set forth in the Adairsville Disclosure Memorandum, the interests of Adairsville in the Adairsville Realty and in and under each of the Adairsville Leases are free and clear of any and all liens and encumbrances and are subject to no present claim, contest, dispute, action or, to the knowledge of Adairsville, threatened action at law or in equity.

(c) The present and past use and operations of, and improvements upon, the Adairsville Realty and all real properties leased by Adairsville (the "Adairsville Leased Real Properties") are in compliance in all material respects with all applicable building, fire, zoning and other applicable laws, ordinances and regulations and with all deed restrictions of record, no notice of any violation or alleged violation thereof has been received, and to the knowledge of Adairsville there are no proposed changes therein that would affect the Adairsville Realty, the Adairsville Leased Real Properties or their uses.

(d) Except as set forth in the Adairsville Disclosure Memorandum, no rent has been paid in advance and no security deposit has been paid by, nor is any brokerage commission payable by or to, Adairsville with respect to any Lease pursuant to which it is lessor or lessee.

(e) Adairsville is not aware of any proposed or pending change in the zoning of, or of any proposed or pending condemnation proceeding with respect to, any of the Adairsville Realty or the Adairsville Leased Real Properties which may adversely affect the Adairsville Realty or the Adairsville Leased Real Properties or the current or currently contemplated use thereof.

(f) The buildings and structures owned, leased or used by Adairsville are, taken as a whole, in good operating order (except for ordinary wear and tear), usable in the ordinary course of business, and are sufficient and adequate to carry on the business and affairs of Adairsville.

4.5 Employees and Benefits.

4.5.1 Compensation Structure. The Disclosure Memorandum contains a true and complete list of the names, titles, responsibilities and compensation arrangements of each person whose earned compensation (including without limitation all salary, wages, bonuses and fringe benefits other than those fringe benefits made available to all employees on a non-discriminatory basis), regardless of whether actually payable in such year, from Adairsville for the current fiscal year will equal or exceed $35,000. Adairsville has heretofore made available or shall make available to United copies of all written agreements, correspondence (other than outstanding offers of employment to prospective employees whose compensation levels will not exceed $35,000 in cash), memoranda and other written materials currently in effect which have been provided to such employees relating to their compensation.

4.5.2 Directors or Officers of Other Corporations. Except as set forth in the Disclosure Memorandum, no director, officer, or employee of Adairsville serves, or in the past five years has served, as a director or officer of any other corporation on behalf of or as a designee of Adairsville or any of its subsidiaries.

4.5.3 Employee Benefits. (a) Except as set forth in the Disclosure Memorandum, Adairsville does not have or maintain a pension plan, profit sharing plan, group insurance plan, employee welfare benefit plan (as such term is defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), severance plan, bonus plan, stock option plan or deferred compensation plan for any of its current or former employees.

(b) Each "employee benefit plan" as defined in Section 3(3) of ERISA, maintained by or on behalf of Adairsville (including any plans which are "multi-employer plans" under Section 3(37)(A) of ERISA ("Multi-employer Plans") and any defined benefit plan (as defined in Section 3(35) of ERISA) terminated by Adairsville within the five plan-years ending immediately before the Closing Date), which covers or covered any employees of Adairsville, of any subsidiary or of any predecessors ("Plan"), is listed in the Disclosure Memorandum,

and copies of all the Plans and Plan trusts (if applicable), Summary Plan Descriptions, Actuarial Reports and valuations (if any), and Annual Reports (and attachments thereto) on Form 5500, 5500-C or 5500-R, as the case may be (if required pursuant to ERISA) for the most recent three years with respect to the Plans, Internal Revenue Service determination letters and any other related documents requested by United or its counsel have been, or prior to the Closing Date will be, provided to United.

(c) Except as set forth in the Disclosure Memorandum, with respect to each Plan: no litigation or administrative or other proceeding is pending or, to the knowledge of Sellers, threatened; the Plan has been restated or amended so as to comply with all applicable requirements of law, including all applicable requirements of ERISA, the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder by the Internal Revenue Service and United States Department of Labor, other than changes in such laws for which amendments are not yet required; to the knowledge of Sellers, neither the Plan nor any trustee, administrator or fiduciary thereof has at any time been involved in any transaction relating to the Plan which would constitute a breach of fiduciary duty under ERISA or a "prohibited transaction" within the meaning of Section 406 of ERISA or Section 4975 of the Code, unless such transaction is specifically permitted under Sections 407 or 408 of ERISA, Section 4975 of the Code or a class or administrative exemption issued by the Department of Labor.

(d) Except as set forth in the Disclosure Memorandum, each Plan has been administered in compliance in all material respects with applicable law and the terms of the Plan.

(e) Except as disclosed in the Disclosure Memorandum and except for obligations under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), Adairsville has no obligation to provide, or material liability for, health care, life insurance or other benefits after termination of active employment. As of the Closing Date, Adairsville will have provided adequate reserves, or insurance or qualified trust funds, for all claims incurred through the Closing Date, including adequate reserves to provide for any post-retirement health care, life insurance or other benefits with respect to periods of employment prior to the Closing Date, based on an actuarial valuation satisfactory to the actuaries of Adairsville representing a projection of claims expected to be incurred for such retirees during its period of coverage under such Plan.

(f) Except as described in the Disclosure Memorandum, to the knowledge of Management, no fact or circumstance exists which could constitute grounds in the future for the Pension Benefit Guaranty Corporation ("PBGC") (or any successor to the PBGC) to take any action whatsoever under Section 4042 of ERISA in connection with any plan which an Affiliate (as defined below) of Adairsville maintains within the meaning of Section 4062 or 4064 of ERISA, and, in either case, the PBGC has not previously taken any such action which has, or reasonably might, result in any liability of an Affiliate or Adairsville to the PBGC, which would have a material adverse effect on the business of Adairsville. The term "Affiliate" for purposes of this Section means any trade or business (whether incorporated or unincorporated) which is a member of a group described in Sections 414(b) or 414(c) of the Code of which Adairsville is also a member.

(g) Only current and former employees of Adairsville participate in the Plans.

4.5.4 Labor-Related Matters. Except as described in the Disclosure Memorandum, Adairsville is not, and has not been, a party to any collective bargaining agreement or agreement of any kind with any union or labor organization or to any agreement with any of its employees which is not terminable at will or upon ninety (90) days notice at the election of, and without cost or penalty to, Adairsville. Adairsville has not received at any time in the past five (5) years, any demand for recognition from any union, and no attempt has been made, or will have been made as of the Closing Date, to organize any of its employees. Adairsville has complied in all material respects with all obligations under the National Labor Relations Act, as amended, the Age Discrimination in Employment Act, as amended, and all other federal, state and local labor laws and regulations applicable to employees. There are no unfair labor practice charges pending or threatened against Adairsville, and there are, and in the past three (3) years there have been, no charges, complaints, claims or proceedings, no slowdowns or strikes pending or threatened against, or involving, as the case may be, Adairsville with respect to any alleged violation of any legal duty (including but not limited to any wage and hour claims, employment discrimination claims or claims arising out of any employment relationship) by Adairsville as to any of its employees or as to any person seeking employment therefrom, and no such violations exist.

4.5.5 Related Party Transactions. Except for (a) loans and extensions of credit made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by Adairsville with other persons who are not affiliated with Adairsville, and which do not involve more than the normal risk of repayment or present other unfavorable features, (b) deposits, all of which are on terms and conditions identical to those made available to all customers of Adairsville at the time such deposits were entered into, and (c) transactions specifically described in the Disclosure Memorandum, there are no contracts with or commitments to present or former 5% or greater shareholders, directors, officers, or employees involving the expenditure after November 30, 1998 of more than $60,000 as to any one individual, including with respect to any business directly or indirectly controlled by any such person, or $100,000 for all such contracts or commitments in the aggregate for all such individuals (other than contracts or commitments relating to services to be performed by any officer, director or employee as a currently-employed employee of Adairsville).

4.6 Other Matters.

4.6.1 Regulatory Reports. Adairsville will make available to United for review and inspection all applications, reports or other documents filed by it for each of its past three full fiscal years with any regulatory or governmental agencies. All of such applications, reports and other documents have been prepared in accordance with applicable rules and regulations of the regulatory agencies with which they were filed.

4.6.2 Approvals, Consents and Filings. Except for the approval of the Federal Reserve and the Department of Banking, or as set forth in the Adairsville Disclosure Memorandum, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (a) require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, or (b) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Adairsville, or any of Adairsville's assets.

4.6.3 Default. (a) Except for those consents described in or set forth pursuant to Section 4.6.2 above, neither the execution of this Agreement nor consummation of the transactions contemplated herein (i) constitutes a breach of or default under any contract or commitment to which Adairsville is a party or by which Adairsville or its properties or assets are bound, (ii) does or will result in the creation or imposition of any security interest, lien, encumbrance, charge, equity or restriction of any nature whatsoever in favor of any third party upon any assets of Adairsville, or (iii) constitutes an event permitting termination of any agreement or the acceleration of any indebtedness of Adairsville.

(b) Adairsville is not in default under its articles of incorporation or bylaws or under any term or provision of any security deed, mortgage, indenture or security agreement or of any other contract or instrument to which Adairsville is a party or by which it or any of its property is bound.

4.6.4 Representations and Warranties. No representation or warranty contained in the Adairsville Disclosure Memorandum, this Article IV or in any certificate delivered by or at the direction of Adairsville pursuant hereto or in connection with the transactions contemplated hereby contains or shall contain any untrue statement, nor shall such representations and warranties taken as a whole omit any statement necessary in order to make any statement not misleading. Copies of all documents that have been or will be furnished to United in connection with this Agreement or pursuant hereto are or shall be true, correct and complete.

ARTICLE V

CONDUCT OF BUSINESS OF ADAIRSVILLE PENDING CLOSING

Except as expressly otherwise provided herein, Adairsville covenants and agrees that, without the prior written consent of United, between the date hereof and the Closing Date:

5.1 Conduct of Business. Adairsville will conduct its business only in the ordinary course, without the creation of any indebtedness for borrowed money (other than deposit and similar accounts and customary credit arrangements between banks in the ordinary course of business).

5.2 Maintenance of Properties. Adairsville will maintain its properties and assets in good operating condition, ordinary wear and tear excepted.

5.3 Insurance. Adairsville will maintain and keep in full force and effect all of the insurance referred to in Section 4.3.4 hereof or other insurance equivalent thereto in all material respects.

5.4 Capital Structure. No change will be made in the authorized or issued capital stock or other securities of Adairsville, and Adairsville will not issue or grant any right or option to purchase or otherwise acquire any of the capital stock or other securities of Adairsville or Adairsville Bank.

5.5 Dividends. No dividend, distribution or payment will be declared or made in respect to the Adairsville Stock and Adairsville will not, directly or indirectly, redeem, purchase or otherwise acquire any of its capital stock.

5.6 Amendment of Articles; Corporate Existence. Adairsville will not amend its articles of incorporation or bylaws, and Adairsville will maintain its corporate existence and powers.

5.7 No Acquisitions. Adairsville shall not acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other entity or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to it.

5.8 No Dispositions. Adairsville will not sell, mortgage, lease, buy or otherwise acquire, transfer or dispose of any Adairsville Realty or interest therein (except for sales in the ordinary course of business) and Adairsville will not, except in the ordinary course of business, sell or transfer, mortgage, pledge or subject to any lien, charge or other encumbrance any other tangible or intangible asset.

5.9 Banking Arrangements. No change will be made in the banking and safe deposit arrangements referred to in Section 4.2.8 hereof.

5.10 Contracts. Except for renewals of existing contracts in effect as of the date hereof, or entering into a contract for the purpose of substituting a vendor under any such existing contract, Adairsville will not enter into any contract of the kind described in Section 4.4.1 hereof.

5.11 Books and Records. The books and records of Adairsville will be maintained in the usual, regular and ordinary course.

5.12 Advice of Changes. Adairsville shall promptly advise United orally and in writing of any change or event having, or which the Adairsville Management believes could have, a material adverse effect on the assets, liabilities, business, operations or financial condition of Adairsville.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF UNITED

As an inducement to Adairsville to enter into this Agreement and to consummate the transactions contemplated hereby, United represents, warrants, covenants and agrees as follows:

6.1 United Disclosure Memorandum. United has heretofore delivered to Adairsville a memorandum (the "United Disclosure Memorandum") containing certain information regarding United as indicated at various places in this Agreement. All information set forth in the United Disclosure Memorandum or in documents incorporated by reference in the United Disclosure Memorandum is true, correct and complete, does not omit to state any fact necessary in order to make the statements therein not misleading, and shall be deemed for all purposes of this Agreement to constitute part of the representations and warranties of United under this Article VI. The information contained in the United Disclosure Memorandum shall be deemed to be part of and qualify all representations and warranties contained in this Article VI and the covenants in Article VII to the extent applicable. All information in each of the documents and other writings furnished to Adairsville pursuant to this Agreement or the United Disclosure Memorandum is or will be true, correct and complete and does not and will not omit to state any fact necessary in order to make the statements therein not misleading. United shall promptly provide Adairsville with written notification of any event, occurrence or other information necessary to maintain the United Disclosure Memorandum and all other documents and writings furnished to Adairsville pursuant to this Agreement as true, correct and complete in all material respects at all times prior to and including the Closing.

6.2 Authority. Subject to the approval of various state and federal regulators, the execution, delivery and performance of this Agreement and the other transactions contemplated or required in connection herewith will not, with or without the giving of notice or the passage of time, or both, (a) violate any provision of federal or state law applicable to United or Interim, the violation of which could be reasonably expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of United; (b) violate any provision of the articles of incorporation or bylaws of United or Interim; (c) conflict with or result in a breach of any provision of, or termination of, or constitute a default under any instrument, license, agreement, or commitment to which United is a party, which, singly or in the aggregate, could reasonably be expected to have a material adverse effect on the business, operations, properties, assets, financial condition or prospects of United; or (d) constitute a violation of any order, judgment or decree to which United is a party, or by which United or any of its assets or properties are bound. Assuming this Agreement constitutes the valid and binding obligation of Adairsville, this Agreement constitutes the valid and binding obligation of United, and is enforceable in accordance with its terms, except as limited by laws affecting creditors' rights generally and by the discretion of courts to compel specific performance.

6.3 Corporate Status. United and Interim are business corporations duly organized, validly existing and in good standing under the laws of the State of Georgia.

6.4 Litigation and Proceedings. Except as set forth on the United Disclosure Memorandum, there are no actions, decrees, suits, counterclaims, claims, proceedings or governmental actions or investigations, pending or, to the knowledge of United, threatened against, by or affecting United, or any officer, director, employee or agent in such person's capacity as an officer, director, employee or agent of United or relating to the business or affairs of United, in any court or before any arbitrator or governmental agency, and no judgment, award, order or decree of any nature has been rendered against or with respect thereto by any agency, arbitrator, court, commission or other authority, nor does United have any unasserted contingent liabilities which might have an adverse effect on its assets or on the operation of its businesses or which might prevent or impede the consummation of the transactions contemplated by this Agreement.

6.5 Approvals, Consents and Filings. Except for the approval of the Federal Reserve and the Department of Banking, or as set forth in the United Disclosure Memorandum, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (a) require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, or (b) violate any order, writ, injunction, decree, statute, rule or regulation applicable to United, or any of United's assets.

6.6 Default. (a) Except for those consents described in or set forth pursuant to Section 6.5 above, neither the execution of this Agreement nor consummation of the transactions contemplated herein (i) constitutes a breach of or default under any contract or commitment to which United is a party or by which United or its properties or assets are bound, (ii) does or will result in the creation or imposition of any security interest, lien, encumbrance, charge, equity or restriction of any nature whatsoever in favor of any third party upon any assets of United, or (iii) constitutes an event permitting termination of any agreement or the acceleration of any indebtedness of United.

(b) United is not in default under its articles of incorporation or bylaws or under any term or provision of any security deed, mortgage, indenture or security agreement or of any other contract or instrument to which United is a party or by which it or any of its property is bound.

6.7 Regulatory Approval. United is not aware of any reasonable basis that would preclude it from obtaining regulatory approval for the Merger.

6.8 Representations and Warranties. No representation or warranty contained in the United Disclosure Memorandum, this Article VI or in any certificate delivered by or at the direction of United pursuant hereto or in connection with the transactions contemplated hereby contains or shall contain any untrue statement, nor shall such representations and warranties taken as a whole omit any statement necessary in order to make any statement not misleading. Copies of all documents that have been or will be furnished to Adairsville in connection with this Agreement or pursuant hereto are or shall be true, correct and complete.

ARTICLE VII

CONDITIONS TO OBLIGATIONS OF UNITED

All of the obligations of United under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by United:

7.1 Veracity of Representations and Warranties. The representations and warranties of Adairsville contained herein, in the Disclosure Memorandum or in any certificate delivered pursuant to the provisions hereof, or in connection herewith, shall be true in all material respects as of the date when made and shall be deemed to be made again at and as of the Closing Date and shall be true in all material respects at and as of such time, except as a result of changes or events expressly permitted or contemplated herein.

