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, 1996

Commission File Number 0-21656

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

United Community Banks, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

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

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. X

Aggregate market value of the voting stock held by non-affiliates (which for purposes hereof are all holders other than executive officers and directors) of the Registrant as of March 17, 1997: $87,609,417 (based on 4,171,877 shares at $21.00 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 March 17, 1996, 6,637,248 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 58,400 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's annual report to shareholders for the fiscal year ended December 31, 1996, contained in Appendix A to the Registrant's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders, are incorporated by reference into Parts I and II. Portions of the Registrant's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders, to be filed with the Commission, are incorporated into Part III.

PART I

ITEM 1. BUSINESS.

General

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

Recent Developments

Private Placement of $3,500,000 Convertible Subordinated Payable-in-Kind Debentures Due December 31, 2006. On December 31, 1996, United completed a private placement of convertible subordinated payable-in-kind debentures due December 31, 2006 (the "2006 Debentures"). The 2006 Debentures bear interest at the rate of one quarter of one percentage point over the prime rate per annum as quoted in The Wall Street Journal, payable on April 1, July 1, October 1, and January 1 of each year, commencing on April 1, 1997, to holders of record at the close of business on the 15th day of the month immediately preceding the interest payment date. Interest is computed on the basis of actual number of days elapsed in a year of 365 or 366 days, as applicable.

The 2006 Debentures may be redeemed, in whole or in part from time to time on or after January 1, 1998, at the option of United upon at least 20 days' and not more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the Debentures to be redeemed plus interest accrued and unpaid as of the date of redemption. The holders of the 2006 Debentures not redeemed will have the right, 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.

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

Acquisition of United Family Finance Co. In 1996, United purchased United Family Finance Company, formerly known as Mountain Mortgage and Loan Co. ("UFFC") based in Hiawassee Georgia.

Services

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

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

Markets

United conducts banking activities primarily through UCB in Union County, Lumpkin County and Habersham County and surrounding counties of Georgia, through Peoples in Fannin County and surrounding counties of Georgia and Polk County, Tennessee, through Towns in Towns County and surrounding counties of Georgia, through Carolina in Cherokee County, Macon County, Haywood County, Graham County and Clay County and surrounding counties in North Carolina, and through White in White County and surrounding counties in Georgia. MPC makes mortgage loans both inside the Banks market areas and outside this market areas through affiliations with other community banks in Georgia, North Carolina and Tennessee. Customers of the Banks are primarily consumers and small businesses.

Deposits

The Banks offer a full range of depository accounts and services to both consumers and businesses. At December 31 1996, United's deposit base, totaling approximately $720,726,000, consisted of approximately $77,908,000 in non-interest-bearing demand deposits (11% of total deposits), approximately $158,124,000 in interest-bearing demand deposits (including money market accounts) (22% of total deposits), approximately $39,001,000 in savings deposits (5% of total deposits), approximately $333,846,000 in time deposits in amounts less than $100,000 (46% of total deposits), and approximately $111,847,000 in time deposits of $100,000 or more (16% of total deposits). Certificates of deposit in excess of $100,000 may be more volatile than other deposits since those deposits, to the extent that they exceed $100,000, are not insured by the FDIC. Management of United is of the opinion that its time deposits of $100,000 or more are customer-relationship oriented and represent a reasonably stable source of funds.

Loans

The Banks make both secured and unsecured loans to individuals, firms and corporations. Secured loans include first and second real estate mortgage loans. The Banks also make direct installment loans to consumers on both a secured and unsecured basis. At December 31, 1997, consumer, real estate construction, real estate mortgage and commercial loans represented approximately 15%, 9%, 46% and 30%, respectively, of United's total loan portfolio.

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

Commercial, financial and agricultural	Industry concentrations, inability to monitor the condition of collateral (inventory, accounts receivable and vehicles), lack of borrower management expertise, increased competition, and specialized or obsolete equipment as collateral
Real estate - construction	Inadequate collateral and long-term financing agreements
Real estate - mortgage	Changes in local economy and rate limits on variable rate loans
Installment loans to individuals	Loss of borrower's employment, changes in local economy, the inability to monitor collateral (vehicle, boats and mobile homes)

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

Loan Category	Maximum Allowable Loan-To-Value Percent
Land	65%
Land development	75
Construction:	
Commercial, multi-family/(1)/ and other nonresidential	80
One-to-four family residential	85
Improved property	85
Owner-occupied one-to-four family and home equity	/(2)/

/(1)/ Multi-family construction includes condominiums and cooperatives.

/(2)/ A loan-to-value limit has not been established for permanent mortgage or home equity loans on owner-occupied, one-to-four family residential property. However, for any such loan with a loan-to-value ratio that equals or exceeds 90% at origination, appropriate credit enhancement in the form of either mortgage insurance or readily marketable collateral is required.

Lending Policy

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

The Banks provide each lending officer with written guidelines for lending activities. Lending authority is delegated by the Boards of Directors of the Banks to loan officers, each of whom is limited in the amount of secured and unsecured loans which he or she can make to a single borrower or related group of borrowers. All unsecured loans in excess of $10,000 must have the approval of the President or a Senior Vice President of the appropriate Bank prior to being committed. Generally, secured loans above $100,000 and unsecured loans over $35,000 require Board approval.

Loan Review and Nonperforming Assets

The loan review officer of United reviews each of the Banks' loan portfolios to determine any deficiencies and corrective action to be taken. The results of the reviews by the loan review officers are presented to the Presidents of each of the Banks, the President and the Chief Credit Officer of United and the Boards of Directors of each of the Banks and United. On at least a semi-annual basis, reviews are conducted at Towns for all loans over $50,000; at Peoples, Carolina and White for all loans over $100,000; and at UCB for all loans over $200,000. Past due loans are reviewed at least weekly by lending officers of the Bank involved and by the Chief Credit Officer of United, and a summary report is reviewed monthly by the Boards of Directors of each Bank. The Boards of Directors of the relevant Bank review all loans over $50,000, whether current or past due, at least once annually.

Asset/Liability Management

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

Investment Policy

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

Employees

As of December 31, 1996, the Banks had an aggregate of 403 full-time equivalent employees, and United had 12 employees. Neither United nor any of the Banks is a party to any collective bargaining agreement, and the Banks believe that their employee relations are good. None of the Banks' executive officers is employed pursuant to an employment contract.

Competition

The banking business is highly competitive. UCB competes with one other depository institution in Union County, Georgia, and three other depository institutions in each of Lumpkin and Habersham Counties.

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

Supervision and Regulation

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

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

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

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

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

Each of United's subsidiaries is regularly examined by the Federal Deposit Insurance Corporation (the "FDIC"). UCB, Peoples, White and Towns, as state banking associations organized under Georgia law, are subject to the supervision of, and are regularly examined by, by DBF. Carolina is subject to the supervision of, and is regularly examined by, the NCBC, in addition to the FDIC. Both the FDIC and the DBF must grant prior approval of any merger, consolidation or other corporation reorganization involving UCB, Peoples, White or Towns, 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 and White 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 expedient, so long as Citizen'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, 1996, net assets available from the Banks to pay dividends without prior approval from regulatory authorities totaled approximately $7.5 million. For 1996, United's cash dividend payout to stockholders was 6.11% of net income.

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

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

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

The FDIC has adopted regulations implementing the prompt corrective action provisions of the 1991 Act, which place financial institutions in the following five categories based upon capitalization ratios: (1) a "well capitalized" institution has a total risk-based capital ratio of at least 10%, a Tier One risk-based ratio of at least 6% and a leverage ratio of at least 5%; (2) an "adequately capitalized" institution has a total risk-based capital ratio of at least 8%, a Tier One risk-based ratio of at least 4% and a leverage ratio of at least 4%; (3) an "undercapitalized" institution has a total risk-based capital ratio of under 8%, a Tier One risk-based ratio of under 4% or a leverage ratio of under 4%; (4) a "significantly undercapitalized" institution has a total risk-based capital ratio of under 6%, a Tier One risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a "critically undercapitalized" institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also establish procedures for "downgrading" an institution to a lower capital category based on supervisory factors other than capital. Under the FDIC's regulations, all of the Banks were "well capitalized" institutions at December 31, 1995 and December 31, 1996.

Set forth below are pertinent capital ratios for each of the Banks as of December 31, 1996:

Minimum Capital Requirement	UCB	Carolina	Peoples	Towns	White
Tier One Capital to Risk Based Assets: 4.00%(1)	9.12%	10.40%	9.49%	8.97%	12.96%
Total Capital to Risk Based Assets: 8.00%(2)	10.14%	11.62%	10.70%	10.04%	13.97%
Leverage Ratio (Tier One Capital to Average Total Assets): 3.00% (3)	7.26%	6.88%	6.81%	6.57%	8.37%

(1) Minimum required ratio for "well capitalized" banks is 6%
(2) Minimum required ratio for "well capitalized" banks is 10%
(3) Minimum required ratio for "well capitalized" banks is 5%

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

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

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

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

On September 29, 1994, President Clinton signed the Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Federal Interstate Bill") which amends federal law to permit bank holding companies to acquire existing banks in any state effective September 29, 1995, and 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 prior to June 1, 1997, or alternatively, to opt out of interstate branching prior to that date. The Georgia Financial Institutions Code was amended in 1994 to permit the acquisition of a Georgia bank or bank holding company by out-of-state bank holding companies beginning July 1, 1995. On September 29, 1995, the interstate banking provisions of the Georgia Financial Institutions Code were superseded by the Federal Interstate Bill.

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

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

On August 8, 1995, the FDIC lowered the BIF premium for healthy banks 83% from $.23 per $100 in deposits to $.04 per $100 in deposits, while retaining the $.31 level for the riskiest banks. The average assessment rate was therefore reduced from $.232 to $.044 per $100 of deposits. The new rate took effect on September 29, 1995. On September 15, 1995, the FDIC refunded $564,000 to the Banks for premium overpayments in the second and third quarter of 1995. On November 14, 1995, the FDIC again lowered the BIF premium for healthy banks from $.04 per $100 of deposits to zero for the highest rated institutions (92% of the industry). As a result, each of the Banks paid only the legally required annual minimum payment of $2,000 per year for insurance beginning in January 1996. Had the current rates been in effect for all of 1994 and 1995, the annual FDIC insurance premiums paid by the Banks would have been reduced by $504,000 and $564,000, respectively.

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, 1996, are as follows:

Name (age)	Principal Position	Officer of United Since
Jimmy C. Tallent (44)	President and Director of UCB and United; Director of Carolina, White and Peoples; Chairman of the Board of Towns.	1987
Billy M. Decker (53)	President and Director of Carolina; Director of United and UCB; Secretary and Treasurer of United.	1988
Stephen L. Cockerham (35)	Vice President and Chief Credit Officer of UCB and United. From 1985 through 1990, Mr. Cockerham was a Bank Liquidation Specialist with the Federal Deposit Insurance Corporation.	1990
Guy Freeman (61)	Vice President of United since March, 1995, Executive Vice President of Carolina since July, 1996, and Director of Carolina since December 1996. Mr. Freeman served as President and Chief Executive Officer of White from 1993 until February 1995. Since February 1995, Mr. Freeman has been Chairman of the Board of White, of which he has been a member since January 1993. Mr. Freeman also served as Chairman of the Board of WC Holding Company from February 1995 until its acquisition by United. From 1992 until 1993, Mr. Freeman served as President and Chief Executive Officer of East Side Bank, Snellville, Georgia, and from 1987 to 1992, he served in the same capacity at First American Bank, Atlanta, Georgia.	1995
Thomas C. Gilliland (48)	President and Chief Executive Officer of Peoples; Vice Chairman of the Peoples Board; Executive Vice President and Director of United; Executive Vice President of United since April 1994. From 1986 through 1992, Mr. Gilliland was a partner in the law firm of Hurt, Richardson, Garner, Todd & Cadenhead in Atlanta, Georgia.	1993

Name (age)	Principal Position	Officer of United Since
Eugene B. White (52)	President and Director of White and Vice President of United since March, 1995. Mr. White served as Executive Vice President of First National Bank of Habersham, Cornelia, Georgia from 1982 to 1995.	1995
Richard E. Martin, Jr. (48)	Vice President of United since 1993; President and Director of Towns. From 1989 through 1992, Mr. Martin was Senior Vice President of First Colony Bank, Alpharetta, Georgia.	1992
L. Gene Sprayberry (51)	Executive Vice President of UCB; Assistant Secretary of United.	1987
Christopher J. Bledsoe (33)	Vice President and Chief Financial Officer of UCB and United. A certified public accountant, from 1988 through 1993, Mr. Bledsoe was a Supervisor at Evans, Porter, Bryan & Co., an accounting firm in Atlanta, Georgia.	1993
Robert L. Cochran (32)	Assistant Vice President and Controller of UCB; Controller of United since 1996. A certified public accountant, from 1989 through 1995, Mr. Cochran was an accounting manager with PNC Bank in Cincinnati, Ohio.	1995

ITEM 2. PROPERTIES.