7.2 Performance of Agreements. Adairsville shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

7.3 Certificates, Resolutions, Opinion. Adairsville shall have delivered to United:

(a) a certificate executed by the Vice Chairman and Secretary of Adairsville, dated as of the Closing Date, and certifying in such detail as United may reasonably request to the fulfillment of the conditions specified in Sections 7.1 and 7.2 hereof;

(b) duly adopted resolutions of the Board of Directors and shareholders of Adairsville certified by the Secretary thereof, dated the Closing Date, (i) authorizing and approving the execution of this Agreement (with respect to the directors of Adairsville) and the Merger Agreement (with respect to the directors and shareholders of Adairsville) and the consummation of the transactions contemplated herein and therein in accordance with their respective terms and (ii) authorizing all other necessary and proper corporate action to enable Adairsville to comply with the terms hereof and thereof;

(c) certificates of the valid existence of Adairsville and the Adairsville Bank under the laws of the State of Georgia, executed by the Secretary of State and the Department of Banking, respectively, and dated not more than five (5) business days prior to the Closing Date;

(d) certificates from the appropriate public officials of the State of Georgia, dated not more than five (5) business days prior to the Closing Date, certifying that Adairsville has filed all corporate tax returns required by the laws of such state and has paid all taxes shown thereon to be due; and

(e) an opinion of Jenkens & Gilchrist, P.C., counsel for Adairsville, dated the Closing Date, in the form attached hereto as Exhibit C.

7.4 Shareholder Approval. The Merger Agreement shall have been approved by the vote of the holders of at least two-thirds of Adairsville Stock.

7.5 Regulatory Approvals. United shall have received from any and all governmental authorities, bodies or agencies having jurisdiction over the transactions contemplated by this Agreement and the Merger Agreement, including, but not limited to the Federal Reserve and the Department of Banking, such consents, authorizations and approvals as are necessary for the consummation thereof and all applicable waiting or similar periods required by law shall have expired. Such consents, authorizations and approvals shall be without conditions other than such conditions as are ordinarily imposed in connection with transactions of the type contemplated hereby and which do not, in the reasonable judgment of United, and in the exercise of the fiduciary duties of the Board of Directors of United, make it inadvisable to consummate the Merger.

7.6 Certificate of Merger. The Secretary of State of the State of Georgia shall have issued a certificate of merger with regard to the Merger in accordance with the provisions of the Georgia Business Corporation Code.

7.7 Resignations of Directors. United shall have received the resignations of all of the Directors of Adairsville and Adairsville Bank effective as of the Closing Date.

7.8 No Adverse Changes. There shall have been no material adverse change in the properties, business or financial condition of Adairsville, in the aggregate, from that reflected in the 1998 Financial Statements of Adairsville included in the Adairsville financial statements referred to in Section 4.2.6 of this Agreement, and Adairsville shall not have suffered any substantial loss or damage to its properties or assets whether or not insured that would affect or impair its ability to conduct its business. It is understood that a material adverse change will not include a change with respect to, or affect on, Adairsville resulting from a change in law, rule, regulation or GAAP or from any other matter affecting federally-insured depository institutions generally (including, without limitation, their holding companies), including, without limitation, changes in general economic conditions and changes in prevailing interest or deposit rates; provided, any such changes do not impact Adairsville more adversely than other similarly situated financial institutions.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF ADAIRSVILLE

All of the obligations of Adairsville under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by it:

8.1 Veracity of Representations and Warranties. The representations and warranties of United contained herein or in any certificate, schedule or other document delivered pursuant to the provisions hereof, or in connection herewith, shall be true in all material respects as of the date when made and shall be deemed to be made again at and as of the Closing Date and shall be true in all material respects at and as of such time, except as a result of changes or events expressly permitted or contemplated herein.

8.2 Performance of Agreements. United shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing Date.

8.3 Certificates, Resolutions, Opinion. United shall have delivered to Adairsville:

(a) a certificate executed by the President and Secretary of United, dated the Closing Date, certifying in such detail as Adairsville may reasonably request to the fulfillment of the conditions specified in Sections 8.1 and 8.2 hereof; and

(b) duly adopted resolutions of the board of directors of United, certified by the Secretary thereof, dated the Closing Date, (i) authorizing and approving the execution and delivery of this Agreement and the Merger Agreement on behalf of United, and the consummation of the transactions contemplated herein and therein in accordance with their respective terms, and (ii) authorizing all other necessary and proper corporate actions to enable United to comply with the terms hereof and thereof;

(c) duly adopted resolutions of the Board of Directors and sole shareholder of Interim certified by the Secretary thereof, dated the Closing Date, (i) authorizing and approving the execution of the Merger Agreement and the consummation of the transactions contemplated therein in accordance with its terms and (ii) authorizing all other necessary and proper corporate action to enable Interim to comply with the terms thereof;

(d) an opinion of Kilpatrick Stockton LLP, counsel for United, dated the Closing Date, in the form attached hereto as Exhibit D.

8.4 Shareholder Approval. The Merger Agreement shall have been approved by the vote of the holders of at least two-thirds of Adairsville Stock.

8.5 Regulatory Approvals. Any and all governmental authorities, bodies or agencies having jurisdiction over the transactions contemplated by this Agreement and the Merger Agreement, including, but not limited to the Federal Reserve and the Department of Banking, shall have granted such consents, authorizations and approvals as are necessary for the consummation hereof and thereof, and all applicable waiting or similar periods required by law shall have expired. Such consents, authorizations and approvals shall be

without conditions other than such conditions as are ordinarily imposed in connection with transactions of the type contemplated hereby and which do not, in the reasonable judgment of Adairsville, and in the exercise of the fiduciary duties of the Board of Directors of Adairsville, make it inadvisable to consummate the Merger.

8.6 Certificate of Merger. The Secretary of State of the State of Georgia shall have issued a certificate of merger with regard to the Merger in accordance with the provisions of the Georgia Business Corporation Code.

8.7 Receipt of Fairness Opinion. Adairsville shall have received an opinion of Dr. Bob Swasky (or another qualified person or entity satisfactory to Adairsville and United), that the consideration to be received by the shareholders of Adairsville pursuant to the Merger is adequate.

8.8 Third Party Escrow Account. United shall have transferred by wire all of the funds required to be paid as consideration to Adairsville stockholders pursuant to Article II of this Agreement to an independent third party escrow agent, which may be a law firm chosen by United, under an escrow agreement in form and substance reasonably satisfactory to Adairsville which will provide that the escrow agent shall distribute the funds to Adairsville shareholders solely upon receipt of notification by either United or Adairsville of the effectiveness of the merger and receipt of certificates formerly representing shares of Adairsville Stock duly endorsed for transfer.

ARTICLE IX

WARRANTIES, NOTICES, ETC.

9.1 Warranties. All statements contained in any certificate delivered by or on behalf of Adairsville or United pursuant hereto or in connection with the transactions contemplated hereby shall be deemed representations and warranties hereunder by them. Unless the context otherwise requires, the representations and warranties required of Adairsville shall be required to be made, and shall be considered made, on behalf of both Adairsville and its subsidiary Adairsville Bank, and the representations and warranties required of United, shall be required to be made, and shall be considered made, on behalf of United and the United Subsidiaries.

9.2 Survival of Representations. All representations, warranties, covenants, and agreements made by either party hereto in or pursuant to this Agreement or in any exhibit or certificate delivered pursuant hereto shall be deemed to have been material and to have been relied upon by the party to which made, but, except as set forth hereafter or specifically stated in this Agreement, such representations, warranties, covenants, and agreements shall expire and be of no further force and effect upon the consummation of the Merger; provided, however, that the following shall survive consummation of the Merger and the transactions contemplated hereby:

(a) the opinions of counsel referred to in Sections 7.3(e) and 8.3(d) of this Agreement;

(b) any fraudulent misrepresentation of any material fact made by either party hereto in or pursuant to this Agreement or in any instrument, document or certificate delivered pursuant hereto; and

(c) the covenant with respect to the confidentiality of certain information contained in Section 3.4 hereof.

9.3 Notices. All notices or other communications required or permitted to be given or made hereunder shall be in writing and delivered personally or sent by pre-paid, first class certified or registered mail, return receipt requested, or by facsimile transmission, to the intended recipient thereof at its address or facsimile number set out below. Any such notice or communication shall be deemed to have been duly given immediately (if given or made in person or by facsimile confirmed by mailing a copy thereof to the recipient in accordance with this Paragraph 9.3 on the date of such facsimile), or five days after mailing (if given or made by mail), and in proving same it shall be sufficient to show that the envelope containing the same was delivered to the delivery service and duly addressed, or that receipt of a facsimile was confirmed by the recipient as provided above. Either party may change the address to which notices or other communications to such party shall be delivered or mailed by giving notice thereof to the other party hereto in the manner provided herein.

(a) To Adairsville: Adairsville Bancshares, Inc.
7400 Hwy. 140
P. O. Box 405
Adairsville, Georgia 30103-0405
Attention: William B. Hurley
CEO
Facsimile: (770) 773-9195

With copies to: Jenkens & Gilchrist, a Professional Corporation
1445 Ross Avenue
Suite 3200
Dallas, Texas 75202-2799
Attention: Peter G. Weinstock

(b) To United: United Community Banks, Inc.
P.O. Box 398
Blairsville, Georgia 30512
Attention: Jimmy Tallent
President
Facsimile: (706) 745-1335

With copies to: Kilpatrick Stockton LLP
Suite 2800
1100 Peachtree Street
Atlanta, Georgia 303039-4530
Attention: Richard R. Cheatham
Facsimile: (404) 815-6555

9.4 Entire Agreement. This Agreement, the Merger Agreement and the Confidentiality Agreement supersede all prior discussions and agreements between Adairsville and United with respect to the Merger and the other matters contained herein and therein, and this Agreement, the Merger Agreement and the Confidentiality Agreement contain the sole and entire agreement between Adairsville and United with respect to the transactions contemplated herein and therein.

9.5 Waiver; Amendment. Prior to or on the Closing Date, United shall have the right to waive any default in the performance of any term of this Agreement by Adairsville, to waive or extend the time for the fulfillment by Adairsville of any or all of Adairsville' obligations under this Agreement, and to waive any or all of the conditions precedent to the obligations of United under this Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation. Prior to or on the Closing Date, Adairsville shall have the right to waive any default in the performance of any term of this Agreement by United, to waive or extend the time for the fulfillment by United of any or all of United's obligations under this Agreement, and to waive any or all of the conditions precedent to the obligations of Adairsville under this Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation. This Agreement may be amended by a subsequent writing signed by the parties hereto, provided, however, that the provisions of Sections 7.5 and 8.5 requiring regulatory approval shall not be amended by the parties hereto without regulatory approval.

9.6 Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

ARTICLE X

TERMINATION

This Agreement may be terminated at any time prior to or on the Closing Date upon written notice to the other party as follows, and, upon any such termination of this Agreement, neither party hereto shall have any liability to the other, except that the provisions of Sections 3.4, 3.6 and 3.10 hereof shall survive the termination of this Agreement for any reason.

10.1 Material Adverse Change. By United, if, after the date hereof, a material adverse change in the financial condition or business of Adairsville shall have occurred which change would reasonably be expected to have a material adverse affect on the market price of Adairsville Stock, or if Adairsville shall have suffered a material loss or damage to any of its properties or assets, which change, loss or damage materially affects or impairs its ability to conduct its business. It is understood that a material adverse change will not include a change with respect to, or affect on, Adairsville resulting from a change in law, rule, regulation or GAAP or from any other matter affecting federally-insured depository institutions generally (including, without limitation, their holding companies), including, without limitation, changes in general economic conditions and changes in prevailing interest or deposit rates; provided, any such changes do not impact Adairsville more adversely than other similarly situated financial institutions.

10.2 Noncompliance. (a) By United, if the terms, covenants or conditions of this Agreement to be complied with or performed by Adairsville before the Closing shall not have been substantially complied with or performed at or before the Closing Date and such noncompliance or nonperformance shall not have been waived by United. (b) By Adairsville, if the terms, covenants or conditions of this Agreement to be complied with or performed by United before the Closing shall not have been substantially complied with or performed at or before the Closing Date and such noncompliance or nonperformance shall not have been waived by Adairsville.

10.3 Failure to Disclose. By United, if it learns of any fact or condition not disclosed in this Agreement, the Adairsville Disclosure Memorandum, or the 1998 Adairsville Financial Statements, which was required to be disclosed by Adairsville pursuant to the provisions of this Agreement at or prior to the date of execution hereof with respect to the business, properties, assets or earnings of Adairsville which materially and adversely affects such business, properties, assets or earnings or the ownership, value or continuance thereof. It is understood that a material adverse change will not include a change with respect to, or affect on, Adairsville resulting from a change in law, rule, regulation or GAAP or from any other matter affecting federally-insured depository institutions generally (including, without limitation, their holding companies), including, without limitation, changes in general economic conditions and changes in prevailing interest or deposit rates; provided, any such changes do not impact Adairsville more adversely than other similarly situated financial institutions.

10.4 Adverse Proceedings. By either party, if any action, suit or proceeding shall have been instituted or threatened against either party to this Agreement to restrain or prohibit, or to obtain substantial damages in respect of, this Agreement or the consummation of the transactions contemplated herein, which, in the good faith opinion of Adairsville or United makes consummation of the transactions herein contemplated inadvisable.

10.5 Termination Date. This Agreement shall automatically terminate, without the requirement of notice on behalf of either party, if the Closing Date shall not have occurred on or before June 30, 1999.

10.6 Shareholders Vote. By either party, if the Merger Agreement is not approved by the vote of the holders of Adairsville Stock as required by applicable law.

10.7 Environmental Liability of Adairsville. By United, if it learns of any potential material liability of Adairsville arising from noncompliance with any federal, state or local environmental law by Adairsville, or any potential material liability of Adairsville arising from any environmental condition of the properties or assets of Adairsville, including any properties or assets in which Adairsville holds a security interest.

ARTICLE XI

COUNTERPARTS, HEADINGS, ETC.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The headings herein set out are for convenience of reference only and shall not be deemed a part of this Agreement. A pronoun in one gender includes and applies to the other genders as well.

ARTICLE XII

BINDING EFFECT

This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that this Agreement may not be assigned by either party without the prior written consent of the other.

ARTICLE XIII

GOVERNING LAW

The validity and effect of this Agreement and the Merger Agreement and the rights and obligations of the parties hereto and thereto shall be governed by and construed and enforced in accordance with the laws of the State of Georgia.

IN WITNESS WHEREOF, Adairsville and United have caused this Agreement to be executed by their respective duly authorized corporate officers and their respective corporate seals to be affixed hereto as of the day and year first above written.

ADAIRSVILLE BANCSHARES, INC.

(CORPORATE SEAL)

By: /s/ Sue Hurley
Sue Hurley
Chairman

Attest:

/s/ E. Millard Acree, Jr.
E. Millard Acree, Jr.
Vice Chairman

UNITED COMMUNITY BANKS, INC.

(CORPORATE SEAL)

By: /s/ Jimmy Tallent
Jimmy Tallent
President

Attest:

/s/ Billy M. Decker
Billy M. Decker
Secretary

EXHIBIT A

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (the "Agreement") is made and entered into as of this _____ day of January , 1999, by and between ADAIRSVILLE INTERIM CORPORATION ("Interim"), and ADAIRSVILLE BANCSHARES, INC. ("Adairsville"), both Georgia corporations (said corporations are hereinafter collectively referred to as the "Constituent Corporations").

R E C I T A L S:

WHEREAS, the authorized capital stock of Adairsville consists of 1,000,000 shares of Common Stock, $4 par value per share, of which 381,116 shares are issued and ("Adairsville Stock"); and

WHEREAS, the respective Boards of Directors of the Constituent Corporations deem it advisable and in the best interests of each such corporation and its shareholders that Interim merge with Adairsville, with Adairsville being the surviving corporation; and

WHEREAS, the respective Boards of Directors of the Constituent Corporations, by resolutions duly adopted, have unanimously approved and adopted this Agreement; and

WHEREAS, the Board of Directors of Adairsville and Interim, by resolutions duly adopted, have directed that this Agreement be submitted to the shareholders of Adairsville and the sole shareholder of Interim for their approval; and

WHEREAS, United Community Banks, Inc. ("United"), the sole shareholder of Interim, pursuant to the Agreement and Plan of Reorganization of even date herewith between Adairsville and United (the "Acquisition Agreement") has agreed to pay the shareholders of Adairsville $18.50 per share in cash, according to the terms and conditions contained herein, on or after the Closing Date (as defined herein) of the merger provided for herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which as legally sufficient consideration are hereby acknowledged, the parties hereto have agreed and do hereby agree, as follows:

1. MERGER.

Pursuant to and with the effects provided in the applicable provisions of Article 11 of the Georgia Business Corporation Code, as amended (Chapter 2 of Title 14 of the Official Code of Georgia), Interim (hereinafter sometimes referred to as the "Merged Corporation") shall be merged with and into Adairsville (the "Merger"). Adairsville shall be the surviving corporation (the "Surviving Corporation") and shall continue under the name "Adairsville Bancshares, Inc.". On the Closing Date (as defined herein) of the Merger, the individual existence of the Merged Corporation shall cease and terminate.

2. ACTIONS TO BE TAKEN.

The acts and things required to be done by the Georgia Business Corporation Code in order to make this Agreement effective, including the submission of this Agreement to the shareholders of the Constituent Corporations and the filing of the Certificate of Merger relating hereto in the manner provided in said Code, shall be attended to and done by the proper officers of the Constituent Corporations with the assistance of counsel as soon as practicable.

3. CLOSING DATE.

The Merger shall be effective upon the approval of this Agreement by the shareholders of the Constituent Corporations and the filing of the Certificate of Merger relating hereto in the manner provided in the Georgia Business Corporation Code (the "Closing Date").

4. ARTICLES OF INCORPORATION AND BYLAWS OF THE SURVIVING CORPORATION.

(a) The Articles of Incorporation of Adairsville, as heretofore amended, shall on the Closing Date be the Articles of Incorporation of the Surviving Corporation.

(b) Until altered, amended or repealed, as therein provided, the Bylaws of Adairsville as in effect on the Closing Date shall be the Bylaws of the Surviving Corporation.

5. DIRECTORS.

Upon the Merger contemplated herein becoming effective, the directors of the Surviving Corporation shall be the individuals set forth on Attachment 1 hereto. Said persons shall hold office until the next annual meeting of the shareholders of the Surviving Corporation and until their successors are elected in accordance with the By-Laws of the Surviving Corporation. If on the Closing Date any vacancy shall exist on the Board of Directors of the Surviving Corporation, such vacancy shall be filled in the manner specified in the By-Laws of the Surviving Corporation.

6. MANNER AND BASIS OF CONVERTING SHARES OF CAPITAL STOCK; CAPITAL STRUCTURE OF THE SURVIVING CORPORATION.

The manner and basis of converting the shares of capital stock of each of the Constituent Corporations into shares of the Surviving Corporation or into cash or other property shall be as follows:

(a) Upon the Closing Date each of the shares of Adairsville Stock outstanding on the Closing Date shall be converted into $18.50 in cash (the "Purchase Price"); provided that if the Closing Date is

ninety days after the date hereof (the "Threshold Date"), then the consideration per share payable shall be increased by the amount of the net earnings per share of Adairsville between January 1, 1999 and the Closing Date. Net earnings for the purpose of this Section 6(a) shall be reduced by the amount of any non-operating earnings and not reduced by any reserves or charges made pursuant to Section 3.13 of the Acquisition Agreement.

(b) On or after the Closing Date, each holder as of the Closing Date of any of the shares of Adairsville Stock, upon presentation and surrender of the certificates representing such shares to the transfer agent or agents designated by United, shall be entitled to receive in exchange therefor a check in settlement for cash payable for the Adairsville Stock. Until such surrender, each such outstanding certificate which prior to the Closing Date represented Adairsville Stock shall be deemed for all corporate purposes, except as set forth below, to evidence the right to receive the cash into which the same shall have been converted. Unless and until any such certificate shall be so evidenced, the holder of such certificate shall not have the right to receive any interest or any cash into which the shares have been converted.

(c) Upon the Closing Date, the shares of Interim Stock issued and outstanding immediately prior to the Closing Date shall be converted into 381,116 shares, $4 par value per share, of Common Stock of the Surviving Corporation.

7. TERMINATION OF SEPARATE EXISTENCE.

Upon the Closing Date, the separate existence of the Merged Corporation shall cease and the Surviving Corporation shall possess all of the rights, privileges, immunities, powers and franchises, as well of a public nature as of a private nature, of each of the Constituent Corporations; and all property, real, personal and mixed, and all debts due on whatever account, and all other choses in action, and all and every other interest of or belonging to or due to each of the Constituent Corporations shall be taken and deemed to be transferred to and vested in the Surviving Corporation without further act or deed, and the title to any real estate or any interest therein, vested in either of the Constituent Corporations shall not revert or be in any way impaired by reason of the Merger. The Surviving Corporation shall thenceforth be responsible and liable for all the liabilities, obligations and penalties of each of the Constituent Corporations; and any claim existing or action or proceeding, civil or criminal, pending by or against either of said Constituent Corporations may be prosecuted as if the Merger had not taken place, or the Surviving Corporation may be substituted in its place, and any judgment rendered against either of the Constituent Corporations may thenceforth be enforced against the Surviving Corporation; and neither the rights of creditors nor any liens upon the property of either of the Constituent Corporations shall be impaired by the Merger.

8. FURTHER ASSIGNMENTS.

If at any time the Surviving Corporation shall consider or be advised that any further assignments or assurances in law or any other things are necessary or desirable to vest in said corporation, according to the terms hereof, the title to any property or rights of the Merged Corporation, the proper officers and directors of the Merged Corporation shall and will execute and make all such proper

assignments and assurances and do all things necessary and proper to vest title in such property or rights in the Surviving Corporation, and otherwise to carry out the purposes of this Agreement.

9. CONDITIONS PRECEDENT TO CONSUMMATION OF THE MERGER.

This Agreement is subject to, and consummation of the Merger is conditioned upon, the fulfillment as of the Closing Date of each of the following conditions:

(a) Approval of this Agreement by the affirmative vote of the holders of two-thirds of the outstanding voting shares of Adairsville Stock and the sole shareholder of Interim; and

(b) All the terms, covenants, agreements, obligations and conditions of the Acquisition Agreement to be complied with, satisfied and performed on or prior to the Closing Date (as defined therein), shall have been complied with, satisfied and performed in all material respects unless accomplishment of such covenants, agreements, obligations and conditions has been waived by the party benefited thereby.

9. TERMINATION.

This Agreement may be terminated and the Merger abandoned in accordance with the terms of the Acquisition Agreement, at any time before or after adoption of this Agreement by the directors of either of the Constituent Corporations, notwithstanding favorable action on the Merger by the shareholders of the Constituent Corporations, but not later than the issuance of the certificate of merger by the Secretary of State of Georgia with respect to the Merger in accordance with the provisions of the Georgia Business Corporation Code.

10. COUNTERPARTS; TITLE; HEADINGS.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The title of this Agreement and the headings herein set out are for the convenience of reference only and shall not be deemed a part of this Agreement.

11. AMENDMENTS; ADDITIONAL AGREEMENTS.

At any time before or after approval and adoption by the shareholders of Adairsville, this Agreement may be modified, amended or supplemented by additional agreements, articles or certificates as may be determined in the judgment of the respective Boards of Directors of the Constituent Corporations to be necessary, desirable or expedient to further the purposes of this Agreement, to clarify the intention of the parties, to add to or modify the covenants, terms or conditions contained herein or to effectuate or facilitate any governmental approval of the Merger or this Agreement, or otherwise to effectuate or facilitate the consummation of the transactions contemplated hereby; provided, however, that no such modification, amendment or supplement shall reduce to any extent the consideration into which shares of Adairsville Stock shall be converted in the Merger pursuant to Section 5 hereof.

IN WITNESS WHEREOF, the Constituent Corporations have each caused this Agreement to be executed on their respective behalfs and their respective corporate seals to be affixed hereto as of the day and year first above written.

ADAIRSVILLE INTERIM
CORPORATION

(CORPORATE SEAL)

By:___________________________
Jimmy Tallent
President

ATTEST:

____
Billy M. Decker
Secretary

ADAIRSVILLE BANCSHARES, INC.

(CORPORATE SEAL)

By:___________________________
Sue Hurley
Chairman

ATTEST:

____
E. Millard Acree, Jr.
Vice Chairman

ATTACHMENT 1

Directors

Jimmy Tallent
Christopher J. Bledsoe

EXHIBIT B

United Community Banks, Inc.
P.O. Box 398
Blairsville, Georgia 30512

Gentlemen:

In connection with the proposed merger (the "Merger") of Adairsville Interim Corporation ("Interim") with and into Adairsville Bancshares, Inc. ("Adairsville"), pursuant to the Agreement and Plan of Reorganization between United and Adairsville (the "Reorganization Agreement") and the Agreement and Plan of Merger between Interim and Adairsville, the undersigned hereby agrees to vote any and all shares of the capital stock of Adairsville owned or controlled by her, him or it in favor of the Merger.

Sincerely,

Estate of Ernest M. Acree, Sr.

By:___________________________
Executor

____
Ernest M. Acree, Jr.

____
Thomas L. Manton

____
Franklin G. Fuller

____
Thomas Kinnamon

Summerville/Trion Bancshares, Inc.

By:___________________________

Name:

Title:

____

T. Fay Hurley

____

Sue Hurley

____

William B. Hurley

EXHIBIT C

(1) Adairsville was duly organized as a corporation, and is existing and in good standing, under the laws of the State of Georgia.

(2) Adairsville has the corporate power to execute and deliver the Agreement and Plan of Reorganization Agreement (the "Reorganization Agreement") and the Agreement and Plan of Merger (the "Merger Agreement"), to perform its obligations thereunder, to own and use its Assets and to conduct its business.

(3) Adairsville has duly authorized the execution and delivery of the Reorganization Agreement and the Merger Agreement and all performance by Adairsville thereunder, and has duly executed and delivered the Reorganization Agreement and the Merger Agreement.

(4) No consent, approval, authorization or other action filed by, or filing with, any governmental authority of the United States or the State of Georgia is required for Adairsville's execution and delivery of the Reorganization Agreement and the Merger Agreement and consummation of the Transaction, which consent, approval or authorization has not been previously received.

(5) The Reorganization Agreement and the Merger Agreement are enforceable against Adairsville.

(6) The authorized capital stock of Adairsville consists of 1,000,000 shares of Common Stock, $4 par value per share, of which 381,116 shares are issued and outstanding. All of the issued and outstanding shares of capital stock of Adairsville has been duly authorized and validly issued and are fully paid and non-assessable and, to such counsel's knowledge, there are no outstanding options, warrants, rights, calls, commitments, conversion rights, plans or other agreements providing for the purchase or issuance of any authorized but unissued shares of such capital stock.

EXHIBIT D

(1) United and Interim were duly organized as a corporations, and are existing and in good standing, under the laws of the State of Georgia.

(2) United has the corporate power to execute and deliver the Agreement and Plan of Reorganization Agreement (the "Reorganization Agreement") and Interim has the Corporate power and authority to execute the Agreement and Plan of Merger (the "Merger Agreement"), and each have the power to perform their respective obligations thereunder, to own and use its Assets and to conduct its business.

(3) United has duly authorized the execution and delivery of the Reorganization Agreement has duly authorized all performance by United thereunder, and has duly executed and delivered the Reorganization Agreement.

(4) Interim has duly authorized the execution and delivery of the Merger Agreement and all performance by Interim thereunder, and has duly executed and delivered the Merger Agreement.

(5) No consent, approval, authorization or other action filed by, or filing with, any governmental authority of the United States or the State of Georgia is required for United's execution and delivery of the Reorganization Agreement and Interim's execution and delivery of the Merger Agreement and consummation of the Transaction, which consent, approval or authorization has not been previously received.

(6) The Reorganization Agreement and the Merger Agreement are enforceable against United and Interim, respectively.

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 of Fannin County, Blue Ridge, Georgia (d/b/a Peoples Bank and United Community Bank of Gilmer County)	Georgia
Towns County Bank, Hiawassee, Georgia	Georgia
White County Bank, Cleveland, Georgia	Georgia
First Clayton Bancshares, Inc., Clayton, Georgia	Georgia
United Family Finance Co.	Georgia
United Family Finance Co. of North Carolina, Murphy, North Carolina	North Carolina

EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated February 26, 1999, 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, 1998. 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 22, 1999

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UNITED COMMUNITY BANKS, INC.
1,000

YEAR
DEC-31-1998
JAN-01-1998
DEC-31-1998
48,510
0
7,190
0
314,394
57,393
59,106
999,871
11,929
1,498,599
1,163,124
26,520
19,574
202,631
0
0
7,394
79,356
1,498,599
93,133
14,408
1,518
109,139
50,174
56,640
52,499
2,372
800
41,098
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0
12,152
1.64
1.62
4.58
518
464
4,300
0
10,352
1,288
493
11,929
0
0
11,929

UNITED

COMMUNITY BANKS

NOTICE OF 1999 ANNUAL MEETING

PROXY STATEMENT

ANNUAL FINANCIAL STATEMENTS
AND REVIEW OF OPERATIONS

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March 17, 1999

Dear Shareholder:

It is my pleasure to invite you to attend the 1999 Annual Meeting of Shareholders of United Community Banks, Inc. which will be held April 15, 1999 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,

/s/ Jimmy C. Tallent

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 15, 1999

The annual meeting of shareholders of United Community Banks, Inc. ("United") will be held on April 15, 1999 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 twelve directors to constitute the Board of Directors to serve until the next annual meeting and until their successors are elected and qualified;

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 1, 1999 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,

/s/Jimmy C. Tallent

Jimmy C. Tallent,
President and Chief Executive Officer

March 17, 1999

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") for use at the Annual Meeting of Shareholders of United to be held on April 15, 1999, 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 22, 1999.

At the meeting, shareholders will elect twelve directors that will serve a one-year term that will expire at the next annual meeting when their successors are elected and qualified.

The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on March 1, 1999. On that date, United had outstanding and entitled to vote 7,393,605 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 7,686,609 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 153,004 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, 1998, INCLUDING FINANCIAL STATEMENTS AND SCHEDULES, TO ANY SHAREHOLDER OF RECORD OR ANY BENEFICIAL OWNER OF ITS COMMON STOCK AS OF MARCH 1, 1999 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

SECURITY HOLDINGS OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of February 15, 1999 beneficial ownership of United's Common Stock by, by each director or nominee, by each named executive officer and by all directors and officers as a group. As of February 15, 1999, there were no "persons" (as that term is defined by the SEC) known by United to be the beneficial owner of more than 5% of United's Common Stock other than indicated in the table below.

DIRECTORS AND NOMINEES	NUMBER OF SHARES OWNED BENEFICIALLY	PERCENT OF CLASS
Jimmy C. Tallent	159,886	2.1%
Billy M. Decker	141,287	1.8%
Thomas C. Gilliland	177,581	2.3%
Robert L. Head, Jr.	672,743	8.8%
Charles E. Hill	170,563	2.2%
Hoyt O. Holloway	48,085	*
P. Deral Horne	30,000	*
John R. Martin	51,529	*
Clarence W. Mason, Sr.	47,340	*
Zell B. Miller	1,000	*
W.C. Nelson, Jr.	686,728	8.9%
Charles E. Parks	102,109	*
Guy W. Freeman	34,918	*
ALL DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP (22 PERSONS)	2,420,844	31.5%

[FN]
* Less than one percent.

Includes 10,000 shares beneficially owned by Mr. Tallent pursuant to the 2006 Debentures and 28,250 shares beneficially owned by Mr. Tallent pursuant to currently-exercisable options.

Includes 10,000 shares beneficially owned by Mr. Decker pursuant to the 2006 Debentures and 10,900 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.

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 16,950 shares beneficially owned pursuant to currently exercisable stock options.

Includes 96,555 shares beneficially owned by a trust over which Mr. Head has voting power 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.

Includes 10,000 shares beneficially owned by Mr. Hill pursuant to the 2006 Debentures. Does not include 89,175 shares owned by Mr. Hill's wife, for which he disclaims beneficial ownership.

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.

Includes 10,000 shares beneficially owned by Mr. Horne pursuant to the 2006 Debentures.

Includes 10,000 shares beneficially owned by Mr. Mason pursuant to the 2006 Debentures.

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 12,035 shares owned by Mr. Nelson's wife, for which he disclaims beneficial ownership.

Includes 10,000 shares beneficially owned by Mr. Parks pursuant to the 2006 Debentures.

Includes 6,000 shares beneficially owned by Mr. Freeman pursuant to the 2006 Debentures and 15,400 shares beneficially owned by Mr. Freeman pursuant to currently-exercisable options.

Includes 6,000 shares beneficially owned by Mr. Bledsoe pursuant to the 2006 Debentures and 11,300 shares beneficially owned by Mr. Bledsoe pursuant to currently-exercisable options.

Includes currently exerciseable options to acquire 116,902 shares and 116,000 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 twelve. 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 twelve 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, 1998 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	DIRECTOR OF UNITED SINCE
Jimmy C. Tallent.......... (46)	President and Chief Executive Officer of United	1987
Billy M. Decker (55)	Senior Vice President and Secretary of United	1988
Thomas C. Gilliland....... (50)	Executive Vice President of United and President of Peoples Bank of Fannin County	1992
Robert L. Head, Jr........ (59)	Chairman of the Board of Directors of United; Owner of Head Construction Company, Head-Westgate Corp., and Mountain Building Supply in Blairsville, Georgia	1988
Charles E. Hill (61)	Director of United; Retired Director of Pharmacy at Union General Hospital in Blairsville, Georgia.	1988

Hoyt O. Holloway.......... (58)	Director of United; owner of H&H Farms, a poultry farm in Blue Ridge, Georgia.	1993
P. Deral Horne............ (71)	Director of United; owner of Mountain and Valley Properties, a land development and sales business in Murphy, North Carolina.	1992
John R. Martin............ (48)	Director of United; Owner of John Martin Construction and of several mini-warehouse facilities in northeast Georgia and western South Carolina; registered pharmacist.	1997
Clarence W. Mason, Sr. ... (61)	Director of United; Owner of Mason Tractor, in Blue Ridge, Georgia.	1992
Zell B. Miller............ (67)	Director of United; Governor of Georgia from 1991 to 1998.	1999
W. C. Nelson, Jr.......... (55)	Vice Chairman of the Board of United; Owner of Nelson Tractor Company in Blairsville, Georgia.	1988
Charles E. Parks.......... (69)	Director of United; Former Owner of Parks Lumber Co, Murrayville, Georgia.	1997

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 1998: Jimmy C. Tallent, President and Chief Executive Officer of United and UCB, Billy M. Decker, Senior Vice President and Secretary 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").