The executive offices of United and the main banking office of UCB are located in adjacent buildings, the former a 17,000 square-foot facility at 59 Highway 515, Blairsville, Georgia and the latter a 19,000 square-foot operations center located adjacent to its executive offices and main banking office. Both the building and the land, which includes parking and four drive-in teller stations, are owned by UCB. UCB also has a branch at an Ingles supermarket in Blairsville. The Ingles branch property, consisting of 350 square feet, is leased. UCB's branch office in Cornelia, which it owns, is 5,000 square feet. UCB also maintains a branch office on rented land in Dahlonega, which consists of 1,309-square feet of property owned by the Company and a 1,020-square foot building leased by UCB.

The main banking office of Carolina is located at 300 Peachtree Street, Murphy, North Carolina, and contains 12,000 square feet. Both the building and the land, which includes parking and drive-in teller stations, are owned by Carolina. Carolina has branches located at 1 Sanderson Street in Hayesville, North Carolina containing 1,680 square feet, 129 Bypass, in Robbinsville, North Carolina containing approximately 3,300 square feet, Second and Fairview, in Andrews, North Carolina, containing 1,680 square feet, 409 North Main Street in Waynesville, North Carolina, containing approximately 2,000 square feet and 128 East Main Street in Franklin, North Carolina, containing approximately 2,670 square feet. Carolina also has a branch at an Ingles supermarket in Hayesville. The Ingles branch premises, consisting of 150 square feet, is leased.

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

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

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

Stock. There is no established public trading market for United's Common Stock. At December 31, 1996, there were 1,704 holders of record of Common Stock.

Dividends. United paid semi-annual cash dividends of $.08 per share of Common Stock to shareholders of record in 1996 and $.07 per share of Common Stock to shareholders of record in 1995. United intends to continue paying cash dividends on a semi-annual basis. However, the amount and frequency of dividends will be determined by United's Board of Directors in light of the earnings, capital requirements and the financial condition of United, and no assurance can be given that dividends will be paid in the future.

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, 1996 appears under the caption "Selected Financial Data" on page A-3 of United's Annual Report to Shareholders which is included as the appendix to the definitive Proxy Statement used in connection with the solicitation of proxies for United's Annual

Meeting of Shareholders to be held on April 17, 1997, to be filed with the SEC (the "Proxy Statement") and is incorporated herein by reference.

PART II

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

Management's discussion and analysis of financial condition and results of operation appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation" on pages A-4 through A-18 of United's Annual Report to Shareholders which is included as the appendix to the Proxy Statement and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Report of Independent Certified Public Accountants, the Consolidated Financial Statements and Notes to the Consolidated Financial Statements appears on pages A-20 through A-43 of United's Annual Report to Shareholders which is included as the appendix to the Proxy Statement and is incorporated herein by reference.

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

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF UNITED.

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

ITEM 11. EXECUTIVE COMPENSATION.

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

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

The information contained under the heading "Voting Securities and Principal Holders" and share ownership information of nominees for directors contained under the heading "Information about Nominees for Directors" 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, 1996 and December 31, 1995

Consolidated Statements of Earnings for the Years ended December 31, 1996, 1995 and 1994

Consolidated Statements of Changes in Stockholders' Equity for the Years ended December 31, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the Years ended December 31, 1996, 1995 and 1994

Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

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

3. Exhibits.

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

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

3.2 - By-Laws of United, as amended (included as Exhibit 3.2 to United's Annual Report on Form 10-K for the year ended December 31, 1993, previously filed with the Commission and incorporated herein by reference).

4.1(a) - Form of 9% Convertible Subordinated Debenture due 2000 (included as Exhibit 4.1 to United's Registration Statement on Form S-18, Commission File No. 33-32205-A, previously filed with the Commission and incorporated herein by reference).

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

4.2 - See exhibits 3.1 and 3.2 for provisions of Articles of Incorporation and By-laws, as amended, which define the rights of the holders of Common Stock of United.

10.1 - Agreement, dated May 3, 1984, by and between Cornelia Bank and Union County Bank (included as Exhibit 10.8 to United's Registration Statement on Form S-18, Commission File No. 33-32205-A, previously filed with the Commission and incorporated herein by reference).

10.2(a) - Union County Bank Retirement Plan and Trust Agreement, as amended and restated as of January 1, 1993 (included as Exhibit 10.4 to United's Form 10-K for the year ended December 31, 1992, previously filed with the Commission and incorporated herein by reference).*

10.2(b) - Amendment No. 1 to the Union County Bank Retirement Plan and Trust, dated December 29, 1993 (included as Exhibit 10.3(b) to United's Annual Report on Form 10-K for the year ended December 31, 1993, previously filed with the Commission and incorporated herein by reference).*

10.3 - United Community Banks, Inc. Key Employee Stock Option Plan (included as Exhibit 10.3 to United's Annual Report on Form 10-K for the year ended December 31, 1994, previously filed with the Commission and incorporated herein by reference).*

10.4 - Loan Agreement dated April 26, 1995 by and between the Bankers Bank and United, together with the related Promissory Note in the principal amount of $12,000,000 and Stock Pledge Agreement (included as Exhibit 10.17 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference.)

10.5 - Split-Dollar Agreement between United and Jimmy C. Tallent dated June 1, 1994 (included as Exhibit 10.11 to United's Annual Report on Form 10-K for the year ended December 31, 1994, previously filed with the Commission and incorporated herein by reference).

10.6 - Agreement and Plan of Reorganization by and among White County Bancshares, Inc., White County Bank and United, dated as of April 11, 1995 (included as Exhibit 2.1 to United's Registration Statement on Form S-4, Commission File Number 33-93286, previously filed with the Commission and incorporated herein by reference).

10.7 - Agreement and Plan of Merger by and between Registrant and White County Bancshares, Inc., dated as of April 11, 1995 (included as Exhibit 2.2 to United's Registration Statement on Form S-4, Commission File Number 33-93286, previously filed with the Commission and incorporated herein by reference).

10.8 - Agreement and Plan of Merger by and between White County Bank and White Interim Bank, dated as of June 12, 1995 (included as Exhibit 2.3 to United's Registration Statement on Form S-4, Commission File No. 33-93286, previously filed with the Commission and incorporated herein by reference).

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

10.10 - Loan Agreement dated April 26, 1995, by and between The Bankers Bank and the Registrant, together with the related Promissory Note in the principal amount of $15,000,000 and Stock Pledge Agreement (included as Exhibit 10.17 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference).

10.11 - Broker Dealer Agreement between the Registrant and The Carson Medlin Company (included as Exhibit 10.10 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference).

10.12 - Amendment to Broker Dealer Agreement between the Registrant and The Carson Medlin Company dated March 3, 1997 (included as Exhibit 10.11 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference).

10.13 - Amendment to Broker Dealer Agreement between the Registrant with Carson Medlin Company (included as Exhibit 10.11 to United's Registration Statement on Form S-1, Commission File Number 33-93278, previously filed with the Commission and incorporated herein by reference).

21 - Subsidiaries of United.

23 - Consent of Porter Keadle Moore, LLP.

27 - Financial Data Schedule.

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

- -------------------------

* 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 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, United has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Blairsville, State of Georgia, on the 24th of March, 1997.

UNITED COMMUNITY BANKS, INC.
(Registrant)

By: /s/ Jimmy C. Tallent

Title: President

POWER OF ATTORNEY AND SIGNATURES

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of United in the capacities set forth and on the 24th of March, 1997.

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/ James A. Brackett James A. Brackett	Director
/s/ Billy M. Decker Billy M. Decker	Director

/s/ Thomas C. Gilliland

- --------------------------------

Thomas C. Gilliland Director

/s/ Charles Hill

- --------------------------------

Charles Hill Director

/s/ Hoyt O. Holloway

- --------------------------------

Hoyt O. Holloway Director

/s/ P. Deral Horne

- --------------------------------

P. Deral Horne Director

/s/ Clarence William Mason, Sr.

- --------------------------------

Clarence William Mason, Sr. Director

/s/ W. C. Nelson, Jr.

- --------------------------------

W. C. Nelson, Jr. Director

/s/ Christopher J. Bledsoe

- --------------------------------

Christopher J. Bledsoe Chief Financial Officer (Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
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.

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 in Lumpkin County, Georgia)	Georgia
Carolina Community Bank, Murphy, North Carolina	North Carolina
Peoples Bank, Blue Ridge, Georgia	Georgia
Towns County Bank, Hiawassee, Georgia	Georgia
White County Bank, Cleveland, Georgia	Georgia
United Family Finance Co. (formerly Mountain Mortgage and Loan Company), Hiawassee, Georgia, Blue Ridge, Georgia	Georgia

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated March 5, 1997, 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, 1996. 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

Successor to the practice of
Evans, Porter, Bryan & Co.

Atlanta, Georgia
March 5, 1997

YEAR
DEC-31-1996
DEC-31-1996
26,377
0
24,215
0
74,864
72,022
72,335
599,078
7,680
828,030
720,726
0
5,876
49,027
0
0
6,439
45,962
828,030
53,991
8,126
1,009
63,126
29,828
31,758
31,368
1,411
(14)
23,313
12,012
12,012
0
0
8,201
1.31
0
4.83
932
236
0
0
6,545
600
324
7,680
0
0
7,680

==

[UNITED COMMUNITY BANKS, INC. LOGO]

Notice of 1997 Annual Meeting

=================

Proxy Statement

=================

Annual Financial Statements
and Review of Operations

==

Table of Contents

LETTERHEAD LOGO

April 1, 1997

Dear Shareholder:

It is my pleasure to invite you to attend the 1997 Annual Meeting of Shareholders of United Community Banks, Inc. which will be held Thursday, April 17, 1997 at The Brasstown Valley Resort, Trackrock Amphitheater, Highway 515, Young Harris, Georgia at 2:30 p.m. The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items of business which will be discussed during the meeting. A report to shareholders, containing certain financial information, is included as an appendix to the Proxy Statement.

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

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

Sincerely,

Jimmy C. Tallent,
President and Chief Executive Officer

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on April 17, 1997

The annual meeting of shareholders of United Community Banks, Inc. ("United") will be held on Thursday, April 17, 1997 at 2:30 p.m. at The Brasstown Valley Resort, Trackrock Amphitheater, Highway 515, Young Harris, Georgia, for the purposes of considering and voting upon:

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

2. An amendment to the United Community Banks, Inc. Key Employee Stock Option Plan (the "Plan") to increase the number of shares of Common Stock authorized pursuant to the Plan; and

3. 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 17, 1997 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 and certain other matters.

By Order of the Board of Directors,

Jimmy C. Tallent,
President and Chief Executive Officer

April 1, 1997

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 17, 1997, 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 April 1, 1997.

The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on March 17, 1997. On that date, United had outstanding and entitled to vote 6,438,848 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 prior to 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" and for approval of the proposal described below under the caption "Proposal to Amend the United Community Banks, Inc. Key Employee Stock Option Plan."

The percentages outstanding of Common Stock are based on 6,637,248 shares of Common Stock, including 140,000 shares deemed outstanding pursuant United's prime plus 1/4% Convertible Subordinated Payable-in-Kind Debentures due December 31, 2006 ("2006 Debentures") and presently exercisable options to acquire 58,400 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, 1996, including financial statements and schedules, to any record or any beneficial owner of its Common Stock as of March 17, 1997 who requests a copy of such report. Any request for the Form 10-K should be in writing and addressed to:

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

If the person requesting the report was not a shareholder of record on March 17, 1997, the request must include a representation that the person was a beneficial owner of United's Common Stock on that date. Copies of any exhibits to the Form 10-K will also be furnished on request and upon the payment of United's expense in furnishing the exhibits.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The following table sets forth as of December 31, 1996, beneficial ownership of United's Common Stock by each "person" (as that term is defined by the SEC) known by United to be the beneficial owner of more than 5% of United's voting securities and all directors and executive officers of United as a group.

Name and Address of Beneficial Owner	Number of Shares Owned Beneficially	Percent of Class
Robert L. Head, Jr. Blairsville Highway Blairsville, Georgia 30512................	716,513(1)	11.1%
W. C. Nelson, Jr. P.O. Box 127 Blairsville, Georgia 30512................	686,463(2)	10.6%
All directors and executive officers as a group (17 persons).........	2,465,372(3)	37.3%

- ----------------------

* Less than one percent

(1) Includes 52,758 shares beneficially owned by Mr. Head as custodian for his children and 10,000 shares owned pursuant to the 2006 Debentures. Does not include 16,965 shares owned by Mr. Head's wife, for which he disclaims beneficial ownership.

(2) Includes 11,250 shares beneficially owned by a trust over which Mr. Nelson has voting power and 10,000 shares owned pursuant to the 2006 Debentures. Does not include 5,000 shares owned by Mr. Nelson's wife, for which he disclaims beneficial ownership.

(3) Includes presently exerciseable options to acquire 54,100 shares and 122,000 shares beneficially owned pursuant to the 2006 Debentures.

NOMINATION AND ELECTION OF DIRECTORS
(Proposal 1)

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

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

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

INFORMATION ABOUT NOMINEES FOR DIRECTOR

The following information as of December 31, 1996 has been furnished by the respective nominees for director. Except as otherwise indicated, each nominee has been or was engaged in his present or last principal employment, in the same or a similar position, for more than five years.

Name (Age)	Information About Nominee	Number of Shares Owned Beneficially (Percent of Class)
Jimmy C. Tallent......... (44)	President, Chief Executive Officer and Director of Union County Bank ("UCB") since 1984 and of United since 1987. Director of Carolina Community Bank, Murphy, North Carolina ("Carolina") since 1990, of Peoples Bank of Fannin County ("Peoples") since 1992 and of White County Bank since 1995 ("White") and as Chairman of the Board of Towns County Bank ("Towns") since 1992.	145,272 (2.3%) (1)
James A. Brackett, Jr.... (66)	Director of United since 1988 and of UCB since 1980; Secretary and Treasurer of United. Mr. Brackett owns Brackett Auto Parts, an auto salvage business in Blairsville, Georgia.	167,855 (2.6%) (2)
Billy M. Decker.......... (53)	Senior Vice President and Cashier of UCB from 1986 until 1990, Mr. Decker became President, Chief Executive Officer and Director of Carolina in 1990. He has been a Director of United since 1988, a Vice President of United since 1992 and a Director of UCB since 1980. He has been Secretary and Treasurer of United since 1988.	130,002 (2.0%) (3)
Thomas C. Gilliland...... (48)	A Director of United since 1992 and Vice Chairman of the Peoples Board since 1986, Mr. Gilliland became President and Chief Executive Officer of Peoples and Vice President of United in 1993 and was named Executive Vice President of United in 1994. From 1986 through 1992, Mr. Gilliland was a partner in the law firm of Hurt, Richardson, Garner, Todd & Cadenhead in Atlanta, Georgia.	176,449 (2.7%) (4)

Robert L. Head, Jr....... (57)	Chairman of the Board of Directors of United since 1988, Mr. Head has served as a Director of UCB since 1973. Mr. Head operates Head Construction Company, a general construction firm, and Head-Westgate Corp., a construction and real estate development firm, in Blairsville, Georgia. He also owns Mountain Building Supply in Blairsville, Georgia.	716,513 (11.1%) (5)
Charles E. Hill.......... (59)	A Director of United since 1988 and of UCB since 1972, Mr. Hill is the Director of the Pharmacy at Union General Hospital in Blairsville, Georgia.	174,792 (2.7%) (6)
Hoyt O. Holloway......... (57)	A Director of United since 1993 and of Peoples since 1986, Mr. Holloway owns H&H Farms, a poultry farm in Blue Ridge, Georgia.	47,985 * (7)
P. Deral Horne........... (70)	A Director of Carolina since 1988 and of United since 1992, Mr. Horne owns Mountain and Valley Properties, a land development and sales business in Murphy, North Carolina.	27,500* (8)
Clarence W. Mason, Sr.... (60)	Chairman of the Board of Directors of Peoples since 1986 and a Director of United since 1992, Mr. Mason owns Mason Tractor, a retail equipment sales operation in Blue Ridge, Georgia.	81,190 (1.3%) (9)
W. C. Nelson, Jr......... (53)	A Director of United since 1988 and of UCB since 1975, Mr. Nelson is Vice Chairman of the United Board of Directors and owns Nelson Tractor Company, a retail equipment sales firm in Blairsville, Georgia.	686,463 (10.6%) (10)
Charles E. Parks (67)	A retired businessman, Mr. Parks is the former owner of Parks Lumber Co., a retail building supply firm located in Murrayville, Georgia.	96,167 (1.5%) (11)

- -----------------

* Less than one percent.

(1) Includes 10,000 shares beneficially owned by Mr. Tallent pursuant to the 2006 Debentures and 14,250 shares beneficially owned by Mr. Tallent pursuant to currently-exercisable options. Does not include 15 shares owned by Mr. Tallent's daughter, for which he disclaims beneficial ownership.

(2) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures. Does not include 59,710 shares owned by Mr. Brackett's wife and 23,035 shares owned by his daughters, for which he disclaims beneficial ownership.

(3) Includes 10,000 shares beneficially owned by Mr. Decker pursuant to the 2006 Debentures and 5,700 shares beneficially owned by Mr. Decker pursuant to currently-exercisable options. Does not include 9,040 shares owned by Mr. Decker's wife, for which he disclaims beneficial ownership.

(4) 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 8,550 shares beneficially owned pursuant to currently exercisable stock options.

(5) Includes 52,758 shares beneficially owned by Mr. Head as custodian for his children and 10,000 shares owned pursuant to the 2006 Debentures. Does not include 16,965 shares owned by Mr. Head's wife, for which he disclaims beneficial ownership.

(6) Includes 10,000 shares beneficially owned by Mr. Hill pursuant to the 2006 Debentures. Does not include 87,105 shares owned by Mr. Hill's wife, for which he disclaims beneficial ownership.

(7) 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.

(8) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures.

(9) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures.

(10) 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 5,000 shares owned by Mr. Nelson's wife, for which he disclaims beneficial ownership.

(11) Includes 10,000 shares beneficially owned pursuant to the 2006 Debentures.

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

PROPOSAL TO AMEND THE UNITED COMMUNITY BANKS, INC.
KEY EMPLOYEE STOCK OPTION PLAN
(Proposal 2)

Amendment

The Board of Directors has approved an amendment to the Plan to increase the shares of Common Stock authorized for issuance under the Plan from 150,000 shares to 300,000 shares (the "Amendment"), subject to shareholder approval. The following general description of the material aspects of the Plan and the Amendment is a summary and is qualified in its entirety by reference to the Plan and Amendment, a copy of which will be provided to any shareholder upon written request to Lois Jones at United's address.

The Plan became effective on April 4, 1994 upon approval by the Board of Directors and shareholders and terminates on the 10th anniversary of such date. Outside directors are not eligible for grants under the Plan. The Plan provides for the grant of incentive stock options (the "ISOs") and supplemental stock options (the "SSOs") to key employees of United, its subsidiaries and any other corporation designated by the compensation committee of the Board of Directors (the "Committee") as being eligible under the Plan (each of which individually is sometimes hereinafter referred to as the "Employer"). A maximum of 150,000 shares of the Common Stock is now authorized for issuance with respect to options granted under the Plan, and the Board proposes to increase the shares of Common Stock authorized for issuance to 300,000. Options for 92,000 shares are currently outstanding under the Plan.

Purpose

The purpose of the Plan is to promote the long-term success of United and its subsidiaries by providing financial incentives to key employees who are in positions to make significant contributions toward such success. The Plan is designed to attract individuals of outstanding ability to employment with United and its subsidiaries, to encourage key employees to acquire a proprietary interest in United and to continue their employment with United or its subsidiaries and to render superior performance during such employment.

Administration

The Plan is administered by the Committee, which has authority to determine the individuals to whom awards will be granted, the form and amount of the awards, the dates of the grant and other terms of each award. The Committee is composed at all times of not less than three members of the Board of Directors who are not employees of United and who are not, at the time they are exercising discretion in administering the Plan, eligible, and have not at any time within one year prior thereto been eligible, for selection as a person to whom options may be granted under the Plan or any other similar discretionary plan of United.

Description of Options

Key employees of an Employer are eligible for consideration as participants under the Plan. The Plan provides for grants to key employees of an Employer of both ISOs, as defined in Section 422 of the Internal Revenue Code of 1986, as amended, ("IRC") and SSOs. The exercise price of an option granted under the Plan is determined by the Committee at the time of grant. The exercise price of an ISO may not be less than the fair market value of the shares subject to such option (or 110% of such fair market value in the case of an ISO granted to an individual who is a 10% stockholder of United). The exercise price of an SSO, however, may, at the discretion of the Committee, be less than the fair market value of the shares subject to such option at the time of grant. Full payment of the option exercise price must be made by the optionee when an option is exercised. The exercise price may be paid in cash or in such other form as the Committee may approve, including shares of the Common Stock valued at their fair market value (as defined in the Plan) on the date of option exercise. The proceeds received by United from exercises of options under the Plan are used for general corporate purposes. The period of exercise of an option is determined by the Committee at the time of grant, but in any event, no option may expire any later than the tenth anniversary of the date of grant.

Options granted under the Plan generally are not exercisable sooner than 90 days after the date of grant and are not exercisable later than 10 years after the date of grant. No option may be exercised more than three months after the optionee's retirement from employment with an Employer. The exercise period described in the preceding sentence, however, is expanded to one year if the employment of the optionee is terminated due to total and permanent disability (as defined in the Plan), and to two years, or such later time as may be approved by the Committee, if the employment of the optionee is terminated due to the death of the optionee. Options will expire immediately upon the termination of employment of or by the optionee for any reason other than retirement, total and permanent disability or death.

The receipt of stock upon the exercise of any option granted under the Plan is contingent upon the advice of counsel to United that any shares to be delivered comply with federal or state securities laws. The Committee may, in its sole discretion, postpone the issuance or delivery of any shares issuable upon exercise of an option for federal or state regulatory compliance reasons. In the event of changes in the outstanding shares of the Common Stock by reason of stock dividends, recapitalizations, reclassifications, split-ups or consolidation or other change in the Common Stock, the aggregate number and class of shares available under the Plan and the maximum number of shares as to which options may be granted shall be appropriately adjusted by the Committee. In the event of an exchange of the outstanding Common Stock in connection with a merger, consolidation or other reorganization, or a sale by United of all or a portion of its assets for a different number or class of shares or other securities of United or for shares of any other corporation, the Committee shall appropriately adjust, in such manner as it determines in its sole discretion, the number and class of shares or other securities which shall be subject to options and/or the purchase price per share which must be paid thereafter upon exercise. Options will not be transferable by the holder other than by will or applicable laws of descent and distribution.

The Plan may, from time to time, be terminated, suspended or amended by the Board of Directors in such respects as it shall deem advisable, including any amendment effected (i) so that an ISO granted under the Plan shall be an "incentive stock option" as such term is defined in Section 422 of the IRC, or (ii) to conform to any change in any law or regulation governing the Plan or the options granted thereunder. However, without the approval of the shareholders, no such amendment may change: (a) the maximum aggregate number of shares for which options may be granted under the Plan, except as required under any adjustment described above; (b) the option exercise price, except for any change in such price required as a result of any adjustment described above, and except for changes in determining fair market value of shares of the Common Stock to conform with any then applicable provision of the IRC or regulations promulgated thereunder; (c) the maximum period during which options may be exercised; (d) the termination date of the Plan in order to extend the same; or (e) the Plan's participation requirements in any material respect. All options granted under the Plan terminate on the date of liquidation or dissolution of United.

Tax Consequences

Under current tax law, a holder of an ISO under the Plan does not realize taxable income upon the grant or exercise thereof. However, depending upon the holder's income tax situation, the exercise of the ISO may have alternative minimum tax implications. The amount of gain which the optionee must recognize is equal to the amount by which the value of the Common Stock on the date of the sale exceeds the option price. If the optionee disposes of the stock after the required holding period, that is, no earlier than a date which is two years after the date of grant of the option and one year after the date of exercise, the gain is capital gain income. If disposition occurs prior to expiration of the holding period, the gain is ordinary income, and United is entitled to a tax deduction equal to the amount of income recognized by the optionee.