	Annual Compensation				Long-Term Compensation	
Name and Principal Offices Held During 1998	Year	Salary	Bonus	Other	Securities Underlying Options	All Other Compensation
Jimmy C. Tallent....................	1998	$231,125	$100,000	$36,900	8,750	$29,118
President and Chief Executive	1997	$215,000	$ 90,000	$32,875	8,750	$27,058
Officer of United and UCB	1996	$188,650	$ 65,000	$10,000	8,750	$23,781
Thomas C. Gilliland................	1998	$165,000	$ 45,000	$ 5,400	5,250	$ 8,250
President and Chief Executive	1997	$157,500	$ 42,500	$ 5,400	5,250	$13,388
Officer of Peoples; Executive	1996	$142,188	$ 35,000	$ 6,400	5,250	$12,086
Vice President of United						
Billy M. Decker.....................	1998	$121,450	$ 30,000	$18,600	2,500	$14,817
Senior Vice President and	1997	$117,700	$ 30,000	$18,600	3,500	$14,359
Secretary of United	1996	$107,500	$ 35,500	$10,000	3,500	$13,115
Guy W. Freeman......................	1998	$158,550	$ 50,000	$ 7,300	4,000	$19,343
President and Chief Executive	1997	$138,200	$ 40,000	$ 7,000	10,000	$16,982
Officer of Carolina; Senior Vice	1996	$117,500	$ 20,000	$ 3,850	3,500	$14,335
President of United						
Christopher J. Bledsoe.............	1998	$116,250	$27,500	--	3,500	$14,183
Senior Vice President and Chief	1997	$102,500	$25,000	--	3,500	$12,505
Financial Officer of United and UCB	1996	$ 91,500	$20,500	--	3,500	$11,163

____

[FN]

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, is the lesser of $50,000 or 10% of the total salary and bonus for any named executive.

Represents a contribution by United of $28,197 on behalf of Mr. Tallent to United's Profit Sharing Plan and insurance premiums of $921 paid by UCB on behalf of Mr. Tallent on a life insurance policy.

Represents United's contribution on behalf of the named individual to United's Profit Sharing Plan.

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 $1,250 per board meeting attended during 1998. 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 1998 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	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Expiration Date	5%	10%
Jimmy C. Tallent	8,750	16%	1/1/08	$165,085	$418,357
Thomas C. Gilliland	5,250	9%	1/1/08	$ 99,051	$251,014
Billy M. Decker	2,500	5%	1/1/08	$ 47,167	$119,531
Guy W. Freeman	4,000	7%	1/1/08	$ 75,467	$191,249
Christopher J. Bledsoe	3,500	6%	1/1/08	$ 66,034	$167,343

[FN]

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 $30.00 per share, the fair market value on the date of grant of the options.

"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 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, 1998. No options were exercised during 1998 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 ($) Exercisable/Unexercisable
Jimmy C. Tallent	23,000/15,750	$571,000/241,500
Thomas C. Gilliland	13,800/9,540	$342,600/144,900
Billy M. Decker	9,000/5,500	$226,400/88,600
Guy W. Freeman	11,900/10,600	$276,200/170,800
Christopher J. Bledsoe	9,200/6,300	$228,400/96,600

[FN]
Based on $40.00 per share, the last sale price known to United during 1998. United's Common Stock is not publicly traded.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934 (the "Exchange Act") requires United's executive officers, directors and persons who own more than ten percent (10%) of United's Common Stock to file with the Securities and Exchange Commission ("SEC") reports of ownership and changes in ownership. Based solely on its review of the forms filed with the SEC and representations of reporting persons, United believes that everyone who was an executive officer, director or greater than 10% beneficial owner at any time during 1998 complied with all filing requirements applicable to them during 1998.

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 1998 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.

Mr. Robert L. Head, Jr., Chairman of the Board of Directors of United, is the owner of a construction company that United and two of its bank subsidiaries engaged during the course of the year to perform various construction projects totaling approximately $2.0 million.

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 Messrs. Tallent, Gilliland, Decker, Freeman and 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 1998, 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 income 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 55,500 shares of Common Stock were awarded under the Plan in fiscal 1998, including options to acquire 24,000 shares of Common Stock awarded to the Named Executive Officers by the Compensation Committee.

UNITED COMMUNITY BANKS, INC. BOARD OF DIRECTORS

Jimmy C. Tallent	P. Deral Horne
Billy M. Decker	John R. Martin
Thomas C. Gilliland	Clarence W. Mason, Sr.
Robert L. Head, Jr.	Zell B. Miller
Charles E. Hill	W. C. Nelson, Jr.
Hoyt O. Holloway	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	Zell B. Miller
P. Deral Horne	W. C. Nelson, Jr.
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 of five fiscal years commencing January 1, 1994 and ending on December 31, 1998. This graph was prepared at United's request by Research Data Group, San Francisco, California. United's Common Stock is not publicly traded; therefore, the total shareholder return is based on stock trades known to United during the periods presented.

COMPARISON OF 5 YEAR CUMULATIVE
TOTAL RETURN*
AMONG UNITED COMMUNITY BANKS, INC.
THE NASDAQ STOCK MARKET (U.S.) INDEX
AND THE NASDAQ BANK INDEX

GRAPHICS APPEARS HERE

* $100 INVESTED ON 12/31/93 IN STOCK OR INDEX -
INCLUDING REINVESTMENT OF DIVIDENDS.
FISCAL YEAR ENDING DECEMBER 31.

	CUMULATIVE TOTAL RETURN					
	12/93	12/94	12/95	12/96	12/97	12/98
UNITED COMMUNITY BANKS, INC.	100	157	253	333	479	641
NASDAQ STOCK MARKET (U.S.)	100	98	138	170	209	293
NASDAQ BANK	100	100	148	196	328	325

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The United Board of Directors held four meetings during 1998. 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, 1998. 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 2000 annual meeting must be received by December 12, 1999 and otherwise must comply with United's bylaws 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,

/s/ Jimmy C. Tallent

Jimmy C. Tallent
President and Chief Executive Officer

COMMON STOCK
OF UNITED COMMUNITY BANKS, INC.

THIS PROXY IS SOLICITED BY THE BOARD OF
DIRECTORS FOR THE 1999 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 15, 1999, and any adjournment thereof.

1. |__| 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.; ZELL B. MILLER; 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)

____

2. |__| WITHHOLD AUTHORITY to vote for all nominees listed above.

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: __________________________________

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, now known as United Community Bank ("UCB"). United is a bank holding company registered under the Bank Holding Company Act of 1956. 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 of Fannin County, 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 Bank and Trust ("First Clayton"), which United acquired in 1997. UCB, Carolina, Peoples, Towns, White and First Clayton are collectively referred to in this report as the "Banks". United also operates two consumer finance companies - United Family Finance Co., which operates two offices in Georgia, and United Family Finance Co. of North Carolina, which operates two offices in North Carolina. In this report, both United Family Finance Co. and United Family Finance Co. of North Carolina are collectively referred to as ("Finance").

The Banks are community-oriented, and offer a full range of retail and corporate banking services, including checking, savings and time deposit accounts, secured and unsecured loans, wire transfers, trust services and rental of safe deposit boxes. As of December 31, 1998, the Banks operated a total of 27 locations. In order to emphasize the commitment to community banking, both UCB and Peoples operate branches under trade names that are closely identified with the communities in which they are located. UCB operates two branches in Lumpkin County, Georgia, under the trade name "United Community Bank of Lumpkin County" and two branches in Habersham County, Georgia, under the trade name "First Bank of Habersham." Peoples operates one branch in Gilmer County, Georgia, under the trade name of "United Community Bank of Gilmer County." The operation of bank branches under trade names is permissible under current state and federal banking regulations and requires certain customer disclosures, which both UCB and Peoples provide.

The Mortgage People Company ("MPC"), a division of UCB, is a full-service retail 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. During 1998, MPC originated $145 million of residential mortgage loans for the purchase of homes and to refinance existing mortgage debt, of which substantially all were sold into the secondary market with no recourse to MPC.

On January 21, 1999, United entered into a definitive agreement to acquire the stock of Adairsville Bancshares, Inc. ("Adairsville") in Bartow County, Georgia. This acquisition was closed on March 15, 1999 and was accounted for as a purchase transaction. As of December 31, 1998, Adairsville had $37.1 million of total assets and $4.0 million of total equity.

FORWARD LOOKING STATEMENTS

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

SELECTED FINANCIAL DATA
(in thousands, except per share data and ratios)

		1998	1997	1996	1995	1994
FOR THE YEAR						
Net interest income	$	52,499	43,232	33,815	25,015	20,067
Provision for loan losses		2,372	2,634	1,597	1,116	998
Non-interest income		8,711	6,980	5,666	4,523	3,962
Non-interest expense		41,098	32,077	24,843	19,204	15,125
Income taxes		5,588	4,766	4,114	2,549	2,205
Net income	$	12,152	10,735	8,927	6,669	5,701
PER COMMON SHARE						
Net income - basic	$	1.64	1.47	1.29	1.03	0.91
Net income - diluted		1.62	1.46	1.26	1.01	0.89
Cash dividends declared		0.15	0.10	0.10	0.08	0.09
Book value	$	11.73	10.17	8.14	7.09	5.56
AT YEAR END						
Loans	$	999,871	823,324	634,574	474,857	354,521
Earning assets		1,386,977	1,049,159	824,476	659,548	458,446
Assets		1,498,599	1,153,367	886,103	712,298	496,527
Deposits		1,163,124	977,079	773,300	637,832	427,998
Stockholders' equity	$	86,750	75,113	57,675	49,207	34,871
Common shares outstanding			7,385	7,085	6,945	6,275
AVERAGE BALANCES						
Loans	$	899,957	733,551	545,449	423,953	332,793
Earning assets		1,181,635	960,346	723,994	565,523	429,152
Assets		1,272,994	1,024,730	783,509	607,877	464,767
Deposits		1,077,605	894,200	695,391	538,518	408,645
Stockholders' equity	$	80,180	66,333	53,472	42,110	32,463
Weighted average shares outstanding		7,392	7,301	6,919	6,499	6,275
KEY PERFORMANCE RATIOS						
Return on average assets		0.95%	1.05%	1.14%	1.10%	1.23%
Return on average stockholders' equity		15.16%	16.18%	16.69%	15.84%	17.56%
Net interest margin, taxable equivalent		4.58%	4.64%	4.85%	4.64%	4.93%
Efficiency ratio		68.04%	64.84%	62.93%	65.01%	62.92%
Dividend payout ratio		9.13%	6.51%	7.58%	8.82%	9.89%
Average equity to average assets		6.30%	6.47%	6.82%	6.93%	6.98%

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

General

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. 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. Collectively, these banking institutions are referred to in this report as the "Banks." In addition, United owns two consumer finance companies: United Family Finance Co. and United Family Finance Co. of North Carolina (collectively, "Finance").

At December 31, 1998, United had total consolidated assets of $1.50 billion, total loans of $996 million, total deposits of $1.16 billion and stockholders' equity of $86.8 million. United's net income for 1998 was $12.2 million, an increase of $1.4 million, or 13.2%, from 1997. Diluted income per common share increased to $1.62 in 1998, from $1.46 in 1997.

The following discussion is intended to provide insight into the financial condition and results of operations of United and should be read in conjunction with the consolidated financial statements and accompanying notes.

Expansions since December 31, 1997

On January 21, 1999, United entered into a definitive agreement to acquire the stock of Adairsville Bancshares, Inc. ("Adairsville") in Bartow County, Georgia. This acquisition was closed on March 15, 1999 and was accounted for as a purchase transaction. As of December 31, 1998, Adairsville had $37.1 million of total assets and $4.0 million of total equity.

Effective January 30, 1998, Peoples assumed deposits totaling $23.4 million and purchased certain assets totaling $3.7 million of a branch bank located in Ellijay, Georgia. This office is operated under the trade name of United Community Bank of Gilmer County.

Three de novo branch offices of the Banks were opened for business during 1998. Carolina opened offices in Etowah and Cherokee, North Carolina, and UCB opened a branch in Clarkesville, Georgia, which is operated under the trade name of First Bank of Habersham.

Management intends to evaluate opportunities for de novo expansion into new markets and in the current market area of the Banks. A new branch office of UCB located in Murrayville, Georgia, is scheduled to open during the third quarter of 1999 and will be operated under the trade name of United Community Bank of Hall County. Subsequent to December 31, 1998, Carolina acquired a bank facility in Brevard, North Carolina, and filed for necessary regulatory approvals to commence operation of a full-service branch office. In addition, Peoples has filed for regulatory approval to open a second branch in Ellijay, Georgia.

Expansions prior to December 31, 1997

Effective September 12, 1997, United completed the acquisition of 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.

In addition to the purchase of First Clayton, United expanded its market area during 1997 and 1996, primarily through de novo branching and purchasing of existing branch bank offices. Carolina created de novo branch offices in the Western North Carolina cities of Brevard during 1997 and Bryson City and Cashiers in 1996.

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 is 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 for a trade name permitting it to conduct its operations in Union County, Georgia under the trade name Union County Bank. On September 28, 1996, UCB assumed deposits of $23.7 million and purchased assets of $21.1 million in Cornelia, Habersham County, Georgia, from a banking institution that sold 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 of Lumpkin County.

Income Statement Review

Net income was $12.2 million in 1998, an increase of 13.2% from the $10.7 million earned in 1997. Diluted income per common share was $1.62 for 1998, compared with $1.46 reported for 1997, an increase of 11.0%. Return on average assets and return on average equity for 1998 were 0.95% and 15.16%, respectively, compared with 1.05% and 16.18%, respectively, for 1997.

The following table summarizes the components of income and expense and the changes in those components for the past three years.

Table 1 - Condensed Consolidated Statements of Income
For the years ended December 31
(In thousands)

	1998	Change Amount	%	1997	Change Amount	%	1996
Interest income	$ 109,139	19,359	21.6%	89,780	21,874	32.2%	67,906
Interest expense	56,640	10,092	21.7%	46,548	12,457	36.5%	34,091
Net interest income	52,499	9,267	21.4%	43,232	9,417	27.8%	33,815
Provision for loan losses	2,372	(262)	-9.9%	2,634	1,037	64.9%	1,597
Net interest income after provision for loan losses	50,127	9,529	23.5%	40,598	8,380	26.0%	32,218
Non-interest income	8,711	1,731	24.8%	6,980	1,314	23.2%	5,666
Non-interest expense	41,098	9,021	28.1%	32,077	7,234	29.1%	24,843
Income before income taxes	17,740	2,239	14.4%	15,501	2,460	18.9%	13,041
Income tax expense	5,588	822	17.2%	4,766	652	15.8%	4,114
Net income	$ 12,152	1,417	13.2%	10,735	1,808	20.3%	8,927

The individual components of income and expense are discussed in further detail below.

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 an optimal level of income while balancing interest rate, credit and liquidity risks. Net interest income totaled $52.5 million in 1998, an increase of $9.3 million, or 21.4%, from the level recorded in 1997 and an increase of $18.7 million from 1996. On a fully tax-equivalent basis, net interest income was $54.2 million in 1998, compared with $44.6 million in 1997 and $35.1 million in 1996.

Average interest earning assets increased $221.2 million, or 23.0%, over the 1997 amount. This increase was primarily due to the increased volume of loans. Average loans outstanding for 1998 were $905.3 million, compared with $737.9 million in 1997. Average interest bearing liabilities for 1998 increased $200.5 million, or 23.4%, over the 1997 average balance. This increase was primarily due to an increase in the level of average interest bearing deposits of $151.1 million, or 18.9%, and an increase in borrowed funds of $49.4 million, or 86.4%. The majority of new borrowings were fixed and floating rate advances from the Federal Home Loan Bank (FHLB) that were at a funding cost competitive with the Banks' current certificate of deposit rates. Additional information regarding the FHLB advances is provided in note 7 of the consolidated financial statements.

The banking industry uses two key ratios to measure relative profitability of net interest income. The net interest rate sprea measures the difference between the average yield on 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 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 4.02% in 1998, 4.05% in 1997 and 4.33% in 1996, while the net interest margin (on a tax-equivalent basis) was 4.58% in 1998, 4.64% in 1997 and 4.85% in 1996. The decrease in the margin and spread are primarily due to competitive pressures on loan pricing, which produced a 12 basis point decline in the average rate from 1997 to 1998. The average cost of interest bearing liabilities for 1998 was 5.36%, a decrease of 8 basis points from 1997. Core deposits, which include transaction accounts, savings accounts and certificates of deposit less than $100 thousand, represented approximately 82.5% of total deposits in 1998, a decrease from 84.0% in 1997.

The following table shows, for the past three years, the relationship between interest income and expense and the average balances of interest earning assets and interest bearing liabilities.

Table 2 - Average Consolidated Balance Sheets and Net Interest
For the Years Ended December 31
Fully tax-equivalent basis
(in thousands)

	1998			1997			1996		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
ASSETS:									
Interest-earning assets:									
Loans, net of unearned income	$ 905,268	93,202	10.30%	737,889	76,860	10.42%	551,043	58,227	10.57%
Taxable investments	184,305	11,283	6.12%	148,390	9,097	6.13%	115,480	6,735	5.83%
Tax-exempt investments	65,930	4,808	7.29%	44,326	3,514	7.93%	36,250	3,022	8.34%
Federal funds sold and other interest income	26,132	1,518	5.81%	29,741	1,642	5.52%	21,221	1,198	5.65%
Total interest-earning assets / interest income	1,181,635	110,811	9.38%	960,346	91,113	9.49%	723,994	69,182	9.56%
Non-interest-earning assets:									
Allowance for loan losses	(11,095)			(9,304)			(7,530)		
Cash and due from banks	41,705			28,542			21,396		
Premises and equipment	33,098			23,194			18,097		
Other assets	27,651			21,952			27,552		
Total assets	$ 1,272,994			1,024,730			783,509		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing deposits:									
Transaction accounts	$ 235,362	9,353	3.97%	176,054	6,712	3.81%	169,811	5,445	3.21%
Savings deposits	52,585	1,478	2.81%	43,286	1,190	2.75%	41,834	1,147	2.74%
Certificates of deposit	661,894	39,343	5.94%	579,398	34,966	6.03%	410,656	25,569	6.23%
Total interest-bearing deposits	949,841	50,174	5.28%	798,738	42,868	5.37%	622,301	32,161	5.17%
Federal Home Loan Bank advances	83,627	4,615	5.52%	39,615	2,382	6.01%	17,237	981	5.69%
Long-term debt and other borrowings	22,922	1,851	8.08%	17,532	1,298	7.40%	12,238	949	7.75%
Total borrowed funds	106,549	6,466	6.07%	57,147	3,680	6.44%	29,475	1,930	6.55%
Total interest-bearing liabilities/ interest expense	1,056,390	56,640	5.36%	855,885	46,548	5.44%	651,776	34,091	5.23%
Non-interest-bearing liabilities:									
Non-interest-bearing deposits	127,764			95,462			73,090		
Other liabilities	8,660			7,050			5,171		
Total liabilities	1,192,814			958,397			730,037		
Stockholders' equity	80,180			66,333			53,472		
Total liabilities and stockholders' equity	$ 1,272,994			1,024,730			783,509		
Net interest-rate spread			4.02%			4.05%			4.33%
Impact of non-interest bearing sources and other changes in balance sheet composition			0.56%			0.59%			0.52%
Net interest income / margin on interest-earning assets		54,171	4.58%		44,565	4.64%		35,091	4.85%

Interest income on tax-exempt securities and loans has been increased by 50% to reflect comparable interest on taxable securities.
For computational purposes, includes non-accrual loans and mortgage loans held for sale.
Includes Trust Preferred Securities.
Tax equivalent net interest income as a percentage of average earning assets.

The following table shows the relative impact on net interest income of changes in the average outstanding balances (volume) of 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 Income and Expense on a Tax Equivalent Basis
(in thousands)

	1998 Compared to 1997 Increase (decrease) in interest income and expense due to changes in:			1997 Compared to 1996 Increase (decrease) in interest income and expense due to changes in:		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST-EARNING ASSETS:						
Loans	$ 17,242	(900)	16,342	19,743	(1,110)	18,633
Taxable investments	2,199	(13)	2,186	1,919	443	2,362
Tax-exempt investments	1,595	(301)	1,294	673	(181)	492
Federal funds sold and other interest income	(207)	83	(124)	481	(37)	444
Total interest-earning assets	20,829	(1,131)	19,698	22,816	(885)	21,931
INTEREST-BEARING LIABILITIES:						
Transaction accounts	2,346	295	2,641	200	1,067	1,267
Savings deposits	261	27	288	40	3	43
Certificates of deposit	4,911	(534)	4,377	10,507	(1,110)	9,397
Total interest-bearing deposits	7,518	(212)	7,306	10,747	(40)	10,707
FHLB advances	2,444	(211)	2,233	1,274	127	1,401
Long-term debt and other borrowings	427	126	553	411	(62)	349
Total borrowed funds	2,871	(85)	2,786	1,685	65	1,750
Total interest-bearing liabilities	10,389	(297)	10,092	12,432	25	12,457
Increase (decrease) in net interest income	$ 10,440	(834)	9,606	10,384	(910)	9,474

Provision for Loan Losses

The provision for loan losses in 1998 was $2.4 million, compared with $2.6 million in 1997 and $1.6 million in 1996. As a percentage of average outstanding loans, the provisions recorded for 1998, 1997 and 1996 were .26%, .36% and .29%, respectively. Net loan charge-offs as a percentage of average outstanding loans for 1998 were .09%, compared with .06% for 1997 and .07% for 1996.

The provision for loan losses is based on management's evaluation of inherent risks 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.

Non-interest Income

Total non-interest income for 1998 was $8.7 million, compared with $7.0 million in 1997 and $5.7 million in 1996. The following table presents the components of non-interest income for 1998, 1997 and 1996.

Table 4 - Non-interest Income
(in thousands)

	Years Ended December 31,				
	1998	% Change	1997	% Change	1996
Service charges on deposit accounts	$ 3,962	13%	3,505	17%	2,990
Mortgage loan and related fees	1,822	57%	1,157	(26)%	1,566
ATM fees	312	37%	227	47%	154
Insurance commissions	617	161%	236	22%	194
Trust and brokerage revenue	378	105%	184	175%	67
Gains (losses) on securities sales, net	800	8%	742	(5,808)%	(13)
Safe deposit box rental	162	17%	139	10%	126
Other	658	(17)%	790	36%	582
Total	$ 8,711	25%	6,980	23%	5,666

The primary source of non-interest income for United is service charges and fees on deposit accounts held by the Banks. Total deposit service charges and fees for 1998 were $4.0 million, or 45% of total non-interest income, compared with $3.5 million, or 50% of total non-interest income in 1997. The growth of deposit service charge and fee revenue for 1998 and 1997 was primarily due to the increase in the number of deposit accounts resulting from the opening of new branch bank locations.

Net gains on the sale of securities totaled $800 thousand for 1998, compared with $742 thousand for 1997. The gains were primarily the result of a general decline in interest rates coupled with management's decision to shift a portion of the balance of the securities portfolios of the Banks to higher yielding mortgage securities.

Mortgage loan and related fees for 1998 were $1.8 million, an increase of 57% compared with 1997. This increase was primarily due to the low interest rate environment during 1998 that encouraged individuals to refinance existing mortgage debt. Substantially all of the mortgage loan and related fees recorded during 1998 were received as the result of originating approximately $145 million of residential mortgages that were subsequently sold into the secondary market. These loans were all sold with the right to service the loans (the servicing asset) released to the purchaser for a fee. The increase in mortgage loan and related fees for 1998 also includes the effect of recognizing $243 thousand in additional amortization of mortgage servicing rights in 1998 compared with 1997. This additional amortization was recognized in response to increased prepayment levels within the serviced loan portfolio.

Trust and brokerage revenue for 1998 was $378 thousand, an increase of 105% compared with 1997. This increase is primarily attributed to management's continued focus on personal trust business opportunities within the current customer base of the Banks. Total trust assets under management at December 31, 1998 were $63.2 million, compared with $37.8 million at December 31, 1997.

Insurance commissions increased 161% during 1998, to $617 thousand, compared with 1997. This increase is primarily attributed to loan growth at Finance of $2.7 million, or 101%, during 1998.

Non-interest Expense

Total non-interest expense for 1998 was $41.1 million, compared with $32.1 million in 1997 and $24.8 million in 1996. The following table presents the components of non-interest expense for the years ended December 31, 1998, 1997 and 1996.

Table 5 - Non-interest Expense
(in thousands)

	Years Ended December 31,				
	1998	% Change	1997	% Change	1996
Salaries	$ 18,101	29%	14,052	32%	10,677
Employee benefits	4,786	31%	3,643	35%	2,696
Occupancy	2,547	33%	1,921	28%	1,502
Furniture and equipment	2,975	41%	2,108	35%	1,562
Communications	1,154	66%	697	38%	506
Advertising and public relations	2,006	(2)%	2,038	36%	1,498
Postage, printing and supplies	2,183	32%	1,660	11%	1,492
Professional fees	1,384	29%	1,076	26%	852
Amortization of intangibles	509	23%	414	0%	414
Other expense	5,453	22%	4,468	23%	3,644
Total	$ 41,098	28%	32,077	29%	24,843

Total salaries and benefits for 1998 increased by 29% over the 1997 levels, primarily due to staff additions for new branch bank offices, staffing increases at existing branches that experienced growth and the addition of several senior management positions at the holding company level. United had 638 full-time equivalent employees at December 31, 1998, compared with 569 at year-end 1997.

Total occupancy expense and furniture and equipment expense for 1998 increased by 33% and 41%, respectively, compared with 1997. These increases are primarily attributed to the opening of new branch bank offices located in the primary market areas of United.

Postage, printing and supply expense for 1998 increased by 32% compared with 1997. This increase is a direct result of increases in the number of deposit, loan and trust customers during the year.

Advertising and public relations expense for 1998 decreased 2% compared with 1997. The primary reason for this decline was the decrease in marketing expenditures related to opening of new bank facilities in 1998 compared with 1997.

Amortization of intangible assets in 1998 increased 23% compared with 1997. This increase is attributed to the amortization of the core deposit intangible asset related to the January, 1998 acquisition of $23.4 million of deposits from a bank located in Ellijay, Georgia. Information regarding United's accounting policy for goodwill and deposit-based intangible assets is included in the notes to the consolidated financial statements.

The efficiency ratio measures a bank's total operating expenses as a percentage of net interest income (before provision for loan losses) and non-interest income, excluding net gains or losses on the sale of securities. United's efficiency ratio for 1998 was 68.04%, compared with 64.84% in 1997 and 62.93% in 1996. This increase was primarily attributed to the new branch expansions during 1997 and 1998 that added immediate "fully loaded" operating expenses without immediate offsetting revenue streams. Management expects the efficiency ratio trend to decline in 1999 and beyond as the revenue for new locations grows and the pace of new facility construction declines.

During the fourth quarter of 1998, management initiated a plan to centralize many operational functions that were currently being performed at individual bank offices, including wire transfers, accounts payable and deposit operations. Although no staff reductions were incurred in conjunction with this project, management expects to realize operational efficiency improvements in the future by limiting the need to increase operational support staffing at the same rate as overall growth of the Banks. The centralization project is expected to be substantially complete by the end of the first quarter of 1999.

Income Taxes

United had income tax expense of $5.6 million in 1998, compared with $4.8 million in 1997 and $4.1 million in 1996. United's effective tax rates (as a percentage of pre-tax net income) for 1998, 1997 and 1996 were 31.5%, 30.7% and 31.5%, respectively. These effective rates are lower than the statutory Federal tax rate primarily because of interest income on certain investment securities and loans that is exempt from income taxes. Additional information regarding United's income taxes can be found in note 11 to the consolidated financial statements.

Balance Sheet Review

Total assets at December 31, 1998 were $1.50 billion, an increase of $345.2 million, or 29.9%, from December 31, 1997. On an average basis, total assets increased $248.3 million, or 24.2%, from 1997 to 1998. Average interest earning assets for 1998 were $1.18 billion, compared with $960.3 million for 1997, an increase of 23.0%.

Loans

Total loans averaged $905.3 million in 1998, compared with $737.9 million in 1997, an increase of 22.7%. At December 31, 1998, total loans were $999.9 million, an increase of $176.5 million, or 21.4%, from December 31, 1997. 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. The following table presents a summary of the loan portfolio by category over that period.

Table 6 - Loans Outstanding
(in thousands)

	December 31,				
	1998	1997	1996	1995	1994
Commercial	$ 89,779	105,462	100,538	64,727	65,521
Real estate - construction	116,481	78,699	51,425	30,065	20,274
Real estate - mortgage	673,631	523,629	380,681	294,724	203,270
Consumer	119,980	115,534	101,930	85,341	65,456
Total loans	$ 999,871	823,324	634,574	474,857	354,521
As a percentage of total loans:					
Commercial	9.0%	12.8%	15.8%	13.6%	18.5%
Real estate - construction	11.6%	9.6%	8.1%	6.3%	5.7%
Real estate - mortgage	67.4%	63.6%	60.0%	62.1%	57.3%
Consumer	12.0%	14.0%	16.1%	18.0%	18.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Substantially all of United's loans are to customers located in Georgia and North Carolina, in the immediate market areas of the Banks. The following table indicates United's loans by specific collateral type or loan purpose as of December 31, 1998:

Table 7 - Loans by Collateral Type or Purpose
(in thousands)

		Percent of Total Loans
Secured by real estate:		
Residential first liens	$ 360,326	36.0%
Residential second liens	17,346	1.7%
Home equity lines of credit	18,057	1.8%
Construction and land development	116,481	11.7%
Non-farm, non-residential	263,794	26.4%
Farmland	7,665	0.8%
Multi-family residential	6,443	0.6%
Total real estate	790,112	79.0%
Other loans:		
Commercial and industrial	72,491	7.3%
Agricultural production	10,512	1.1%
States and municpalities	6,776	0.7%
Consumer installment loans	112,670	11.2%
Credit cards and other revolving credit	7,310	0.7%
Total other loans	209,759	21.0%
Total loans	$ 999,871	100.0%

As of December 31, 1998, United's 20 largest credit relationships consisted of loans and loan commitments ranging from $2.5 to $11.0 million, with an aggregate total credit exposure of $83 million. All of these credits have been underwritten in a prudent manner and structured in order to minimize United's potential exposure to loss. The deterioration of the financial condition of one or more of these borrowers or a significant decline in real estate values in United's markets could, however, result in an increase in the provision for loan losses and charge-offs.

The following table sets forth the maturity distribution of real estate construction and commercial loans, including the interest rate sensitivity for loans maturing in greater than one year, as of December 31, 1998. United's loan policy does not permit automatic roll-over of matured loans.

Table 8 - Loan Portfolio Maturity
(in thousands)

	Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial	$ 48,988	30,982	9,809	89,779	18,469	22,322
Real estate - construction	97,080	19,401	-	116,481	14,005	5,396
Total	$ 146,068	50,383	9,809	206,260	32,474	27,718

Asset Quality and Risk Elements

United manages asset quality and controls credit 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 at all of the Banks.

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. 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, 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.

United does not currently allocate the allowance for loan losses to the various loan categories and there were no significant changes is the estimation methods and assumptions used to determine the adequacy of the allowance for loan losses during 1998. Management does not expect the level of net loan charge-offs for 1999 to be significantly different from the amount recorded in 1998.

The following table presents a summary of changes in the allowance for loan losses for each of the past five years.

Table 9 - Summary of Loan Loss Experience
(in thousands)

	Years Ended December 31,				
	1998	1997	1996	1995	1994
Balance beginning of period	$ 10,352	8,125	6,884	4,231	3,465
Provision for loan losses	2,372	2,634	1,597	1,116	998
Allowance for loan losses acquired from subsidiary at acquisition date	-	-	-	1,813	-
Amounts charged-off:					
Commercial	438	73	329	148	27
Real estate - construction	-	-	-	24	-
Real estate - residential mortgage	175	99	13	337	49
Consumer	675	625	353	192	262
Total loans charged-off	1,288	797	695	701	338
Recoveries of charged-off loans:					
Commercial	271	22	251	157	6
Real estate - construction	-	-	-	-	-
Real estate - residential mortgage	36	224	39	188	1
Consumer	186	144	49	80	99
Total recoveries	493	390	339	425	106
Net charge-offs	795	407	356	276	232
Balance end of period	$ 11,929	10,352	8,125	6,884	4,231
Total loans:					
At year-end	$ 999,871	823,324	634,574	474,857	354,521
Average	$ 899,957	733,551	545,449	423,953	332,793
As a percentage of average loans:					
Net charge-offs	0.09%	0.06%	0.07%	0.07%	0.07%
Provision for loan losses	0.26%	0.36%	0.29%	0.26%	0.30%
Allowance as a percentage of year-end loans	1.19%	1.26%	1.28%	1.45%	1.19%
Allowance as a percentage of non-performing loans	1215%	985%	552%	298%	631%

Management believes that the allowance for loan losses at December 31, 1998 is sufficient to absorb losses inherent in the loan portfolio as of that date based on the best information available, including the credit risks related to the Year 2000 issue described in detail later in this discussion. This assessment involves uncertainty and judgement; 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.

Non-performing Assets

Non-performing loans, which included non-accrual loans and accruing loans past due over 90 days, totaled $982 thousand at year-end 1998, compared with $1.05 million at December 31, 1997. At December 31, 1998, the ratio of non-performing loans to total loans was .10%, compared with .13% at year-end 1997. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled $1.36 million at December 31, 1998, compared with $1.44 million at year-end 1997.

It is the general policy of the Banks 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. When a loan is placed on non-accrual status, interest previously accrued but not collected is reversed against current interest income. Depending on management's evaluation of the borrower and loan collateral, interest on a non-accrual loan may be recognized on a cash basis as payments are received. Loans made by the Banks to facilitate the sale of other real estate are made on terms comparable to loans of similar risk.

There were no commitments to lend additional funds to loans on non-accrual status at December 31, 1998. The table below summarizes United's non-performing assets for each of the last five years.

Table 10 - Non-Performing Assets
(in thousands)

	December 31,				
	1998	1997	1996	1995	1994
Non-accrual loans	$ 518	515	984	2,017	569
Loans past due 90 days or more and still accruing	464	536	487	291	102
Total non-performing loans	982	1,051	1,471	2,308	671
Other real estate owned	376	386	210	65	-
Total non-performing assets	$ 1,358	1,437	1,681	2,373	671
Total non-performing loans as a percentage of total loans	0.10%	0.13%	0.23%	0.49%	0.19%
Total non-performing assets as a percentage of total assets	0.09%	0.12%	0.19%	0.33%	0.14%

At December 31, 1998, United had $4.3 million of loans which 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 an eight-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 securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of income. The 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 securities increased 29.8% during 1998 and 27.0% during 1997. The following table shows the carrying value of United's securities, by security type, as of December 31, 1998, 1997 and 1996.

Table 11 - Carrying Value of Securities
(in thousands)

	December 31, 1998	1997	1996
Securities held to maturity:			
U.S. Treasury	$ -	500	2,368
U.S. Government agencies	1,885	22,361	34,804
State and political subdivisions	53,386	42,330	33,036
Mortgage-backed securities	2,122	4,368	7,118
Total securites held to maturity	57,393	69,559	77,326
Securities available for sale:			
U.S. Treasury	33,080	46,945	12,841
U.S. Government agencies	41,029	45,552	38,953
State and political subdivisions	20,512	11,860	6,833
Mortgage-backed securities	209,216	33,347	18,635
Other securities	10,557	6,190	4,002
Total securities available for sale	314,394	143,894	81,264
Total securities	$ 371,787	213,453	158,590

Carrying Value of Investments

The December 31, 1998, market value of securities held to maturity, as a percentage of amortized cost was 103%, up from 102% at December 31, 1997. 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 different from the carrying value at the time of call. On January 1, 1999, United adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). As permitted by SFAS No. 133, United transferred all securities classified as held to maturity at January 1, 1999 to available for sale. This transfer resulted in an increase in stockholders' equity of $1.1 million, which represents the amount of the unrealized gain on those securities, net of tax, as of January 1, 1999.