An optionee will not realize income when an SSO option is granted to him. Upon exercise of such option, however, the optionee must recognize ordinary income to the extent that the fair market value of the Common Stock on the date the option is exercised exceeds the option price. Any such gain is taxed in the same manner as ordinary income in the year the option is exercised. Any gain recognized upon the disposition of the shares of stock obtained by the exercise of an SSO will be taxed at capital gains rates if the employee holds the shares of stock for at least one year after the exercise of the SSO. United will not experience any tax consequences upon the grant of an SSO, but will be entitled to take an income tax deduction equal to the amount which the option holder includes in income (if any) when the SSO is exercised.

Vote Required and Recommendation of the Board

Shareholder approval of the Amendment is required under the IRC and the terms of the Plan because the Amendment would increase the maximum aggregate number of shares for which options may be granted under the Plan.
For this reason, shareholder approval is sought for the Amendment.

The Amendment to the Plan must be approved by the holders of a majority of the Common Stock having voting power and present in person or by proxy 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. Abstentions and broker non-votes would be included in determining whether a quorum is present at a meeting. A broker non-vote would have no effect on the outcome of the vote on the proposal to amend the Plan, but an abstention would have the effect of a vote against the Amendment to the Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE PROPOSAL, AND THE ENCLOSED PROXY WILL BE VOTED IN THAT MANNER UNLESS THE SHAREHOLDER EXECUTING THE PROXY SPECIFICALLY VOTES TO THE CONTRARY OR ABSTAINS FROM VOTING ON THIS PROPOSAL.

EXECUTIVE COMPENSATION

United did not pay any remuneration to its executive officers during the year ended December 31, 1996, other than directors' fees to the executive officers who served on the Board of Directors of United. 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 1996: Jimmy C. Tallent, President and Chief Executive Officer of United and UCB, Billy M. Decker, President and Chief Executive Officer of Carolina, Guy Freeman, Vice President of United and Executive Vice President of Carolina, and Thomas C. Gilliland, President and Chief Executive Officer of Peoples and Executive Vice President of United (the "Named Executive Officers"). No other executive officer of United was paid $100,000 or more during 1996.

		Annual Compensation			Long-Term Compensation	
Name and Principal Offices Held During 1996	Year	Salary	Bonus	Other	Securities Underlying Options	All Other Compensation
Jimmy C. Tallent..................	1996	$188,650	$65,000	$10,000/(1)/	8,750	$23,781/(2)/
President and Chief	1995	167,200	57,000	9,000/(1)/	12,500	21,085
Executive Officer of United and UCB	1994	151,251	50,000	8,100/(1)/	--	15,250
Thomas C. Gilliland...............	1996	$142,188	$35,000	$6,400/(1)/	5,250	$12,086/(3)/
President and Chief	1995	132,563	30,000	5,400/(1)/	7,500	6,628
Executive Office of Peoples; Executive Vice President of United	1994	121,395	25,000	5,400/(1)/	--	4,249
Billy M. Decker...................	1996	$107,500	$35,500	$10,000/(1)/	3,500	$13,115/(3)/
President and Chief	1995	98,010	30,000	8,100/(1)/	5,000	11,957
Executive Officer of Carolina; Vice President of United	1994	90,905	23,000	8,100/(1)/	--	11,090
Guy W. Freeman	1996	$117,500	$20,000	3,850/(1)/	3,500	$14,335/(3)/
Executive Vice President of	1995	87,929/(4)/	10,000	1,400	5,000	--
Carolina; Vice President of United	1994	--	--	--	--	--

- ---------------------------

/(1)/ Directors' fees for service on United's bank subsidiaries' boards of directors. Other perquisites do not meet the Securities and Exchange Commission threshold for disclosure.

/(2)/ Represents a contribution by United of $23,016 on behalf of Mr. Tallent to United's Profit Sharing Plan and insurance premiums of approximately $766 paid by United on behalf of Mr. Tallent on a life insurance policy.

/(3)/ United's contribution on behalf of the named individual to United's Profit Sharing Plan.

/(4)/ Mr. Freeman commenced employment with United and its subsidiaries in March 1995. Mr. Freeman owns 24,495 shares of Common Stock.

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

Directors of United, other than a President of a bank subsidiary who serves on United's Board of Directors, received $750 per board meeting attended during 1996. 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 1996 and the projected value of those options at assumed annual rates of appreciation.

Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term/(2)/		
Name	Number of Securities Underlying Options Granted/(1)/	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date	0%	5%	10%
Jimmy C. Tallent	8,750	20.83%	$18.00	1/1/06	$0	$99,050	$251,015
Thomas C. Gilliland	5,250	12.50%	$18.00	1/1/06	$0	$59,430	$150,610
Billy M. Decker	3,500	8.33%	$18.00	1/1/06	$0	$39,620	$100,405
Guy W. Freeman	3,500	8.33%	$18.00	1/1/06	$0	$39,620	$100,405

- --------------------------

/(1)/ Twenty percent of the options were vested at grant and an additional 20% vest at each of the first four anniversaries of the grant date.

/(2)/ "Potential Realizable Value" is disclosed in response to SEC regulations that require such disclosure for illustration only. The values disclosed are not intended to be, and should not be interpreted as, representations or projections of the future value of the Company's Common Stock or of the stock price. Amounts are calculated at 0%, 5% and 10% assumed appreciation of the value of the Common Stock (compounded annually over the option term) and are not intended to forecast actual expected future appreciation, if any, of the Common Stock. The potential realizable value to the optionee is the difference between the exercise price and the appreciated stock price at the assumed annual rates of appreciation multiplied by the number of shares underlying the options.

Option Fiscal Year-End Values

Shown below is information with respect to unexercised options to purchase the Common Stock granted under the Plan to the Named Executive Officers and held by them at December 31, 1996. No options were exercised during 1996 by a Named Executive Officer.

	Fiscal Year-End Option Values	
Name	Number of Unexercised Options at Fiscal Year End Exercisable/Unexercisable (#)	Value of Unexercised in the Money Options at Fiscal Year End ($)(1)
Jimmy C. Tallent	14,250 / 7,000	$142,750
Thomas C. Gilliland	8,550 / 4,200	86,650
Billy M. Decker	5,700 / 2,800	57,100
Guy W. Freeman	5,700 / 2,800	57,100

- --------------------

(1) Based on $21.00 per share, the last sale price known to United during 1996. United's Common Stock is not publicly traded.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Board of Directors of United reviewed the compensation of Messrs. Tallent, Gilliland, Freeman and Decker and of United's other executive officers for the 1996 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.

Carolina, UCB, Towns and Peoples have retained the services of a construction company operated by Robert L. Head, Jr., who is Chairman of the Board of Directors of United and a director of UCB. During 1996, UCB and Towns made payments of approximately $89,900 to such construction company for a leasehold improvement in Dahlonega and remodeling of Towns' existing facilities.

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. United had no executive officers other than Mr. Tallent, Mr. Gilliland, Mr. Decker and Mr. Freeman who earned $100,000 or more during 1996. The SEC regulations require a report setting forth a description of United's executive compensation policy in general and the considerations that led to the compensation decisions affecting Mr. Tallent, Mr. Gilliland, Mr. Decker and Mr. Freeman. 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 individual's own performance and contribution to United, the individual's tenure in his or her position and internal comparability considerations. The Board of Directors set the salary of Mr. Tallent, considering Mr. Tallent's salary during the preceding fiscal year, Mr. Tallent's tenure, 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 1996, paid in the form of a cash bonus during the fourth quarter of the fiscal year, was based on annual financial results of United's bank subsidiaries, including general targets with respect to net earnings and return on average assets. Cash bonuses were granted by the Board to Mr. Tallent, and the Board set a range of bonuses (based on a percentage of salary) for all employees other than Mr. Tallent, within which range Mr. Tallent determined each officer's bonus, based on individual performance.

Key Employee Stock Option Plan

Options to acquire 42,000 shares of Common Stock were awarded under the Plan in fiscal 1996, including options to acquire 21,000 shares of Common Stock awarded to the Named Executive Officers by the Compensation Committee.

United Community Banks, Inc. Board of Directors

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

Compensation Committee of the Board of Directors

James A. Brackett, Jr.	Hoyt O. Holloway
Robert L. Head, Jr.	P. Deral Horne
Charles E. Hill	Clarence W. Mason, Sr.
	W. C. Nelson, Jr.

SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on United's Common Stock against the cumulative total return on The Nasdaq Stock Market (U.S. Companies) Index and The Nasdaq Bank Stocks Index for the period commenced on June 28, 1993, the date on which United's Common Stock was registered under the Securities Exchange Act of 1934, as amended, and ended on December 31, 1996. United's Common Stock is not publicly traded; therefore, the total shareholder return is based on stock trades known to United during the period presented.

Comparison of Cumulative Total Return
Among United, The Nasdaq Stock Market (U.S.)
and Nasdaq Bank Stocks

	Cumulative Total Return				
	6/93	12/93	12/94	12/95	12/96
United Community Banks, Inc.	100	119	187	301	397
NASDAQ Stock Market -US	100	111	108	153	188
NASDAQ Bank	100	107	106	158	209

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The United Board of Directors held four meetings during 1996. All of the directors attended at least seventy-five percent (75%) of the meetings of the Board and 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") (successor to the practice of Evans, Porter, Bryan & Co.) was the principal independent public accountant for United during the year ended December 31, 1996. 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 1998 annual meeting must be received by December 12, 1997, in order to be eligible for inclusion in United's Proxy Statement and Proxy for that meeting.

OTHER MATTERS THAT MAY COME BEFORE THE MEETING

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

By Order of the Board of Directors,

Jimmy C. Tallent
President and Chief Executive Officer

Appendix A

GENERAL DESCRIPTION OF THE BUSINESS

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

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

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

[UNITED COMMUNITY BANKS, INC. LOGO]

SELECTED FINANCIAL DATA

	1996	1995	1994	1993	1992
		(in thousands except per share data)			
FOR THE YEAR					
Net interest income	$ 31,368	$ 22,919	$ 18,217	$ 14,516	$ 11,131
Provision for loan losses	1,411	1,040	935	842	472
Noninterest income	5,368	4,264	3,762	3,700	2,157
Noninterest expense	23,313	17,854	13,902	11,705	8,635
Income taxes	3,811	2,238	1,942	1,467	1,055
Net earnings	$ 8,201	6,051	5,200	4,202	3,126
PER COMMON SHARE					
Net earnings	$ 1.31	1.04	0.93	0.76	0.57
Cash dividends declared	0.08	0.07	0.04	0.04	0.05
Book value	8.14	7.03	5.41	4.55	3.81
AT YEAR END					
Loans	$ 591,398	449,595	341,621	283,611	224,057
Earning assets	770,179	611,237	422,091	368,013	309,744
Assets	828,030	659,669	456,936	393,632	332,013
Deposits	720,726	590,656	393,270	349,765	300,020
Stockholders' equity	52,401	44,027	30,217	25,449	20,942
Common shares outstanding	6,438,848	6,260,280	5,589,365	5,589,365	5,500,115
AVERAGE BALANCES					
Loans	$ 514,724	395,503	309,493	250,479	199,383
Earning assets	674,356	523,545	395,121	336,931	278,306
Assets	730,124	562,392	427,695	362,000	300,438
Deposits	647,499	498,247	376,369	324,460	267,787
Stockholders' equity	48,214	37,123	27,833	23,196	19,455
Weighted average shares outstanding	6,260,769	5,813,615	5,589,365	5,545,110	5,492,435
KEY PERFORMANCE RATIOS					
Return on average assets	1.10%	1.08%	1.22%	1.16%	1.04%
Return on average stockholders' equity	17.01%	16.30%	18.68%	18.12%	16.07%
Net interest margin, taxable equivalent	4.83%	4.60%	4.88%	4.57%	4.27%
Efficiency ratio	63.44%	65.69%	63.36%	64.79%	65.49%
Dividend payout ratio	6.11%	6.91%	4.30%	4.62%	7.91%
Average equity to average assets	6.60%	6.60%	6.51%	6.41%	6.47%

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

General

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

The following discussion focuses on significant changes in the financial condition and results of operations of United and the Banks during the three years ended December 31, 1996. The discussion and analysis is intended to supplement and highlight, and should be read in conjunction with, information contained in the accompanying consolidated financial statements.