United's investment portfolio consists principally 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 with or without prepayment penalties. Decreases in interest rates will generally cause an increase in prepayment levels.

In a declining interest rate environment, United may not be able to reinvest the proceeds from these prepayments in assets that have comparable yields. However, because the majority of the mortgage-backed securities have adjustable rates, the negative effects of changes in interest rates on income and the carrying values of these securities are somewhat mitigated.

During the fourth quarter of 1998, management initiated a leverage program designed to make optimal utilization of United's assets and capital. This program provides for using borrowed funds (principally FHLB advances) secured by mortgage loans and securities of the Banks to purchase additional securities. The securities purchased in conjunction with the leverage program are primarily mortgage backed pass-through and other mortgage backed securities, including collateralized mortgage obligations ("CMOs"). As of December 31, 1998, the leverage program at United added $75 million in total borrowings and earning assets. Management expects the leverage program to add additional earning assets and related borrowings of between 10% and 15% of total consolidated assets by the end of 1999.

At December 31, 1998, United had 35% of its total investment portfolio in mortgage backed pass-through securities, all of which are issued or backed by Federal agencies, compared with 18% at December 31, 1997. United did not have securities of any issuer in excess of 10% of equity at year-end 1998 or 1997. Other mortgage-backed securities, including CMOs, represented 19% of the total securities portfolio at December 31, 1998, compared with 0% at year-end 1997. Approximately 87% of the other mortgage-backed securities portfolio was collateralized by mortgage-backed securities issued or backed by Federal agencies as of December 31, 1998.

Deposits

Total average deposits for 1998 were $1.08 billion, an increase of $183.4 million, or 20.5% from 1997. Average non-interest bearing demand deposit accounts increased $32.3 million, or 33.8%, and average interest bearing transaction accounts increased $59.3 million, or 33.7%, from 1997. Average time deposits for 1998 were $661.9, an increase of 14.2% from 1997. The lower rate of time deposit growth experienced by the Banks during 1998 was primarily due to stricter deposit pricing and an increased reliance on wholesale funding sources, including advances from the FHLB, that were more cost-effective.

Time deposits of $100 thousand and greater totaled $208.1 million at December 31, 1998, compared with $156.8 million at year-end 1997. Total interest paid on time deposits of $100 thousand and greater during 1998 was $11.4 million. The Banks did not hold any material amount of brokered certificates of deposit of $100 thousand and greater at December 31, 1998 or 1997. The following table sets forth the scheduled maturities of time deposits of $100 thousand and greater at December 31, 1998.

Table 12 - Maturities of Time Deposits of $100 Thousand and Greater
(in thousands)

Three months or less	$ 81,427
Over three through six months	60,638
Over six through twelve months	40,426
Over one year	25,629
Total	$ 208,120

Short-term Borrowings

At December 31, 1998, all of the Banks were shareholders in the Federal Home Loan Bank of Atlanta. Through this affiliation, secured advances totaling $176.9 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 to provide funding for the leverage program described above. The FHLB advances outstanding at December 31, 1998 had both fixed and floating interest rates ranging from 4.29% to 7.81%. Approximately 19% of the FHLB advances mature prior to December 31, 1999. Additional information regarding FHLB advances is provided in note 7 to the consolidated financial statements.

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.

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 impact of interest rate changes 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. The following table shows interest sensitivity gaps for these different intervals as of December 31, 1998.

Table 13 - Interest Rate Gap Sensitivity
(in thousands)

	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	$ 7,190	-	-	-	-	7,190
Securities	-	18,334	23,190	105,513	224,750	371,787
Mortgage loans held for sale	-	8,129	-	-	-	8,129
Loans	-	231,227	405,104	257,973	105,567	999,871
Total interest earning assets	7,190	257,690	428,294	363,486	330,317	1,386,977
Interest bearing liabilities:						
Demand deposits	-	270,532	-	-	-	270,532
Savings deposits	-	-	59,340	-	-	59,340
Time deposits	-	235,030	347,944	107,126	-	690,100
Fed funds purchased/repurchase agreements	26,520	-	-	-	-	26,520
FHLB advances	4,000	19,725	11,000	104,798	37,331	176,854
Notes payable	-	400	877	-	-	1,277
Convertible subordinated debentures	-	-	-	-	3,500	3,500
Trust preferred securities	-	-	-	-	21,000	21,000
Total interest bearing liabilities	30,520	525,687	419,161	211,924	61,831	1,249,123
Non-interest bearing sources of funds					143,152	143,152
Interest sensitivity gap	(23,330)	(267,997)	9,133	151,562	125,334	(5,298)
Cumulative sensitivity gap	$ (23,330)	(291,327)	(282,194)	(130,632)	(5,298)	-

As seen in the preceding table, during the first year 78% of interest bearing liabilities will reprice compared with 50% 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 that are not reflected in the interest rate sensitivity analysis. These prepayments may have significant impact on United's net interest margin. Because of these factors, an interest sensitivity gap analysis may not provide an accurate assessment of United's exposure to changes in interest rates.

Table 13 indicates United is in a liability sensitive or negative gap position for the first 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; however, no assurance can be given that United is not at risk from interest rate increases or decreases. 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 necessary to optimize the net interest margin.

The following table presents the expected maturity of the total 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, 1998. The composition and maturity/repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

Table 14 - Expected Maturity of Securities
(in thousands)

	One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Total
Securities held to maturity:					
U.S. Treasury	-	-	-	-	-
U.S. Government agencies	49	2,290	85	1,583	4,007
State and political subdivisions	2,125	20,594	22,071	8,596	53,386
Other securities	-	-	-	-	-
Total securites held to maturity	2,174	22,884	22,156	10,179	57,393
Percent of total	3.8%	39.9%	38.6%	17.7%	100.0%
Weighted average yield	7.04%	6.81%	7.54%	7.80%	7.28%
Securities available for sale:					
U.S. Treasury	5,100	26,990	-	-	32,090
U.S. Government agencies	2,450	36,334	10,988	173,985	223,757
State and political subdivisions	860	5,280	4,991	9,080	20,211
Other securities	-	-	-	36,189	36,189
Total securities available for sale	8,410	68,604	15,979	219,254	312,247
Percent of total	2.7%	22.0%	5.1%	70.2%	100.0%
Weighted average yield	6.55%	6.19%	6.45%	6.00%	6.08%
Total securities	10,584	91,488	38,135	229,433	369,640
Percent of total	2.9%	24.7%	10.3%	62.1%	100.0%
Weighted average yield	6.65%	6.34%	7.08%	6.08%	6.26%

Includes mortgage-backed securities issued by U.S Government sponsored agencies.
Based on amortized cost.
Includes privately issued mortgage-backed securities.

In order to assist in achieving a desired level of interest rate sensitivity, United has entered into off-balance sheet contracts that are considered derivative financial instruments during 1998, 1997 and 1996. Derivative financial instruments can be a cost and capital effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts include interest rate swaps under which United pays a variable rate and receives a fixed rate and interest rate cap contracts for which United pays an up-front premium in exchange for a variable cash flow if interest rates exceed the cap rate. At December 31, 1998, United had one outstanding swap contract with a notional amount of $10 million.

This contract provides for United to pay a variable rate in exchange for receiving a fixed rate on the notional amount and it matured on January 2, 1999. In addition, United had two cap contracts as of December 31, 1998 with a combined notional amount of $20 million that provide for United to receive payments if the 3 month LIBOR exceeds the contract rates. The cost of the cap contracts is included in other assets in the consolidated balance sheet and is being amortized on a straight-line basis over the five year term of the contracts. At December 31, 1998, the cap contracts had an aggregate book value of $437 thousand and an aggregate fair market value of $448 thousand. In order to minimize the credit risk of derivative financial instruments, United requires all contract counterparties to have an investment grade or better credit rating. Under current accounting guidelines, the fair value of derivative financial instruments is not included on the balance sheet; however, SFAS No. 133 requires all derivative financial instruments be included and recorded at fair value on the balance sheet. United adopted SFAS No. 133 effective January 1, 1999 and management expects all derivative financial instruments utilized to qualify as effective cash flow hedges, which will allow any gain or loss in value to be recorded as a component of other comprehensive income.

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 $8.1 million at December 31, 1998, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. Real estate-construction and commercial loans that mature in one year or less amounted to $146.1 million, or 15%, of the total loan portfolio at December 31, 1998. Other short-term investments such as federal funds sold are additional sources of liquidity.

The liability section of the balance sheet provides liquidity through depositors' interest bearing and non-interest 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 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 included in the consolidated financial statements, net cash provided by operating activities was $11.2 million during 1998. The major sources of cash provided by operating activities are net income partially offset by funding of mortgage loans held for sale and changes in other assets and other liabilities. Net cash used in investing activities of $321.4 million consisted primarily of a net increase in loans of $174.1 million and securities purchases of $271.9 million funded largely by sales, maturities and paydowns of securities of $126.8 million and additional net borrowings from the FHLB of $133.5 million. Net cash provided by financing activities provided the remainder of funding sources for 1998. The $297.0 million of net cash provided by financing activities consisted primarily of a $162.6 million net increase in deposits, a net increase in FHLB advances of $133.5 million and $21.0 million from the issuance of the Trust Preferred Securities.

In the opinion of management, United's liquidity position at December 31,1998, is sufficient to meet its expected cash flow requirements. Information regarding the unique liquidity risk associated with the Year 2000 issue is contained in the Year 2000 section of this discussion. 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, 1998 was $86.8 million, an increase of $11.6 million, or 15.5%, from December 31, 1997. Dividends of $1.1 million, or $.15 per share, were declared on common stock in 1998, an increase of 50% per share from the amount declared per share in 1997. The dividend payout ratios for 1998 and 1997 were 9.13% and 6.51%, respectively. United has historically retained the majority of its earnings in order to provide a cost-effective source of capital for continued growth and expansion. However, in recognition that cash dividends are an important component of shareholder value, management has instituted a dividend program that provides for increased cash dividends when earnings and capital levels permit.

In July 1998, a statutory business trust ("United Community Capital Trust") was created by United which in July 1998, issued guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures ("Trust Preferred Securities") to institutional investors in the amount of $21 million. This issuance represented the guaranteed preferred beneficial interests in $21.7 million in junior subordinated deferrable interest debentures ("Subordinated Debentures") issued by United to United Community Capital Trust. For regulatory purposes, the Trust Preferred Securities will be treated as Tier I capital of United. The subordinated debentures are the sole assets of United Community Capital Trust and bear an interest rate of 8.125% with a maturity date of July 15, 2028, which may be shortened to a date not earlier than July 15, 2018. If the subordinated debentures are redeemed in part or in whole prior to July 15, 2008, the redemption price of the Subordinated Debentures and the Trust Preferred Securities will include a premium ranging from 4.06% in 2008 to .41% in 2018.

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 were 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 a quarterly basis.

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 have the right, excercisable at any time up to December 31, 2006, to convert such debentures 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.

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 and qualifying trust preferred securities less other comprehensive income, goodwill and deposit-based intangibles, totaled to $99.2 million at December 31, 1998. 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 $114.6 million at December 31, 1998. The percentage ratios, as calculated under the guidelines, were 9.52 % and 11.00% for Tier I and Total Risk-based Capital, respectively, at December 31, 1998.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period end stockholders' equity and qualifying trust preferred securities, less other comprehensive income, 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 and risk-based capital ratios to assess capital adequacy of banks and bank holding companies. United's leverage ratios at December 31, 1998 and 1997 were 7.06 % and 5.76%, respectively.

The primary reason for improvement of the leverage ratio during 1998 was issuance of $21 million of Trust Preferred Securities discussed above and the retention of approximately 91% of the net income for the year.

All three of the capital ratios of United and the Banks currently exceed the minimum ratios required in 1998 as defined by federal regulators. United monitors these ratios to ensure that the United and the Banks remain within regulatory guidelines. Further information regarding the actual and required capital ratios of United and the Banks is provided in note 13 to the consolidated financial statements.

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 investments 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 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.

Year 2000

Overview

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

State of Readiness

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

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

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

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

4. Renovation/Analysis - Vendors that supply system applications are requested to provide certification that their product used by United is Year 2000 compliant. Non-compliant systems are renovated or replaced.

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

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

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

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

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

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

The Federal Financial Institutions Examination Council (FFIEC) issued a statement entitled "Year 2000 Project Management Awareness" in May, 1997. This statement established key milestones that banks and other financial institutions must meet with regard to Year 2000 testing and remediation. The following table sets forth each deadline contained in this statement and where United stands, as of December 31, 1998, with respect to meeting each deadline.

Date	Task	United's Status
June 30, 1998	Complete development of all written testing strategies, plans and policies; due diligence to determine Year 2000 risk posed by customers implemented.	Completed
September 1, 1998	Commence testing of internal mission-critical systems; assessment of customers' Year 2000 preparedness and potential impact on the institution substantially complete.	Completed
December 31, 1998	Testing of internal mission-critical systems substantially complete.	Completed
March 31, 1999	External testing with material third parties begins.	Scheduled for completion by March 31, 1999
June 30, 1999	Testing of all mission-critical systems completed and corrective actions substantively completed.	Scheduled for completion by June 30, 1999

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

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

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

Expected Costs Associated with Addressing Year 2000

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

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

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

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

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

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

The following table sets forth United's budget for the Year 2000 issue and actual amounts expended as of December 31, 1998. All amounts shown are pre-tax. In addition, the table indicates the percentage of each budget line item (as described above) that is expected to be recognized as current period expense and the percentage that is expected to be recorded as a new asset with expense recognized over the useful life of the asset through charges to depreciation expense.

Year 2000 Budget
(in thousands)

	Budget	% of Total Budget	Acutal Costs Incurred as of 31-Dec-98	% of Budget Expended as of 31-Dec-98	% of Cost to Be Expensed	% of Cost to Be Amortized
Consulting	$ 175	9%	29	17%	100%	0%
Inventory	70	4%	60	86%	100%	0%
Testing	82	4%	28	34%	100%	0%
Remediation	1,520	80%	1,344	88%	15%	85%
Resouces	53	3%	18	34%	100%	0%
Total	$ 1,900	100%	1,479	78%	12%	88%

In accordance with recently issued accounting guidelines on how Year 2000 costs should be recognized for financial statement purposes, United intends to recognize as current period expense all costs associated with the consulting, inventory, testing and resources components of the Year 2000 budget. The costs associated with remediation, which comprise approximately 80% of the Year 2000 budget, are primarily related to the installation of a new wide-area desktop computer network (WAN) that will replace virtually all of the desktop computers, file servers and peripheral equipment currently in use. In addition to being Year 2000 compliant, the new WAN will provide United with a uniform standard desktop computer configuration, internal and external e-mail capability, internet access and savings on telephone communication costs through utilization of the WAN communications backbone for voice communication. United intends to leverage this new WAN technology to increase the levels of employee productivity and improve operating efficiency. The costs of the WAN component of the Year 2000 remediation budget will be recognized over a useful life of three years at a cost of approximately $450,000 per year starting in the first quarter of 1999. This annual cost does not include any of the anticipated savings that the United expects to achieve through improved operating efficiency and reduced telecommunications costs over the next three years.

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

Material Risks Associated with United's Year 2000 Issues

Credit Risk - United, in the conduct of its ordinary operations, extends credit to individuals, partnerships and corporations. The extension of credit to businesses is based upon an evaluation of the borrower's ability to generate cash flows from operations sufficient to repay principal and interest, in addition to meeting the operating needs of the business. Failure of one of United's business borrowers to adequately prepare for the impact a Year 2000 failure could potentially impair its ability to repay the loan. An example of this would be a loan to a building supply store that has computer accounting systems that fail to recognize Year 2000 and, consequently, are unable to calculate and bill accounts receivable in January 2000. This failure would most likely have a negative impact on the customer's cash flow and, consequently, their ability to repay the loan in accordance with its original terms. United's exposure to Year 2000 credit risk is somewhat mitigated by the fact that only 9% of the $1 billion in outstanding loans are to commercial enterprises.

In order to assess the Year 2000 risk within the loan portfolio, United's credit administration department developed a risk determination process to determine if any borrower with total debt of $100 thousand or more is dependent upon computer technology. Specifically, this process selectively identified business borrowers (including self-employed individuals) that rely on computer technology or use a supply chain that includes vendors that rely on computer technology. After these borrowers were identified, the loan officer responsible for each account completed a survey that includes 30 questions that examine four key components of Year 2000 preparedness: Project Planning; Staffing and Resources; Budget; and Contingency Planning. Based on the results of the survey questions the account officer rated each borrower as a "low," "medium" or "high" risk for Year 2000. The completed surveys and ratings were then independently reviewed by United's Loan Review Department, which had authority to request additional information from the borrower and, if necessary, change the Year 2000 risk rating. As of December 31, 1998, the survey, rating and review process was substantially completed. The survey results and indicated that approximately 45%, 48% and 6% of the total aggregate credit exposure for surveyed borrowers were rated low, medium and high Year 2000 risks, respectively.

Management believes that the allowance for loan losses at December 31, 1998 is sufficient to absorb losses inherent in the loan portfolio, including losses related to failure of borrowers to adequately prepare the direct and indirect impact a Year 2000 computer failure may have on their business. However, additional charges to the provision for loan loss will be made if, in the estimation of management, the increased risk for loan loss related to Year 2000 is not adequately provided for in the allowance for loan losses as of any balance sheet date.

Liquidity Risk - is the risk to United's earnings and capital arising from an inability to raise sufficient cash to meet obligations as they come due. This risk is a very significant one for United since its primary business is banking, which involves taking deposits that are generally due upon demand. Since United uses these deposits to fund loans and purchase investment securities, a dramatic increase in deposit withdrawals because of Year 2000 problems specific to United or of a more general nature could have an adverse impact on United. Specifically, United could be forced to liquidate investments under adverse market conditions (that is, to sell at a loss) in order to fund a significantly higher level of deposit withdrawal activity. United is assessing its liquidity risk by running various scenarios of deposit withdrawals coincident with the turn of the century, ranging from normal activity to what could be reasonably expected in a panic situation. As of December 31, 1998, the Banks had available federal funds lines of credit totaling approximately $19 million and secured borrowing availability at the FHLB and The Federal Reserve Discount Window totaling $261 million. In addition, United has a $15 million line of credit. Although estimates of deposit withdrawals related to Year 2000 vary widely, management expects liquidity sources to be sufficient to cover deposit withdrawal activity in a variety of scenarios.

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

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

Contingency Planning For Year 2000

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

1. Organizational Planning - identification of core business processes and establishment of a timeline for a Year 2000 contingency plan.
2. Business Impact Analysis - determination of Year 2000 failure risks for all core business processes and identification of failure scenarios. The minimal level of acceptable service in the event of failure is also determined.
3. Development of Contingency Plans - identification and selection of the most reasonable and cost-effective contingency strategy for each core business process in the event of failure.
4. Contingency Plan Validation - validation of each plan by a qualified independent party and final approval by senior management and the board of directors.

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

MARKET AND DIVIDEND DATA

Stock. There is no established public trading market for United's Common Stock. At December 31, 1998, there were 2,874 shareholders of record.

Dividends. United declared cash dividends of $.15 per common share in 1998 and $.10 per common share in 1997. Federal and state laws and regulations impose restrictions on the ability of United and the Banks to pay dividends. Additional information regarding this item is included in note 16 to the consolidated financial statements and under the heading of "Supervision and Regulation" in Part I of this report.

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, 1998 and 1997 and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ Porter Keadle Moore, LLP.

Atlanta, Georgia
February 26, 1999

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1998 and 1997

Assets

	1998	1997
	(In Thousands)	
Cash and due from banks, including reserve requirements of $17,978 and $11,000	$ 48,510	60,414
Federal funds sold	7,190	8,420
Cash and cash equivalents	55,700	68,834
Securities held to maturity (estimated fair value of $59,106 and $70,845)	57,393	69,559
Securities available for sale	314,394	143,894
Mortgage loans held for sale	8,129	3,962
Loans	999,871	823,324
Less allowance for loan losses	11,929	10,352
Loans, net	987,942	812,972
Premises and equipment, net	38,538	27,737
Accrued interest receivable	13,332	10,985
Other assets	23,171	15,424
Total assets	$ 1,498,599	1,153,367

Liabilities and Stockholders' Equity

	1998	1997
Liabilities:		
Deposits:		
Demand	$ 143,152	109,210
Interest-bearing demand	270,532	189,280
Savings	59,340	45,280
Time	690,100	633,309
Total deposits	1,163,124	977,079
Accrued expenses and other liabilities	19,574	7,274
Federal funds purchased and repurchase agreements	26,520	33,011
Federal Home Loan Bank advances	176,854	43,321
Long-term debt and other borrowings	1,277	14,069
Convertible subordinated debentures	3,500	3,500
Guaranteed preferred beneficial interests in company's junior subordinated debentures (Trust Preferred Securities)	21,000	-
Total liabilities	1,411,849	1,078,254
Commitments		
Stockholders' equity:		
Preferred stock	-	-
Common stock, $1 par value; 10,000,000 shares authorized; 7,393,605 and 7,385,105 shares issued and outstanding	7,394	7,385
Capital surplus	24,808	24,699
Retained earnings	53,240	42,198
Accumulated other comprehensive income	1,308	831
Total stockholders' equity	86,750	75,113
Total liabilities and stockholders' equity	$ 1,498,599	1,153,367

(/TABLE>

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statements of Income

For the Years Ended December 31, 1998, 1997 and 1996

		1998	1997	1996
		(In Thousands Except Per Share Data)		
Interest income:				
Interest and fees on loans	$	93,133	76,722	57,978
Interest on federal funds sold		1,518	1,642	1,096
Interest on investment securities:				
Taxable		11,283	9,097	6,837
Tax exempt		3,205	2,319	1,995
Total interest income		109,139	89,780	67,906
Interest expense:				
Interest on deposits:				
Demand		9,353	6,712	5,445
Savings		1,478	1,190	1,147
Time		39,343	34,966	25,569
		50,174	42,868	32,161
Other borrowings		6,466	3,680	1,930
Total interest expense		56,640	46,548	34,091
Net interest income		52,499	43,232	33,815
Provision for loan losses		2,372	2,634	1,597
Net interest income after provision for loan losses		50,127	40,598	32,218
Non-interest income:				
Service charges and fees		3,962	3,505	2,990
Securities gain (loss), net		800	742	(13)
Mortgage loan and other related fees		1,822	1,157	1,566
Other non-interest income		2,127	1,576	1,123
Total non-interest income		8,711	6,980	5,666
Non-interest expense:				
Salaries and employee benefits		22,887	17,695	13,373
Occupancy		6,676	4,726	3,570
Other non-interest expense		11,535	9,656	7,900
Total non-interest expense		41,098	32,077	24,843
Income before income taxes		17,740	15,501	13,041
Income taxes		5,588	4,766	4,114
Net income	$	12,152	10,735	8,927
Basic income per share	$	1.64	1.47	1.29
Diluted income per share	$	1.62	1.46	1.26

(/TABLE>
See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996
		(In Thousands)	
Net income	$ 12,152	10,735	8,927
Other comprehensive income:			
Unrealized holding gains (losses) on investment securities available for sale	1,569	2,224	(606)
Less reclassification adjustment for gains (losses) on sales of investment securities available for sale	800	742	(13)
Total other comprehensive income (loss), before income taxes	769	1,482	(593)
Income tax expense (benefit) related to other comprehensive income:			
Unrealized holding gains (losses) on investment securities available for sale	596	845	(230)
Less reclassification adjustment for gains (losses) on sales of investment securities available for sale	304	282	(5)
Total income tax expense (benefit) related to other comprehensive income	292	563	(225)
Total other comprehensive income (loss), net of tax	477	919	(368)
Total comprehensive income	$ 12,629	11,654	8,559

(/TABLE>

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, 1998, 1997 and 1996

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
		(In Thousands Except Share and Per Share Data)				
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, ($.10 per share)	-	-	-	(677)	-	(677)
Common stock issued in conversion of debentures	178,568	179	821	-	-	1,000
Purchase and retirement of treasury stock of pooled entity	(38,730)	(39)	(369)	-	-	(408)
Net income	-	-	-	8,927	-	8,927
Balance, December 31, 1996	7,084,621	7,085	18,516	32,162	(88)	57,675
Change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	919	919
Cash dividends declared, ($.10 per share)	-	-	-	(699)	-	(699)
Net income	-	-	-	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
Change in unrealized gain on securities available for sale, net of tax	-	-	-	-	477	477
Cash dividends declared, ($.15 per share)	-	-	-	(1,110)	-	(1,110)
Net income	-	-	-	12,152	-	12,152
Proceeds from exercise of stock options	8,500	9	109	-	-	118
Balance, December 31, 1998	7,393,605	$ 7,394	24,808	53,240	1,308	86,750

(/TABLE)

See accompanying notes to consolidated financial statements.

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

For the Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996
		(In Thousands) (c)	
Cash flows from operating activities:			
Net income	$ 12,152	10,735	8,927
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,846	2,448	2,347
Provision for loan losses	2,372	2,634	1,597
Provision for deferred income tax expense (benefit)	(766)	(404)	82
(Gain) loss on sale of securities available for sale	(800)	(742)	13
Change in assets and liabilities, net of effects of purchase acquisitions:			
Other assets and accrued interest receivable	(256)	(4,729)	(1,439)
Accrued expenses and other liabilities	(142)	681	1,326
Mortgage loans held for sale	(4,167)	2,765	5,321
Net cash provided by operating activities	11,239	13,388	18,174
Cash flows from investing activities, net of effects of purchase acquisitions:			
Cash acquired from acquisitions and branch purchases	20,282	-	2,650
Proceeds from maturities and calls of securities held to maturity	25,439	18,009	21,920
Purchases of securities held to maturity	(13,321)	(10,418)	(13,762)
Proceeds from sales of securities available for sale	33,002	32,704	18,065
Proceeds from maturities and calls of securities available for sale	68,363	22,470	32,652
Purchases of securities available for sale	(258,550)	(115,501)	(62,631)
Net increase in loans	(174,124)	(189,157)	(140,507)
Purchases of premises and equipment	(13,385)	(9,702)	(3,143)
Purchases of life insurance contracts	(8,117)	-	-
Transaction costs associated with Trust Preferred Securities	(959)	-	-
Net cash used in investing activities	(321,370)	(251,595)	(144,756)
Cash flows from financing activities, net of effects of purchase acquisitions:			
Net change in demand and savings deposits	105,856	52,297	49,312
Net change in time deposits	56,790	151,482	62,394
Net change in federal funds purchased and repurchase agreements	(6,491)	33,011	-
Proceeds from convertible subordinated debentures	-	-	3,500
Proceeds from notes payable	-	4,747	-
Proceeds from FHLB advances	212,249	15,636	29,375
Proceeds from Trust Preferred Securities	21,000	-	-
Repayments of notes payable	(12,792)	(1,131)	(856)
Repayments of FHLB advances	(78,716)	(7,389)	(3,302)
Proceeds from exercise of stock options	118	-	-
Proceeds from sale of common stock	-	6,477	-
Purchase of treasury stock of pooled entity	-	-	(408)
Proceeds from resale of treasury stock of pooled entity	-	6	-
Cash paid for dividends	(1,017)	(765)	(677)
Net cash provided by financing activities	296,997	254,371	139,338
Net change in cash and cash equivalents	(13,134)	16,164	12,756
Cash and cash equivalents at beginning of period	68,834	52,670	39,914
Cash and cash equivalents at end of period	$ 55,700	68,834	52,670

(/TABLE>

See accompanying notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles followed by United Community Banks, Inc. ("United") 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, Murphy, North Carolina ("Carolina"), Peoples Bank of Fannin County, Blue Ridge, Georgia ("Peoples"), Towns County Bank, Hiawassee, Georgia ("Towns"), White County Bank, Cleveland, Georgia ("White"), First Clayton Bank and Trust, Clayton, Georgia ("Clayton") (collectively, the "Banks") 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 Banks are commercial banks which serve markets throughout North Georgia and Western North Carolina and provide a full range of customary banking services. The Banks are insured and subject to the regulation of the Federal Deposit Insurance Corporation ("FDIC").

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 income 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 income 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 income 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 income 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 income of the period in which the change occurs. No market valuation allowances were required at December 31, 1998 or 1997.

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 Banks had no material amounts of impaired loans at December 31, 1998 or 1997.

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. In determining the adequacy of the allowance for loan losses, management uses a loan grading system that rates loans in eight different categories. Grades five through eight are assigned allocations of loss based on the standard regulatory loss percentages set forth in the FDIC Interagency Policy Statement on the Allowance for Loan and Lease Losses issued in 1993. Loans graded one through four are allocated loss ranges based on historical loss experience for the previous five years. The combination of these results are compared quarterly to the recorded allowance for loan losses and material deficiencies are adjusted by increasing the provision for loan losses. Management has a devoted internal loan review department that is independent of the lending function to challenge and corroborate the loan grading system and provide additional analysis in determining the adequacy of the allowance for loan losses and the future provisions for estimated loan losses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Loans and Allowance for Loan Losses, continued

Management believes 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 primarily using 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.

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, 1998 and 1997, no valuation allowances were required for United's mortgage servicing rights.

United recognized approximately $15,000 and $137,000 in servicing assets during 1997 and 1996, respectively, and recognized amortization expense relating to servicing assets of approximately $387,000, $144,000 and $267,000 during 1998, 1997 and 1996, respectively. During 1996, United sold mortgage loan servicing rights with a net book value of approximately $1,254,000. No such sales occurred during 1998 or 1997.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interest Rate Risk Management

As part of United's overall interest rate risk management, interest rate swaps, floors and caps 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.

Other

Property (other than cash deposits) held by the Banks in a fiduciary or agency capacity for customers is not included in the consolidated balance sheets since such items are not assets of the Banks.

Comprehensive Income

In 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income". SFAS No. 130 established standards for the reporting and presentation of comprehensive income and its components in a full set of general-purpose financial statements. United has elected to present comprehensive income in a separate consolidated statement of comprehensive income. Accumulated other comprehensive income is solely related to the net of tax effect of unrealized gains on securities available for sale.

Recent Accounting Pronouncements

In 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for hedging activities and for derivative instruments including derivative instruments embedded in other contracts. It requires the fair value recognition of derivatives as assets or liabilities in the financial statements. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. Instruments used as fair value hedges account for the change in fair value in the income of the period simultaneous with accounting for the fair value change of the item being hedged. Cash flow hedges account for the change in fair value of the effective portion in comprehensive income rather than income, and foreign currency hedges are accounted for in comprehensive income as part of the translation adjustment. Derivative instruments that are not intended as a hedge account for the change in fair value in the income of the period of the change. SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999, but initial application of the statement must be made as of the beginning of the quarter. At the date of initial application, an entity may transfer any held to maturity security into the available for sale or trading categories without calling into question the entity's intent to hold other securities to maturity in the future. United adopted SFAS No. 133 as of January 1, 1999, and transferred all held to maturity securities to available for sale which increased stockholders' equity by $1.1 million for the net of tax effect for the unrealized gains.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Per Share

United is required to report income 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 income. Basic income 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 diluted income per common share. Additionally, United must reconcile the amounts used in the computation of both basic income per share and diluted income per share. Income per common share amounts for the years ended December 31, 1998, 1997 and 1996 are as follows (dollars and shares in thousands, except for per share data):

For the Year Ended December 31, 1998

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Basic income per share	$ 12,152	7,392	$ 1.64
Effect of dilutive securities:			
Stock options	-	86	
Convertible debentures	187	140	
Diluted income per share	$ 12,339	7,618	$ 1.62

(/TABLE>

For the Year Ended December 31, 1997

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Basic income per share	$ 10,735	7,301	$ 1.47
Effect of dilutive securities:			
Stock options	-	47	
Convertible debentures	189	140	
Diluted income per share	$ 10,924	7,488	$ 1.46

(/TABLE>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Per Share, continued

For the Year Ended December 31, 1996

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
Basic income per share	$ 8,927	6,919	$ 1.29
Effect of dilutive securities:			
Stock options	-	30	
Convertible debentures	56	161	
Diluted income per share	$ 8,983	7,110	$ 1.26

(1) Mergers and Acquisitions
On January 21, 1999, United entered into a definitive agreement to acquire the stock of Adairsville Bancshares, Inc. ("Adairsville"), a bank located in Bartow County, Georgia. As of December 31, 1998, Adairsville had $37.1 million of total assets and $4.0 million of total equity. This acquisition is expected to close during the first quarter of 1999 and will be accounted for as a purchase transaction.

On January 30, 1998, Peoples assumed deposits of $23.4 million and purchased certain assets totaling $3.7 million of a branch in Ellijay, Georgia.

Effective September 12, 1997, United 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.

On September 28, 1996, UCB assumed deposits of $23.7 million and purchased certain assets totaling $21.1 million of a branch in Cornelia, Georgia.

(2) Cash Flows
United paid approximately $56 million, $45 million and $34 million in interest on deposits and other liabilities during 1998, 1997 and 1996, respectively.