Financial Highlights

Year Ended December 31, 1996. Net earnings totaled over $8 million for the year ended December 31, 1996, an increase of 36% from the $6 million earned in 1995. Net earnings per common share were $1.31 for 1996 compared to $1.04 reported for 1995, an increase of 26%. Return on assets and return on equity for the year ended December 31, 1996, was 1.10% and 17.01%, respectively. The 1995 return on assets and return on equity was 1.08% and 16.30%, respectively.

United's balance sheet grew 26% during the year as assets ended the year at $828 million. Net loans increased 34% during the year and deposits grew over 22%. The increases in both loans and deposits reflect a strengthening economic environment as well as market share gains from competition. Stockholders' equity increased to $52 million and represented 6% of year end assets.

Capital Issues

On March 6, 1997, the Company completed a filing with the Securities and Exchange Commission for the purpose of registering for sale 250,000 shares of its $1 par value common stock. The sale is estimated to yield $5.4 million after deducting certain issuance costs. United intends to use these proceeds to invest additional capital into UCB and Carolina to support the asset growth that both banks are experiencing.

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

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

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

Expansions

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 would be permitted. On July 1, 1996, UCB changed its name from Union County Bank to United Community Bank and established a branch office in Dahlonega, Lumpkin County, Georgia. UCB simultaneously filed a tradename filing to permit it to conduct its operations in Union County, Georgia under the tradename Union County Bank. On September 28, 1996, UCB assumed deposits of $23.7 million and purchased assets of $33.2 million in Cornelia, Habersham County, Georgia, from a banking institution which sold off its operations in the county. In Habersham County, UCB operates under the trade name of First Bank of Habersham, and in Lumpkin County, UCB does business as United Community Bank. On July 1, 1996, Carolina opened a loan production office in Sylva, North Carolina.

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

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

Net Interest Income

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

Net interest income, on a taxable equivalent basis, was $36.2 million in 1996, compared to $24.1 million in 1995 and $19.3 million in 1994. The 35% increase in 1996 was the result of increased volume of net earning assets partially augmented by a 27 basis point increase in the interest rate spread.

Interest income increased over 28% in 1996 and 44% in 1995, respectively. The increase in 1996 was again primarily a result of an increase in interest and fees on loans of over $12.6 million. Interest on investment securities and other earning assets increased $1.4 million or 16%.

Average earning assets in 1996 increased 29% when compared to 1995 due to increases in average loans of $120 million and average investment securities of $30 million. Increases in average earning assets of 33% were experienced in 1995 over 1994 primarily due to increases in average loans of $86 million. Table 1 represents net interest income, yields and rates on a taxable-equivalent basis and average balances for the years 1996, 1995 and 1994.

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

	Years Ended December 31, 1996			1995		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS						
Interest earning assets:						
Federal funds sold	$ 18,705	1,009	5.39%	$ 17,467	1,113	6.37%
Interest bearing deposits with other banks	918	101	11.00%	286	3	1.05%
Investment securities:						
Taxable	105,693	6,120	5.79%	78,684	4,791	6.09%
Tax-exempt	34,316	2,886	8.41%	31,605	2,797	8.85%
Total investment securities	140,009	9,006	6.43%	110,289	7,588	6.88%
Loans:						
Taxable	507,928	53,508	10.53%	389,565	40,943	10.51%
Tax-exempt	6,796	732	10.77%	5,938	653	11.00%
Total loans	514,724	54,240	10.54%	395,503	41,596	10.52%
Total interest earning assets	674,356	64,356	9.54%	523,545	50,300	9.61%
Allowance for loan losses	(7,163)			(5,367)		
Cash and due from banks	19,706			15,891		
Premises and equipment	16,599			13,456		
Other assets	26,626			14,867		
Total assets	$ 730,124			$562,392		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Deposits:						
Demand	$ 161,038	5,167	3.20%	$ 97,103	3,585	3.69%
Savings	39,084	1,050	2.68%	33,057	1,023	3.09%
Time	378,478	23,611	6.24%	317,938	19,735	6.21%
Federal funds purchased	947	51	5.39%	975	56	5.74%
FHLB advances	17,237	981	5.69%	11,889	899	7.56%
Long-term debt	10,291	808	7.85%	9,537	820	8.60%
Convertible subordinated debentures	1,000	90	9.00%	1,000	90	9.00%
Total interest bearing liabilities	608,075	31,758	5.22%	471,499	26,208	5.56%
Noninterest bearing demand deposits	68,899			50,149		
Other liabilities	4,936			3,621		
Stockholders' equity	48,214			37,123		
Total liabilities and stockholders' equity	$ 730,124			562,392		
Net interest income		32,598			24,092	
Net interest spread			4.32%			4.05%
Net interest margin			4.83%			4.60%
Taxable equivalent adjustments:						
Loans		$ 249			222	
Investment securities		981			951	
Total taxable equivalent adjustments		1,230			1,173	
Net interest income		$ 31,368			$22,919	

	1994		
	Average Balance	Interest	Yield/ Rate
ASSETS			
Interest earning assets:			

Federal funds sold	$3,270	135	4.13%
Interest bearing deposits with other banks	502	20	3.98%
Investment securities:			
Taxable	51,194	2,924	5.71%
Tax-exempt	30,662	2,747	8.96%
Total investment securities	81,856	5,671	6.93%
Loans:			
Taxable	304,961	28,683	9.41%
Tax-exempt	4,532	424	9.36%
Total loans	309,493	29,107	9.40%
Total interest earning assets	395,121	34,933	8.84%
Allowance for loan losses	(3,712)		
Cash and due from banks	13,504		
Premises and equipment	11,086		
Other assets	11,696		
Total assets	$427,695		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Interest bearing liabilities:			
Deposits:			
Demand	$86,224	2,874	3.33%
Savings	30,172	926	3.07%
Time	225,872	10,572	4.68%
Federal funds purchased	2,476	122	4.93%
FHLB advances	8,096	415	5.13%
Long-term debt	8,754	639	7.30%
Convertible subordinated debentures	1,000	90	9.00%
Total interest bearing liabilities	362,594	15,638	4.31%
Noninterest bearing demand deposits	34,101		
Other liabilities	3,167		
Stockholders' equity	27,833		
Total liabilities and stockholders' equity	427,695		
Net interest income		19,295	
Net interest spread			4.53%
Net interest margin			4.88%
Taxable equivalent adjustments:			
Loans		144	
Investment securities		934	
Total taxable equivalent adjustments		1,078	
Net interest income		$18,217	

Consolidated Average Balances, Interest and Rates

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

The net interest spread was 4.32% in 1996, 4.05% in 1995 and 4.53% in 1994, while the net interest margin was 4.83% in 1996, 4.60% in 1995 and 4.88% in 1994. The increase in the margin and spread are primarily due to an increase in core deposits relative to total deposits. Core deposits represent approximately 42% of total deposits in 1996, an increase from 36% in 1995. The acquisition of White County Bank contributed unfavorably to the net interest margin for 1995. The decrease in 1995 compared to 1994 was also a result of competitive pricing for time deposits and a rising rate environment. Table 2 shows the change in net interest income for the past two years due to changes in volumes and rate.

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

	1996 Compared to 1995 Increase (decrease) due to changes in			1995 Compared to 1994 Increase (decrease) due to changes in		
	Volume	Yield/ Rate	Net Change	Volume	Yield/ Rate	Net Change
Interest earned on:						
Federal funds sold	$ 89	(193)	(104)	$ 905	73	978
Interest bearing deposits with other banks	19	79	98	(2)	(15)	(17)
Investment securities:						
Taxable	1,550	(221)	1,329	1,674	193	1,867
Tax-exempt	212	(123)	89	83	(33)	50
Loans:						
Taxable	12,469	96	12,565	8,892	3,368	12,260
Tax-exempt	92	(13)	79	155	74	229
Total interest income	14,431	(375)	14,056	11,707	3,660	15,367
Interest paid on:						
Deposits:						
Demand	1,975	(393)	1,582	402	309	711
Savings	98	(71)	27	89	8	97
Time	3,776	100	3,876	5,715	3,448	9,163
Federal funds purchased	(2)	(3)	(5)	(86)	20	(66)
FHLB advances	182	(100)	82	287	197	484
Long-term debt	122	(134)	(12)	67	114	181
Total interest expense	6,151	(601)	5,550	6,474	4,096	10,570
Net interest income	$ 8,280	226	8,506	$5,233	(436)	4,797

Noninterest Income

Noninterest income consists primarily of revenues generated from service charges and fees on deposit accounts, mortgage loan and related fees and profits earned through sales of credit life insurance. In addition, gains or losses realized from the sale of investment portfolio securities are included in noninterest income. Total noninterest income for 1996 increased 26% or $1.1 million, more than $625 thousand of which was contributed as a result of an increase in service charges on demand deposits. Noninterest income for 1995 increased 13% or $502 thousand, $235 thousand of which was contributed as a result of the White County Bank acquisition.

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

The primary contributor to non-interest income growth in both 1996 and 1995 was the continued growth in service charges on deposits. Fee income from service charges on deposit accounts increased over 42% in 1996 following a 32% increase in 1995. Continued emphasis on low cost checking account services, appropriate pricing for transaction deposit accounts and fee collection practices for other deposit services contributed to the increased levels of income for both years. Increases during 1996 and 1995 were further influenced by the increase in both the number of accounts and balances outstanding in transaction deposit accounts.

Net gains on sales of investment securities increased $ 18 thousand from 1995 levels as management liquidated more investment securities to meet loan demand.

Mortgage loan and related fee income decreased 1% or $16 thousand during 1996 as compared to 1995 as the volume of loans refinanced remained relatively flat.

Noninterest Expense

Noninterest expenses for 1996 increased 31% following an increase of 28% in 1995. The increase was primarily due to the start up costs in new markets. Salaries and employee benefits increased 28% from 1995 due to employee additions resulting from the branch expansions together with the increases required to maintain continued growth and cost of living raises.

Net occupancy expense increased $591 thousand or 22% in 1996 following a 34% increase in 1995. The 1996 increase is due to the new physical locations in Dahlonega and Cornelia, Georgia, as well as western North Carolina branch expansions. The 1995 increase in occupancy expense was due primarily to increased depreciation related to new banking facilities located in Blue Ridge, Georgia and costs to operate the banking facilities in the expansion markets acquired by Carolina.

Deposit insurance premiums decreased $ 492 thousand or 96% as a result of the recalculated FDIC assessment.

Other non-interest expenses, including advertising, stationery and supplies, increased $2.6 million or 54% compared to a 48% increase in 1995. Management continues to emphasize the importance of expense management and productivity throughout United in order to further decrease the cost of providing expanded banking services to a growing market base.

Investment Securities

The composition of the investment securities portfolio reflects United's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of income. The investment portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and supplying securities to pledge as required collateral for certain deposits.

During 1996, gross investment securities sales were $17 million as compared to $15 million during 1995. Maturities and paydowns were $52 and $23 million, representing 37% and 21%, respectively, of the average total portfolio for the year. Net losses associated with the sales were approximately $14 thousand during 1996 with net gains of $4 thousand during 1995, accounting for less than 1% of non-interest income. Gross unrealized gains in the total portfolio amounted to approximately $1.1 million at year end 1996 and gross unrealized losses amounted to approximately $872 thousand.

Total average investment securities, including those available for sale, increased 27% during 1996 Average investment securities during 1995 increased 35% from the 1994 average levels.

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

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

	December 31,		
	1996	1995	1994
Securities held to maturity:			
U.S. Treasury	$ 1,868	6,624	4,250
U.S. Government agencies	31,406	37,736	20,556
State and municipal	31,630	26,524	32,039
Mortgage backed securities	7,118	7,937	6,103
	72,022	78,821	62,948
Securities available for sale:			
U.S. Treasury	11,332	23,239	5,781
U.S. Government agencies	34,871	28,341	6,733
State and municipal	6,024	6,321	-
Mortgage backed securities	18,635	4,290	569
Other	4,002	2,855	1,864
	74,864	65,046	14,947
Total	$146,886	143,867	77,895

Carrying Value of Investments

The December 31, 1996, market value of securities held to maturity, as a percentage of amortized cost was 100%, down from 101% at December 31, 1995. 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 earnings statement unless the related securities are called at prices which differ from the carrying value at the time of call.

United utilizes its investment portfolio to offset some of the natural mismatch of interest rate risk inherent in the loan and deposit portfolios. United is fortunate to experience strong loan demand at all the Banks so there is little need for investments solely to augment income or utilize uninvested deposits. Accordingly, United must maintain a conservative posture with respect to the types of securities in which it invests. The investment portfolio consists primarily of U.S. Treasuries, U.S. Government agencies and tax-free municipal securities with little principal risk.

Loans

During 1996, average loans increased $120 million, or 30% and represented 76% of average interest earning assets and 70% of average total assets. This growth generally occurred proportionally among the various loan categories and can be attributed to additional products and services marketed to existing customers and the successful business development efforts which resulted in market share gains from competitors.

The level of loans, when compared to the level of deposits, has been relatively strong over the last three years. The average loan to deposit ratio was 80%, 79% and 82% in 1996, 1995 and 1994, respectively. The decrease noted in 1995 is attributed to the infusion of deposits acquired from the White acquisition together with the branch acquisitions.

Table 4 breaks down the composition of the loan portfolio for each of the past five years while Table 5 shows the amount of loans outstanding for selected categories as of December 31, 1996, with maturities based on the remaining scheduled repayments of principal.

Table 4 - Loan Portfolio
(dollars in thousands)

	December 31,					
	1996		1995		1994	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial, financial and agricultural	$176,486	29.8%	120,876	27.2%	105,644	32.1%
Real estate - construction	50,523	8.5%	29,538	6.7%	19,707	6.0%
Real estate - mortgage	275,164	46.5%	216,649	48.8%	144,971	44.0%
Installment loans to individuals	90,178	15.2%	77,029	17.3%	58,904	17.9%
Total loans	592,351	100.0%	444,092	100.0%	329,226	100.0%
Less: Allowance for loan losses	7,680		6,545		3,950	
	$584,671		437,547		325,276	

	December 31,			
	1993		1992	
	Amount	Percent of Total	Amount	Percent of Total
Commercial, financial and agricultural	82,424	30.5%	67,208	30.7%
Real estate - construction	21,984	8.1%	9,768	4.5%
Real estate - mortgage	115,822	42.9%	98,427	45.0%
Installment loans to individuals	49,770	18.5%	43,425	19.8%
Total loans	270,000	100.0%	218,828	100.0%
Less: Allowance for loan losses	3,237		2,592	
	266,763		216,236	

Table 5 - Loan Portfolio Maturity
(dollars in thousands)

	Maturity			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Commercial, financial and agricultural	$144,719	22,943	8,824	176,486
Real estate - construction	46,481	4,042	--	50,523
	$191,200	26,985	8,824	227,009

	Rate Structure for Loans Maturing Over One Year	
	Predetermined Interest Rate	Floating or Adjustable Rate
Commercial, financial and agricultural	26,367	5,400
Real estate - construction	1,819	2,223
	28,186	7,623

Provision and Allowance for Loan Losses

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

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

Reviews of non-performing, past due loans and larger credits, designed to identify potential charges to the allowance for loan losses, as well as determine the adequacy of the allowance, are made on a regular basis during the year.

These reviews are made by the responsible lending officers, as well as a separate credit administration department, and consider such factors as the financial strength of borrowers, the value of the applicable collateral, past loan loss experience, anticipated loan losses, growth in the loan portfolio, and other factors, including prevailing and anticipated economic conditions.

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

The provision for loan losses increased 36% in 1996 compared to an 11% increase in 1995 although the allowance for loan losses as a percentage of total loans decreased from 1.47% in 1995 to 1.30% at year end 1996.

Net loan charge-offs for 1996 remained consistent with 1995, although the average balance of loans increased 30%. United does not currently allocate the allowance for loan losses to the various loan categories. Net charge-offs during 1997 are expected to approximate those experienced during 1996.

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

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

	Years Ended December 31,				
	1996	1995	1994	1993	1992
Allowance for loan losses at beginning of year	$6,545	3,950	3,237	2,592	2,091
Charge-offs:					
Commercial, financial and agricultural	282	148	27	6	25
Real estate - construction	-	24	-	-	-
Real estate - mortgage	13	337	49	54	58
Installment loans to individuals	305	166	238	227	226
Total charge-offs	600	675	314	287	309
Recoveries:					
Commercial, financial and agricultural	251	157	6	1	43
Real estate - construction	-	-	-	-	-
Real estate - mortgage	39	189	1	28	23
Installment loans to individuals	34	71	85	61	60
Total recoveries	324	417	92	90	126
Net charge-offs	276	258	222	197	183
Provisions charged to earnings	1,411	1,040	935	842	472
Allowance for loan losses acquired from White	-	1,813	-	-	-
Allowance for loan losses acquired from Towns	-	-	-	-	212
Balance at end of year	$7,680	6,545	3,950	3,237	2,592
Ratio of net charge-offs to average loans outstanding during the period	0.05%	0.07%	0.07%	0.08%	0.09%

Asset Quality

At December 31, 1996, non-performing assets, comprised of nonaccrual loans, other real estate owned and loans for which payments are more than 90 days past due totaled $1.4 million compared to $2.2 million at year end 1995. The decrease from 1995 is directly attributable to management's concerted efforts to reduce the level of nonperforming assets acquired in the 1995 purchase of White County Bank.

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

There were no commitments to lend additional funds on nonaccrual loans at December 31, 1996. Table 7 summarizes United's non-performing assets for each of the last five years.

Table 7 - Risk Elements
(dollars in thousands)

	December 31,				
	1996	1995	1994	1993	1992
Loans on nonaccrual	$ 932	1,914	514	567	542
Loans 90 days past due	236	226	85	197	36
Other real estate	210	65	-	-	41
Total non-performing assets	$ 1,378	2,205	599	764	619
Total non-performing loans as a percentage of loans	0.19%	0.48%	0.18%	0.21%	0.25%
Loans 90 days past due as a percentage of loans	0.04%	0.05%	0.03%	0.07%	0.02%

Risk Elements

There may be additional loans within United's portfolio that may become classified as conditions dictate; however, management was not aware of any such loans that are material in amount at December 31, 1996. At December 31, 1996, management was unaware of any known trends, events or uncertainties that will have, or that are reasonably likely to have a material effect on United's liquidity, capital resources or operations.

Deposits

All major categories of average interest bearing deposits increased during 1996. The largest dollar increase in average interest bearing deposits was in the interest bearing demand deposit category, rising over $64 million or 66% from 1995 followed by the increase in average time deposits of $ 61 million or 19%. Average non-interest bearing demand deposits increased over $18 million or 37% after increasing 47% during 1995. The increases were primarily a result of internally generated growth, as well as the previously discussed expansions. Savings deposits, interest bearing demand deposits and non-interest bearing demand deposits accounted for 42% of total average deposits during 1996. For 1995, these lower cost deposits were 36% of total average deposits. The maturities of time deposits of $100,000 or more issued by United's bank subsidiaries at December 31, 1996, are summarized in the following table:

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

Three months or less	$34,352
Over three months through six months	30,666
Over six months through twelve months	25,394
Over twelve months	21,435
	$111,847

At December 31, 1996, four of United's bank subsidiaries were shareholders in the Federal Home Loan Bank of Atlanta. Through this affiliation, advances totaling $35 million were outstanding at rates competitive with time deposits of like maturities. United anticipates continued utilization of this short and long term source of funds to minimize interest rate risk and provide competitive, long-term fixed rate loans to its customers.

Interest Rate Sensitivity Management

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

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

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

Interest rate sensitivity is a function of the repricing characteristics of United's portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the effect of interest rate movements on net interest income. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in United's current portfolio that are subject to repricing at various time horizons: immediate, one to three months, four to twelve months, one to five years, over five years, and on a cumulative basis. The differences are known as interest sensitivity gaps. Table 9 shows interest sensitivity gaps for these different intervals as of December 31, 1996.

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

	December 31, 1996					
	Immediate	One Through Three Months	Four Through Twelve Months	One Through Five Years	Over Five Years amd Non-Rate Sensitive	Total
Interest earning assets:						
Federal funds sold	$ 24,215	-	-	-	-	24,215
Investment securities	-	8,575	20,559	75,904	41,848	146,886
Mortgage loans held for sale	-	6,727	-	-	-	6,727
Loans	16,203	217,955	248,603	90,627	18,963	592,351
Total interest earning assets	40,418	233,257	269,162	166,531	60,811	770,179
Interest bearing liabilities:						
Deposits:						
Demand	-	158,124	-	-	-	158,124
Savings	-	-	39,001	-	-	39,001
Time	-	143,400	196,942	105,112	239	445,693
FHLB advances	20,100	7,004	3,001	3,377	1,592	35,074
Long-term debt	10,453	-	-	-	-	10,453
Convertible subordinated debentures	-	-	-	-	3,500	3,500
Total interest bearing liabilities	30,553	308,528	238,944	108,489	5,331	691,845
Noninterest bearing sources of funds - net	-	-	-	-	77,908	77,908
Interest sensitivity gap	9,865	(75,271)	30,218	58,042	(22,428)	426
Cumulative interest sensitivity gap	$ 9,865	(65,406)	(35,188)	22,854	426	-

As seen in the preceding table, for the first 365 days 84% of earning asset funding sources will reprice compared to 70% of all interest earning assets. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly while the timing of repricing for both the asset and the liability remains the same, thus impacting net interest income. This characteristic is referred to as basis risk and generally relates to the possibility that the repricing characteristics of short-term assets tied to United's prime lending rate are different from those of short-term funding sources such as certificates of deposit.

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

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

Table 10 represents the expected maturity of the total investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis assuming a 34% tax rate) at December 31, 1996. It should be noted that the composition and maturity/repricing distribution of the investment portfolio is subject to change depending on rate sensitivity, capital needs, and liquidity needs.

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

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Totals
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
Securities held to maturity:									
U.S. Treasury securities	$ 1,375	6.01%	493	5.63%	-	-	-	-	1,868
U.S. Government Agencies	9,933	5.24%	21,473	5.77%	-	-	-	-	31,406
State and municipal	971	8.31%	8,987	8.37%	17,844	7.68%	3,828	8.31%	31,630
Mortgage backed securities	1,729	5.82%	3,282	6.70%	-	-	2,107	6.59%	7,118
	14,008	5.60%	34,235	6.54%	17,844	7.68%	5,935	7.70%	72,022
Securities available for sale:									
U.S. Treasury securities	4,256	5.78%	7,014	6.18%	-	-	-	-	11,270
U.S. Government agencies	9,890	5.68%	24,660	6.13%	505	6.50%	-	-	35,055
State and municipal	1,000	10.55%	3,803	9.59%	967	7.08%	109	7.80%	5,879
Mortgage backed securities	3,973	6.38%	2,179	6.63%	3,754	6.78%	8,738	5.67%	18,644
Other	-	-	-	-	-	-	4,104	6.70%	4,104
	19,119	6.10%	37,656	6.52%	5,226	6.80%	12,951	6.01%	74,952
Total	$33,127	5.89%	71,891	6.53%	23,070	7.48%	18,886	6.54%	146,974

Liquidity Management

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs of United and to take advantage of income producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of United to maintain a high level of liquidity in all economic environments. Liquidity is defined as the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the day to day cash flow requirements of the Banks' customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, United would not be able to perform the primary functions of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves.

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

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments, maturities of investment securities and, to a lesser extent, sales of securities. Installment loan payments are becoming an increasingly important source of liquidity for United as this portfolio continues to grow. Mortgage loans held for sale totaled just over $6.7 million at year end and typically turn over every 45 days. Real estate-construction and commercial, financial and agricultural loans that mature in one year or less amounted to $191 million or 32% of the total loan portfolio at December 31, 1996. Investment securities maturing in the same time frame totaled $33 million or 23% of the total investment securities portfolio at year end 1996. Other short-term investments such as federal funds sold and maturing interest bearing deposits with other banks are additional sources of liquidity funding.

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

As disclosed in United's Consolidated Statements of Cash Flows included elsewhere herein, net cash provided by operating activities, net of the decrease in mortgage loans held for sale, increased over $12 million primarily due to the increase in net earnings coupled with increases in noncash expenses - depreciation and amortization and provision for loan losses. Net cash used in investing activities of $133 million consisted primarily of net loans originated of $129 million and securities purchased of $72 million funded largely by sales, maturities and paydowns of investment securities of over $68 million and cash acquired from acquisitions and branch purchases of $3 million. This resulted from management's continued efforts to reinvest new funds in higher-yielding loans rather than investment securities. Net cash provided by financing activities provided the remainder of funding sources for 1996. The $135 million of net cash provided consisted primarily of a $106 million net increase in demand, savings and time deposits coupled with net Federal Home Loan Bank advances of $26 million.