	For the Years Ended December 31, 1998	1997	1996
Schedule of noncash investing and financing activities (in thousands):			
Conversion of subordinated debentures into 178,568 shares of common stock	$ -	-	1,000
Change in unrealized gain (loss) on securities available for sale, net of tax	$ 477	919	(368)
Change in dividends payable	$ 93	(66)	-
Deposit liabilities assumed in branch acquisition	$ 23,399	-	23,762
Assets acquired in branch acquisition, other than cash and cash equivalents	$ 3,246	-	21,115
Investment securities purchase obligations	$ 10,645	-	-

(/TABLE>

(3) Investment Securities
Investment securities at December 31, 1998 and 1997, are as follows (in thousands):

December 31, 1998		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available for Sale					
U.S. Treasuries	$	32,090	990	-	33,080
U.S. Government agencies		40,559	479	9	41,029
State and political subdivisions		20,211	365	64	20,512
Mortgage-backed securities		208,772	924	480	209,216
Other		10,615	1	59	10,557
Total	$	312,247	2,759	612	314,394
Securities Held to Maturity:					
U.S. Government agencies	$	1,885	9	4	1,890
State and political subdivisions		53,386	1,691	33	55,044
Mortgage-backed securities		2,122	55	5	2,172
Total	$	57,393	1,755	42	59,106

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

(/TABLE>

The amortized cost and estimated fair value of the securities portfolio at December 31, 1998, 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 Amortized Cost	Securities Held to Maturity Estimated Fair Value	Securities Available for Sale Amortized Cost	Securities Available for Sale Estimated Fair Value
U.S. Treasuries:				
Within 1 year	$ -	-	5,113	5,173
1 to 5 years	-	-	26,977	27,907
	$ -	-	32,090	33,080
U.S. Government agencies:				
Within 1 year	$ 800	805	4,015	4,033
1 to 5 years	999	998	31,349	31,789
5 to 10 years	86	87	5,000	5,013
More than 10 years	-	-	195	194
	$ 1,885	1,890	40,559	41,029
State and political subdivisions:				
Within 1 year	$ 3,378	3,398	877	888
1 to 5years	24,909	25,535	6,091	6,202
5 to 10 years	19,204	20,010	6,851	6,980
More than 10 years	5,895	6,101	6,392	6,442
	$ 53,386	55,044	20,211	20,512
Other:				
More than 10 years	$ -	-	10,615	10,557
Total securities other than mortgage-backed securities:				
Within 1 year	$ 4,178	4,203	10,005	10,094
1 to 5 years	25,908	26,533	64,417	65,898
5 to 10 years	19,290	20,097	11,851	11,993
More than 10 years	5,895	6,101	17,202	17,193
Mortgage-backed securities	2,122	2,172	208,772	209,216
	$ 57,393	59,106	312,247	314,394

(/TABLE>

There were no sales of securities held to maturity during 1998, 1997 and 1996. Proceeds from sales of securities available for sale during 1998, 1997 and 1996 were $33 million, $33 million and $18 million, respectively. Gross gains of $803,000, $767,000 and $53,000 for 1998, 1997 and 1996, respectively, along with gross losses of $3,000, $25,000 and $66,000 for 1998, 1997 and 1996, respectively, were realized on those sales. Income tax expense (benefit) recognized on these gains and losses was $312,000, $289,000 and ($5,000) in 1998, 1997 and 1996, respectively.

Securities with a carrying value of $89 million and $65 million at December 31, 1998 and 1997, 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, 1998 and 1997, are summarized as follows (in thousands):

	1998	1997
Commercial, financial and agricultural	$ 89,779	105,462
Real estate - construction	116,481	78,699
Real estate - mortgage	673,631	523,629
Consumer	119,980	115,534
Total loans	999,871	823,324
Less allowance for loan losses	11,929	10,352
Loans, net	$ 987,942	812,972

The Banks 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 Banks 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 1998 and 1997, certain executive officers and directors of United and its Banks, including their immediate families and companies with which they are associated, maintained a variety of banking relationships with the Banks. Total loans outstanding to these persons at December 31, 1998 and 1997 amounted to $20,222,000 and $15,811,000, respectively. The change from December 31, 1997 to December 31, 1998 reflects payments amounting to $9,526,000 and advances of $13,937,000. 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):

	1998	1997	1996
Balance at beginning of year	$ 10,352	8,125	6,884
Provisions charged to income	2,372	2,634	1,597
Loans charged off	(1,288)	(797)	(695)
Recoveries of loans previously charged off	493	390	339
Balance at end of year	$ 11,929	10,352	8,125

(/TABLE>

United serviced approximately $73.6 and $103.5 million of mortgage loans for others at December 31, 1998 and 1997, respectively.

(5) Premises and Equipment

Premises and equipment at December 31, 1998 and 1997, are summarized as follows (in thousands):

	1998	1997
Land and land improvements	$ 7,509	6,102
Building and improvements	17,678	14,001
Furniture and equipment	19,642	15,018
Construction in progress	5,907	2,919
	50,736	38,040
Less accumulated depreciation	12,198	10,303
	$ 38,538	27,737

Depreciation expense was approximately $2.6 million, $2.1 million and $1.6 million in 1998, 1997 and 1996, respectively.

(6) Time Deposits

The aggregate amount of time deposit accounts with a minimum denomination of $100,000 was approximately $208,120,000 and $156,803,000 at December 31, 1998 and 1997, respectively.

At December 31, 1998, contractual maturities of time deposits are summarized as follows (in thousands):

Maturing In:	
1999	$ 582,722
2000	75,360
2001	17,759
2002	11,677
2003	2,582
	$ 690,100

(7) Federal Home Loan Bank Advances

The Banks 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 4.29% to 7.81% at December 31, 1998. The FHLB advances are collateralized by first mortgage loans and FHLB stock.

Advances from FHLB outstanding at December 31, 1998 mature as follows (in thousands):

Year	
1999	$33,083
2000	5,807
2001	27,307
2002	26,432
2003	47,671
2004 and thereafter	36,554
	$ 176,854

(8) Long-Term Debt and Other Borrowings

Long-term debt and other borrowings at December 31, 1998 and 1997 consisted of the following (in thousands):

		1998	1997
Line of credit borrowings, due in quarterly installments of $321,455 during 1997, 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, which expires in 2005, 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 and provides for borrowings up to $15 million.	$	-	12,722
Commercial paper of Finance, due at maturity during 1999 and unsecured. Interest is from 7.00% to 7.25% and is payable monthly.		1,277	1,347
	$	1,277	14,069

(/TABLE>

(9) Convertible Subordinated Debentures

On December 31, 1996, the holders of convertible debentures of United 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 United in order to comply with certain obligations of United 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 $2,875,000 and $3,025,000 at December 31, 1998 and 1997, respectively.

(10) Trust Preferred Securities

In July, 1998, United formed a wholly owned Delaware statutory business trust, United Community Capital Trust ("United Trust"), which issued $21 million of guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures that qualify as Tier 1 capital under Federal Reserve Board guidelines. All of the common securities of United Trust are owned by United. The proceeds from the issuance of the Common Securities and the Trust Preferred Securities were used by United Trust to purchase $21.7 million of junior subordinated debentures of United which carry a fixed interest rate of 8.125 percent. The proceeds received by United from the sale of the junior subordinated debentures were used to prepay line of credit borrowings of approximately $11.8 million and for further investments in the Banks. The debentures represent the sole asset of United Trust. The debentures and related income statement effects are eliminated in United's financial statements.

The Trust Preferred Securities accrue and pay distributions semiannually at a fixed rate of 8.125 percent per annum of the stated liquidation value of $1,000 per capital security. United has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Preferred Securities; (ii) the redemption price with respect to any Trust Preferred Securities called for redemption by United Trust, and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of United Trust.

(10) Trust Preferred Securities, continued

The Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on July 15, 2028, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust: (i) in whole or in part, on or after July 15, 2008, and (ii) in whole (but not in part) at any time within 90 days following the occurrence and during the continuation of a tax event, investment company event or capital treatment time (as defined in the offering circular). As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 4.06 percent in 2008 to 0.41 percent in 2017.

(11) Income Taxes

During 1998, 1997 and 1996, United made income tax payments of approximately $6.1 million, $5.5 million and $4.0 million, respectively.

The components of income tax expense for the years ended December 31, 1998, 1997 and 1996 are as follows (in thousands):

	1998	1997	1996
Current	$ 6,354	5,170	4,032
Deferred (reduction)	(766)	(404)	82
	$ 5,588	4,766	4,114

(/TABLE>

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

	1998	1997	1996
Pretax income at statutory rates	$ 6,032	5,270	4,434
Add (deduct):			
Tax-exempt interest income	(1,142)	(878)	(828)
Nondeductible interest expense	224	147	127
Other	474	227	381
	$ 5,588	4,766	4,114

(/TABLE>

The following summarizes the sources and expected tax consequences of future taxable deductions (income) which comprise the net deferred tax asset at December 31, 1998 and 1997 (in thousands):

		1998	1997
Deferred tax assets:			
Allowance for loan losses	$	4,654	3,531
Net operating loss and credit carryforwards		-	42
Other		122	32
Gross deferred tax assets		4,776	3,605
Deferred tax liabilities:			
Premises and equipment		(1,567)	(1,326)
Unrealized gain on securities available for sale		(866)	(541)
Other		(229)	(65)
Gross deferred tax liabilities		(2,662)	(1,932)
Net deferred tax asset	$	2,114	1,673

(/TABLE>

(12) 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 $1,025,000, $803,000 and $583,000 in 1998, 1997, and 1996, respectively. In December 1998, the Banks purchased life insurance contracts totaling $8.1 million. These contracts are to provide income and increase in asset value from which benefits will be paid to certain officers under a salary continuation program anticipated to be completed during 1999.

(13) Regulatory Matters

United and the Banks 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 Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Banks 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, 1998, that the Banks meet all capital adequacy requirements to which they are subject.

Minimum ratios required by the Banks 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 Banks 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	
1998		Capital Adequacy	Prompt Corrective Action	Capital Adequacy	Prompt Corrective Action	Capital Adequacy	Prompt Corrective Action
Consolidated	$	83,357	N/A	41,678	N/A	56,221	N/A
UCB		27,819	34,774	13,910	20,864	18,811	23,514
Carolina		22,814	28,517	11,407	17,110	16,965	21,207

1997							

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

(/TABLE>

(13) Regulatory Matters, continued

Actual capital amounts and ratios for United and its most significant Banks as of December 31, 1998 and 1997, are as follows (in thousands):

		Actual Total Risk Based		Actual Tier 1 Risk Based		Actual Tier 1 Leverage	
1998		Actual Amount	Ratio	Actual Amount	Ratio	Actual Amount	Ratio
Consolidated	$	114,637	11.00%	99,209	9.52%	99,209	7.06%
UCB		39,272	11.29%	35,209	10.13%	35,209	7.49%
Carolina		30,374	10.65%	26,808	9.40%	26,808	6.32%
1997							
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%

(/TABLE>

As of December 31, 1998 and 1997, the most recent notification from the Federal Deposit Insurance Corporation categorized each of the Banks as well capitalized under the regulatory framework for prompt corrective action.

(14) Commitments

The Banks 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 Banks 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 Banks 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, 1998 and 1997, the contract or notional amount of off-balance sheet instruments (in thousands):

		1998	1997
Financial instruments whose contract amounts represent credit risk:			
Commitments to extend credit	$	129,111	106,040
Standby letters of credit	$	8,632	2,520
Interest rate contracts:			
Swap agreements	$	10,000	35,000
Floors purchased	$	-	50,000
Rate cap agreements	$	20,000	-

(/TABLE>

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 Banks 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.

(14) Commitments, continued

Standby letters of credit and financial guarantees written are conditional commitments issued by the Banks 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 Banks 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 Banks 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 Banks 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 Interbank 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. Rate cap agreements are legal contracts that allow the purchaser to place a maximum level on a floating index, and for a one-time, up-front fee, the purchaser has purchased the right to receive income if a predetermined interest rate rises above a predetermined level. Income or expense on interest rate contracts used by the Banks 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 and amounts prepaid are included in other assets as of the balance sheet date.

The Banks' 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.

(15) 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, 1998 and 1997, there were no preferred shares issued or outstanding.

(16) Stockholders' Equity

Dividends paid by the Banks 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 Banks. At December 31, 1998, approximately $17.2 million of the Banks' 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'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 Banks.

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 Banks 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, 1998, 76,296 shares were available for grant under this plan.

(16) Stockholders' Equity, continued

SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") became effective for United on 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. United has chosen not to adopt the cost recognition principles of this statement and accounts for stock options under Accounting Principles Board Opinion No. 25 and its related interpretations. No compensation expense has been recognized in 1998, 1997 or 1996 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 SFAS No. 123, United's income and income per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

			1998	1997	1996
Net income	As reported	$	12,152	10,735	8,927
	Pro forma	$	11,991	10,526	8,893
Basic income per share	As reported	$	1.64	1.47	1 .29
	Pro forma	$	1.62	1.44	1 .29
Diluted income per share	As reported	$	1.62	1.46	1 .26
	Pro forma	$	1.60	1.43	1 .25

(/TABLE>

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 1998, 1997 and 1996: dividend yield of 1%, risk free interest rate of 6% and an expected life of 10 years.

A summary of activity in United'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 granted in 1998	55,500	$ 30.05	$ 30.00 - 32.50
Options exercised in 1998	(8,500)	$ 13.95	$ 10.00 - 22.00
Options forfeited in 1998	(3,500)	$ 20.40	$ 18.00 - 22.00
Options outstanding at December 31, 1998	215,204	$ 20.91	$ 10.00 - 32.50

Options on 124,404, 102,104 and 58,400 shares were exercisable at December 31, 1998, 1997 and 1996, respectively. The weighted average grant-date fair value of options granted in 1998, 1997 and 1996 was $10.63, $7.93 and $6.45, respectively. Such options have a weighted average remaining contractual life of approximately 8 years as of December 31, 1998.

(17) Supplemental Financial Data

Components of other non-interest expenses in excess of 1% of total interest and non-interest income for the years ended December 31, 1998, 1997 and 1996 are as follows (in thousands):

	1998	1997	1996
Stationery and supplies	$1,002	831	1,152
Advertising	$1,381	1,486	704

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

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

Balance Sheets
December 31, 1998 and 1997

		1998	1997
		(In Thousands)	
Assets			
Cash	$	424	281
Investment in subsidiaries		102,695	82,902
Other assets		8,981	8,995
	$	112,100	92,178
Liabilities and Stockholders' Equity			
Other liabilities	$	200	843
Notes payable		-	12,722
Convertible subordinated debentures		3,500	3,500
Junior subordinated debentures		21,650	-
Stockholders' equity		86,750	75,113
	$	112,100	92,178

Statements of Income
For the Years Ended December 31, 1998, 1997 and 1996

		1998	1997	1996
			(In Thousands)	
Income:				
Dividends from Banks	$	3,855	1,150	5,361
Other		2,868	730	87
Total income		6,723	1,880	5,448
Expenses:				
Interest		1,560	1,045	882
Other		5,638	2,097	1,266
Total expense		7,198	3,142	2,148
Income (loss) before income tax benefit and equity in undistributed income of subsidiaries		(475)	(1,262)	3,300
Income tax benefit		1,410	823	739
Income (loss) before equity in undistributed income of subsidiaries		935	(439)	4,039
Equity in undistributed income of subsidiaries		11,217	11,174	4,888
Net income	$	12,152	10,735	8,927

(/TABLE>

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

Statements of Cash Flows

For the Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996
		(In Thousands)	
Cash flows from operating activities:			
Net income	$ 12,152	10,735	8,927
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed income of the subsidiaries	(11,217)	(11,174)	(4,888)
Depreciation, amortization and accretion	387	300	203
Change in:			
Other assets	1,600	(2,567)	(33)
Accrued interest payable	574	27	(39)
Other liabilities	(1,310)	(54)	(263)
Net cash provided by (used in) operating activities	2,186	(2,733)	3,907
Cash flows from investing activities:			
Purchase of premises and equipment	(2,173)	(1,273)	-
Capital contributions to the subsidiaries	(7,899)	(5,250)	(4,275)
Net cash used in investing activities	(10,072)	(6,523)	(4,275)
Cash flows from financing activities:			
Proceeds from convertible subordinated debentures	-	-	3,500
Proceeds from junior subordinated debentures	21,650	-	-
Proceeds from notes payable	-	3,400	-
Repayments of notes payable	(12,722)	(1,131)	(856)
Proceeds from exercise of stock options	118	-	-
Proceeds from sale of common stock	-	6,477	-
Purchase and retirement of treasury stock of pooled entity	-	-	(408)
Proceeds from resale of treasury stock of pooled entity	-	6	-
Dividends paid	(1,017)	(765)	(677)
Net cash provided by financing activities	8,029	7,987	1,559
Net change in cash	143	(1,269)	1,191
Cash at beginning of year	281	1,550	359
Cash at end of year	$ 424	281	1,550

(/TABLE>

(19) 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 Banks, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by United since purchase, origination, or issuance.

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.

Cash Surrender Value of Life Insurance

The carrying value of cash surrender value of life insurance 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 and Repurchase Agreements

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

Federal Home Loan Bank 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.

Long-Term Debt and Convertible Subordinated Debentures

Long-term debt and convertible subordinated debentures are made using variable rates, thus, the carrying amount is a reasonable estimate of fair value.

Trust Preferred Securities

The fair value of United's trust preferred securities are estimated using discounted cash flows, based on United's current incremental borrowing rates for similar types of borrowing arrangements.

Interest Rate Swaps, Floors and Caps

The fair value of interest rate swaps, floors and caps 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.

(19) Fair Value of Financial Instruments, continued

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.

The carrying amount and estimated fair values of United's financial instruments at December 31, 1998 and 1997 are as follows (in thousands):

		December 31, 1998		December 31, 1997	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	$	55,700	55,700	68,834	68,834
Securities held to maturity		57,393	59,106	69,559	70,845
Securities available for sale		314,394	314,394	143,894	143,894
Mortgage loans held for sale		8,129	8,129	3,962	3,962
Loans, net		987,942	990,708	812,972	814,855
Cash surrender value of life insurance		8,130	8,130	-	-
Liabilities:					
Deposits		1,163,124	1,164,801	977,079	981,580
Federal funds purchased and repurchase agreements		26,520	26,520	33,011	33,011
Federal Home Loan Bank advances		176,854	172,485	43,321	43,087
Long-term debt and other borrowings		1,277	1,277	14,069	14,070
Convertible subordinated debentures		3,500	3,500	3,500	3,500
Trust Preferred Securities		21,000	19,336	-	-
Unrecognized financial instruments:					
Commitments to extend credit		129,111	129,111	106,040	106,040
Standby letters of credit		8,632	8,632	2,520	2,520
Swap agreements		-	-	12	156
Floors purchased		-	-	3	-
Rate cap agreements	$	437	448	-	-

(/TABLE)