Management considers United's liquidity position at the end of 1996 to be sufficient to meet its foreseeable cash flow requirements. Reference should be made to the Consolidated Statements of Cash Flows appearing in the Consolidated Financial Statements for a three-year analysis of the changes in cash and cash equivalents resulting from operating, investing and financing activities.

Capital Resources and Dividends

Stockholders' equity at December 31, 1996, increased 19% from December 31, 1995. Net earnings after dividends for 1996 accounted for over $7.7 million of the increase in stockholders' equity while the conversion of debentures into stock added $1 million.

Dividends of $501,000 or $.08 per share were declared on the Common Stock in 1996, which represented a 14% increase from the $0.07 declared in 1995. United has historically retained the majority of its earnings in order to keep pace with the rate at which assets have grown.

Average stockholders' equity as a percentage of total average assets is one measure used to determine capital strength. The ratio of average stockholders' equity to average assets for 1996 and 1995 was 6.60%. United's asset growth has continued to exceed the rate at which capital has been retained. Table 11 summarizes these and other key ratios for United for each of the last three years.

Table 11 - Equity Ratios

	Years Ended December 31,		
	1996	1995	1994
Return on average assets	1.10%	1.08%	1.22%
Return on average equity	17.01%	16.30%	18.68%
Dividend payout ratio	6.11%	6.91%	4.30%
Average equity to average assets	6.60%	6.60%	6.51%

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

United's Tier I capital, which consists of stockholders' equity less goodwill and deposit-based intangibles, amounted to $45.8 million at December 31, 1996. 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 $56.5 million at year end 1996. The percentage ratios, as calculated under the guidelines, were 7.95% and 9.81% for Tier I and Total Risk-based Capital, respectively, at year end 1996.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period end stockholders' equity adjusted for goodwill and deposit-based intangibles divided by average assets adjusted for goodwill and deposit-based intangibles. Although a minimum leverage ratio of 4% is required for the highest-rated bank holding companies which are not undertaking significant expansion programs, the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage ratio in tandem with the risk-based capital ratios to assess capital adequacy of banks and bank holding companies. United's leverage ratios at December 31, 1996 and 1995 were 5.75% and 6.70%, respectively.

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

All three of the capital ratios of United and its bank subsidiaries currently exceed the minimum ratios required in 1996 as defined by federal regulators. United monitors these ratios to ensure that the company and the bank subsidiaries remain within regulatory guidelines. Increased regulatory activity in the financial industry as a whole will continue to impact the structure of the industry; however, management does not anticipate any negative impact on the capital resources or operations of United.

Income Tax Expense

Income tax expense increased 70% for 1996 and 15% for 1995. The effective tax rate as a percentage of pretax income was 32% in 1996 and 27% in 1995. The effective income tax rate increased as tax exempt income decreased relative to total earnings before taxes. These tax rates are lower than the statutory Federal tax rate of 34% primarily due to interest income on tax exempt loans and securities. See United's consolidated financial statements for an analysis of income taxes.

Impact of Inflation and Changing Prices. A bank's asset and liability structure is substantially different from that of an industrial company in that primarily all assets and liabilities of a bank are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Inflation does have an important impact on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio.

United's management believes the impact of inflation on financial results depends on United's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. United has an asset/liability management program which attempts to manage United's interest rate sensitivity position. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs. Cost cutting and cost controlling measures have been implemented, including the constant search for technological advancements in order to improve efficiency and productivity.

MARKET AND DIVIDEND DATA

Stock. There is no established public trading market for United's Common Stock. At December 31, 1996, there were 1,704 holders of record of Common Stock.

Dividends. United paid semi-annual cash dividends of $.08 per share of Common Stock to shareholders of record in 1996 and $.07 per share of Common Stock to shareholders of record in 1995. United intends to continue paying cash dividends on a semi-annual basis. However, the amount and frequency of dividends will be determined by United's Board of Directors in light of the earnings, capital requirements and the financial condition of United, and no assurance can be given that dividends will be paid in the future.

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, 1996 and 1995 and the related statements of earnings, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

PORTER KEADLE MOORE, LLP

Successor to the practice of
Evans, Porter, Bryan & Co.

Atlanta, Georgia
March 5, 1997

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1996 AND 1995

Assets

	1996	1995
	(In Thousands)	
Cash and due from banks, including reserve requirements of $6,094 and $3,217	$ 26,377	20,758
Federal funds sold	24,215	11,230
Cash and cash equivalents	50,592	31,988
Securities held to maturity (estimated fair value of $72,335 and $79,650)	72,022	78,821
Securities available for sale	74,864	65,046
Mortgage loans held for sale	6,727	12,048
Loans	592,351	444,092
Less: Allowance for loan losses	7,680	6,545
Loans, net	584,671	437,547
Bank premises and equipment	18,650	15,997
Accrued interest receivable	7,780	6,462
Other assets	12,724	11,760
	$828,030	659,669

Liabilities and Stockholders' Equity

	1996	1995
Deposits:		
Demand	$77,908	62,753
Interest-bearing demand	158,124	114,825
Savings	39,001	38,947
Time	333,846	295,769
Time, in excess of $100,000	111,847	78,362
Total deposits	720,726	590,656
Accrued expenses and other liabilities	5,876	3,676
FHLB advances	35,074	9,001
Long-term debt	10,453	11,309
Convertible subordinated debentures	3,500	1,000
Total liabilities	775,629	615,642
Commitments		
Stockholders' equity:		
Preferred stock	-	-
Common stock, $1 par value; 10,000,000 shares authorized; 6,438,848 and 6,260,280 shares issued and outstanding	6,439	6,260
Capital surplus	15,341	14,520
Retained earnings	30,696	22,996
Net unrealized gain (loss) on securities available for sale, net of tax	(75)	251
Total stockholders' equity	52,401	44,027
	$828,030	659,669

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
	(In Thousands Except Per Share Data)		
Interest income:			
Interest and fees on loans	$ 53,991	41,374	28,963
Interest on deposits with other banks	101	3	20
Interest on federal funds sold	1,009	1,113	135
Interest on investment securities:			
U.S. Treasury & U.S. Government agencies	6,120	4,791	2,924
State and municipal	1,905	1,846	1,813
Total interest income	63,126	49,127	33,855
Interest expense:			
Interest on deposits:			
Demand	5,167	3,585	2,874
Savings	1,050	1,023	926
Time	23,611	19,735	10,572
	29,828	24,343	14,372
Long-term debt, subordinated debentures, federal funds purchased and FHLB advances	1,930	1,865	1,266
Total interest expense	31,758	26,208	15,638
Net interest income	31,368	22,919	18,217
Provision for loan losses	1,411	1,040	935
Net interest income after provision for loan losses	29,957	21,879	17,282
Noninterest income:			
Service charges and fees	2,742	1,937	1,470
Gain (loss) on sales of investment securities	(14)	4	38
Mortgage loan and other related fees	1,566	1,582	1,639
Other noninterest income	1,074	741	615
Total noninterest income	5,368	4,264	3,762
Noninterest expense:			
Salaries and employee benefits	12,693	9,890	7,856
Occupancy	3,286	2,695	2,010
Deposit insurance premiums	22	514	816
Other noninterest expense	7,312	4,755	3,220
Total noninterest expense	23,313	17,854	13,902
Earnings before income taxes	12,012	8,289	7,142
Income taxes	3,811	2,238	1,942
Net earnings	$ 8,201	6,051	5,200
Net earnings per common share	$ 1.31	1.04	0.93
Weighted average common shares outstanding	6,261	5,814	5,589

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, 1996, 1995 AND 1994

	Common Stock		Capital	Retained	Net Unrealized Gain (Loss) On Securities Available for	
	Shares	Amount	Surplus	Earnings	Sale, Net of Tax	Total
			(In Thousands Except Per Share Data)			
Balance, December 31, 1993	5,589,365	$ 5,589	7,474	12,386	-	25,449
Cumulative effect of accounting change for investment securities, net of tax of $262	-	-	-	-	428	428
Change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	(637)	(637)
Cash dividends declared, ($.04 per share)	-	-	-	(223)	-	(223)
Net earnings	-	-	-	5,200	-	5,200
Balance, December 31, 1994	5,589,365	5,589	7,474	17,363	(209)	30,217
Issuance of common shares for bank acquisition	455,400	455	4,828	-	-	5,283
Proceeds from common stock offering, net of offering cost	215,515	216	2,218	-	-	2,434
Change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	460	460
Cash dividends declared, ($.072 per share)	-	-	-	(418)	-	(418)
Net earnings	-	-	-	6,051	-	6,051
Balance, December 31, 1995	6,260,280	6,260	14,520	22,996	251	44,027
Change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	(326)	(326)
Cash dividends declared, ($.08 per share)	-	-	-	(501)	-	(501)
Common stock issued in conversion of debentures	178,568	179	821	-	-	1,000
Net earnings	-	-	-	8,201	-	8,201
Balance, December 31, 1996	6,438,848	$ 6,439	15,341	30,696	(75)	52,401

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
	(In Thousands)		
Cash flows from operating activities:			
Net earnings	$ 8,201	6,051	5,200
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and accretion	2,176	1,715	1,471
Provision for loan losses	1,411	1,040	935
Provision for deferred tax expense (benefit)	163	(83)	(3)
Loss (gain) on sale of securities available for sale	14	(4)	(38)
Change in assets and liabilities, net of effects of acquisitions:			
Interest receivable	(1,318)	(1,658)	(910)
Interest payable	285	1,286	407
Other assets	23	1,035	(364)
Accrued expenses and other liabilities	1,093	(1,315)	(150)
Change in mortgage loans held for sale	5,321	347	1,216
Net cash provided by operating activities	17,369	8,414	7,764
Cash flows from investing activities, net of effects of acquisitions:			
Cash acquired from acquisitions and branch purchases	2,650	25,867	-
Net change in interest-bearing deposits with other banks	-	299	693
Proceeds from maturities and calls of securities held to maturity	19,495	11,465	4,232
Purchases of securities held to maturity	(12,816)	(24,899)	(20,021)
Proceeds from sales of securities available for sale	16,772	14,718	19,074
Proceeds from maturities and calls of securities available for sale	32,001	11,299	8,660
Purchases of securities available for sale	(59,326)	(60,366)	(8,290)
Purchase of exchangeable payable in kind debenture	-	-	(2,846)
Purchases of mortgage servicing rights	-	-	(2,022)
Net increase in loans	(128,968)	(63,387)	(59,488)
Purchase of bank premises and equipment	(3,098)	(2,178)	(3,673)
Net cash used in investing activities	(133,290)	(87,182)	(63,681)
Cash flows from financing activities, net of effects of acquisitions:			
Net change in demand and savings deposits	49,778	18,599	21,577
Net change in time deposits	56,531	85,110	21,928
Net change in federal funds purchased	-	(8,300)	7,000
Proceeds from convertible subordinated debenture sale	3,500	-	-
Proceeds from long-term debt	-	2,539	2,800
Proceeds from FHLB advances	29,375	8,596	5,956
Repayments of long-term debt	(856)	(630)	(800)
Repayments of FHLB advances	(3,302)	(11,744)	(283)
Proceeds from sale of common stock	-	2,434	-
Cash paid for dividends	(501)	(418)	(223)
Net cash provided by financing activities	134,525	96,186	57,955
Net change in cash and cash equivalents	18,604	17,418	2,038
Cash and cash equivalents at beginning of period	31,988	14,570	12,532
Cash and cash equivalents at end of period	$ 50,592	31,988	14,570

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

United is a five bank holding company whose business is conducted primarily by its wholly-owned bank subsidiaries. United is subject to regulation under the Bank Holding Company Act of 1956.

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

BASIS OF PRESENTATION

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, Blue Ridge, Georgia (Peoples), Towns County Bank, Hiawassee, Georgia (Towns) and White County Bank, Cleveland, Georgia (White) (collectively, the "Bank Subsidiaries") and United Family Finance Company, Inc. (Finance), a finance company subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items in prior years' financial statements have been reclassified to conform with the current financial statement presentations.

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

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

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

INVESTMENT SECURITIES

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

INVESTMENT SECURITIES, CONTINUED

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

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

MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net earnings of the period in which the change occurs. No market valuation allowances were required at December 31, 1996 or 1995.

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.

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

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

BANK PREMISES AND EQUIPMENT

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

GOODWILL AND DEPOSIT-BASED INTANGIBLES

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

MORTGAGE SERVICING RIGHTS

During 1995, United adopted the provisions of SFAS No. 122, "Accounting for Mortgage Servicing Rights." The standard requires a mortgage banking enterprise to recognize as a separate asset, rights to service mortgage loans for others regardless of whether the servicing rights are acquired through either purchase or origination. The standard also requires an impairment analysis of mortgage servicing rights regardless of whether purchased or originated.

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, 1996 and 1995, no valuation allowances were required for United's mortgage servicing rights.

INCOME TAXES

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

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

INTEREST RATE RISK MANAGEMENT

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

NET EARNINGS PER COMMON SHARE

Net earnings per common share are based on the weighted average number of common shares outstanding during each period. The assumed conversion of the convertible subordinated debentures and exercise of stock options do not result in material dilution. All share and per share data have been adjusted to reflect the five-for-one split, effected in the form of a stock dividend during 1995.

(1) MERGERS AND ACQUISITIONS

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

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

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

(2) CASH FLOWS

United paid approximately $31 million, $25 million and $15 million in interest on deposits and other liabilities during 1996, 1995 and 1994, respectively. In connection with United's 1995 acquisition of White, assets having a fair value of $71 million were acquired and liabilities totaling $63 million were assumed.

	For the Years Ended December 31,		
	1996	1995	1994
	(Dollars in thousands)		
Schedule of noncash investing and financing activities:			
Conversion of subordinated debentures into 178,568 shares of common stock	$ 1,000	-	-
Common stock issued and conversion of exchangeable payable in kind debenture in connection with the acquisition of White	-	8,384	-
Change in unrealized gain (loss) on securities available for sale, net of tax	(326)	460	(209)

(3) INVESTMENT SECURITIES

Investment securities at December 31, 1996 and 1995 are as follows (in thousands):

	December 31, 1996			
SECURITIES AVAILABLE FOR SALE:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasuries	$ 11,270	63	1	11,332
U.S. Government agencies	35,055	56	240	34,871
State and municipal	5,879	157	12	6,024
Mortgage-backed securities	18,644	46	55	18,635
Other	4,104	-	102	4,002
Total	$ 74,952	322	410	74,864
SECURITIES HELD TO MATURITY:				
U.S. Treasuries	$ 1,868	6	-	1,874
U.S. Government agencies	31,406	28	274	31,160
State and municipal	31,630	638	164	32,104
Mortgage-backed securities	7,118	103	24	7,197
Total	$ 72,022	775	462	72,335

(3) INVESTMENT SECURITIES, CONTINUED

	December 31, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasuries	$ 23,128	112	1	23,239
U.S. Government agencies	28,215	137	11	28,341
State and municipal	6,007	314	-	6,321
Mortgage-backed securities	4,310	14	34	4,290
Other	2,912	-	57	2,855
Total	$ 64,572	577	103	65,046
SECURITIES HELD TO MATURITY:				
U.S. Treasuries	$ 6,624	31	4	6,651
U.S. Government agencies	37,736	202	268	37,670
State and municipal	26,524	864	76	27,312
Mortgage-backed securities	7,937	99	19	8,017
Total	$ 78,821	1,196	367	79,650

The amortized cost and estimated fair value of the securities portfolio at December 31, 1996, by contractual maturity, is presented in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(3) INVESTMENT SECURITIES, CONTINUED

	Securities Held to Maturity December 31, 1996		Securities Available for Sale December 31, 1996	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
U.S. Treasuries:				
Within 1 year	$ 1,375	1,381	4,256	4,268
1 to 5 years	493	493	7,014	7,064
	$ 1,868	1,874	11,270	11,332
U.S. Government agencies:				
Within 1 year	$ 9,933	9,893	9,890	9,845
1 to 5 years	21,473	21,267	24,660	24,528
5 to 10 years	-	-	505	498
	$ 31,406	31,160	35,055	34,871
State and municipal:				
Within 1 year	$ 971	980	1,000	1,007
1 to 5 years	8,987	9,205	3,803	3,948
5 to 10 years	17,844	18,043	967	960
More than 10 years	3,828	3,876	109	109
	$ 31,630	32,104	5,879	6,024
Other:				
More than 10 years	$ -	-	4,104	4,002
Total securities other than mortgage-backed securities:				
Within 1 year	$ 12,279	12,254	15,146	15,120
1 to 5 years	30,953	30,965	35,477	35,540
5 to 10 years	17,844	18,043	1,472	1,458
More than 10 years	3,828	3,876	4,213	4,111
Mortgage-backed securities	7,118	7,197	18,644	18,635
	$ 72,022	72,335	74,952	74,864

In December 1995, United transferred securities with an amortized cost of $11 million from the held to maturity category to the available for sale category. At the date of transfer, the unrealized gain related to that transfer amounted to $312,500. These transfers were made as a result of United's reassessment of the appropriateness of its securities classifications as allowed by the Financial Accounting Standards Board's special report "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities."

(3) INVESTMENT SECURITIES, CONTINUED

There were no sales of securities held to maturity during 1996, 1995 or 1994. Proceeds from sales of securities available for sale during 1996, 1995 and 1994 were $16.8 million, $14.7 million and $19.1 million, respectively. Gross gains of $51,000, $113,000 and $143,000 for 1996, 1995 and 1994, respectively, along with gross losses of $65,000, $109,000 and $105,000 for 1996, 1995 and 1994, respectively, were realized on those sales.

Securities with a carrying value of $48.3 million and $38.9 million at December 31, 1996 and 1995, 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, 1996 and 1995 are summarized as follows:

	1996	1995
	(dollars in thousands)	
Commercial, financial and agricultural	$ 176,486	120,876
Real estate - construction	50,523	29,538
Real estate - mortgage	275,164	216,649
Consumer loans	90,178	77,029
Total loans	592,351	444,092
Less: Allowance for loan losses	7,680	6,545
Loans, net	$ 584,671	437,547

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

During 1996 and 1995, certain executive officers and directors of United and its Bank Subsidiaries, including their immediate families and companies with which they are associated, maintained a variety of banking relationships with the Bank Subsidiaries. Total loans outstanding to these persons at December 31, 1996 and 1995 amounted to $11,394 and $8,528, respectively. The change from December 31, 1995 to December 31, 1996 reflects payments amounting to $4,776 and advances of $7,642. 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.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES, CONTINUED

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

	1996	1995	1994
	(dollars in thousands)		
Balance at beginning of year	$ 6,545	3,950	3,237
Allowance for loan losses acquired from White	-	1,813	-
Provisions charged to earnings	1,411	1,040	935
Loans charged off	(600)	(675)	(314)
Recoveries of loans previously charged off	324	417	92
Balance at end of year	$ 7,680	6,545	3,950

United serviced approximately $117.4 and $244.8 million of loans for others at December 31, 1996 and 1995, respectively.

(5) BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 1996 and 1995 are summarized as follows:

	1996	1995
	(dollars in thousands)	
Land and land improvements	$ 4,470	3,332
Building and improvements	11,371	10,122
Furniture and equipment	10,145	8,005
Construction in progress	167	616
	26,153	22,075
Less accumulated depreciation	7,503	6,078
	$ 18,650	15,997

Depreciation expense was approximately $1,438,000, $1,313,000 and $927,000 in 1996, 1995 and 1994, respectively.

(6) TIME DEPOSITS

At December 31, 1996, contractual maturities of time deposits are summarized as follows (dollars in thousands):

Maturing In:	
1997	$ 333,750
1998	86,213
1999	16,383
2000	7,943
2001 and thereafter	1,404
	$ 445,693

(7) FHLB ADVANCES

United receives advances from the Federal Home Loan Bank (FHLB) with monthly interest payments and principal payments due at various maturity dates and interest rates ranging from 5.17% to 7.81% at December 31, 1996. The FHLB advances are collateralized by first mortgage loans, FHLB stock and other U.S. agency securities. Advances from FHLB outstanding at December 31, 1996 mature as follows (dollars in thousands):

Year	Amount
1997	$12,102
1998	16,455
1999	4,306
2000	307
2001	307
2002 and thereafter	1,597
	$35,074

(8) LONG-TERM DEBT

Long-term debt at December 31, 1996 and 1995 totaled $10,453,100 and $11,309,000, respectively. Long-term debt consists of a note payable to a bank due in quarterly installments of $282,725, plus interest, through January 2005, secured by common stock of the Bank Subsidiaries. Interest is based on the prime rate less one hundred (100) basis points. The loan agreement contains covenants and restrictions pertaining to the maintenance of certain financial ratios, limitations on the incurrence of additional debt, and the declaration of dividends or other capital transactions.

Aggregate maturities are approximately $1,130,900 for each of the next five years and $4,798,600 thereafter.

(9) CONVERTIBLE SUBORDINATED DEBENTURES

On December 31, 1996, the holders of convertible debentures of the Company due July 1, 2000 (the "2000 Debentures"), which bore interest at a fixed rate of 9% per annum, converted the 2000 Debentures into an aggregate of 178,568 shares of common stock. The 2000 Debentures were converted in accordance with their terms and pursuant to an additional six month period for conversion extended by the Company in order to comply with certain obligations of the Company and 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 at a redemption price equal to 100% of the principal amount of the 2006 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 into shares of common stock of United at the conversion price of $25 per share, subject to subsequent adjustment for stock splits and stock dividends.

Certain directors and executive officers of United hold convertible debentures totaling $3,025,000 and $700,000 at December 31, 1996 and 1995, respectively.

(10) INCOME TAXES

During 1996, 1995 and 1994, United made income tax payments of approximately $3,590,000, $2,315,000 and $2,147,000, respectively.

The components of income tax expense for the years ended December 31, 1996, 1995 and 1994 are as follows:

	1996	1995	1994
	(dollars in thousands)		
Current	$ 3,648	2,321	1,945
Deferred (reduction)	163	(83)	(3)
	$ 3,811	2,238	1,942

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

	1996	1995	1994
	(dollars in thousands)		
Pretax income at statutory rates	$ 4,084	2,818	2,428
Add (deduct):			
Tax-exempt interest income	(797)	(767)	(704)
Nondeductible interest expense	121	126	91
Other	403	61	127
	$ 3,811	2,238	1,942

The following summarizes the sources and expected tax consequences of future taxable deductions (income) which comprise the net deferred tax asset at December 31, 1996 and 1995:

	1996	1995
	(dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 2,404	1,833
Mortgage loans	-	63
Net operating loss and credit carryforwards	349	1,044
Unrealized loss on securities available for sale	13	-
Other	172	-
Gross deferred tax assets	2,938	2,940
Deferred tax liabilities:		
Premises and equipment	(1,207)	(1,074)
Unrealized gain on securities available for sale	-	(184)
Other	(101)	(88)
Gross deferred tax liabilities	(1,308)	(1,346)
Net deferred tax asset	$ 1,630	1,594

At December 31, 1996, United had remaining loss carryforwards of approximately $730,000 and $1.8 million for federal and state income taxes, respectively, which begin to expire in 2008. The use of these carryforwards is limited to future taxable earnings of United and to annual limitations imposed by the Internal Revenue Code.

(11) EMPLOYEE BENEFIT PLANS

United has contributory employee benefit plans covering substantially all employees, subject to certain minimum service requirements. United's contribution to the plans is determined annually by the Board of Directors and amounted to approximately $564,000, $556,000 and $396,000 in 1996, 1995, and 1994, respectively.

(12) REGULATORY MATTERS

The Company and the Bank Subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, action by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank Subsidiaries must meet specific capital guidelines that involve quantitative measures of the 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 Company and the Bank Subsidiaries to maintain minimum amounts and ratios of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 1996 and 1995, that the Company and the Bank Subsidiaries meet all capital adequacy requirements to which they are subject.

Minimum ratios required to ensure capital adequacy are 8% for total capital to risk weighted assets and 4% for Tier 1 capital to risk weighted assets and Tier 1 capital to average assets. Minimum ratios required by the Bank Subsidiaries to be well capitalized under prompt corrective action provisions are 10% for total capital to risk weighted assets, 6% for Tier 1 capital to risk weighted assets and 5% for Tier 1 capital to average assets. Minimum amounts required for capital adequacy purposes and to be well capitalized under prompt corrective action provisions are presented below (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	
1996	Capital Adequacy	Prompt Corrective Action	Capital Adequacy	Prompt Corrective Action	Capital Adequacy	Prompt Corrective Action
Consolidated	$46,088	N/A	23,044	N/A	31,896	N/A
UCB	19,746	24,682	9,873	14,809	12,401	15,502
Carolina	11,736	14,670	5,868	8,802	8,870	11,087
Peoples	6,620	8,275	3,310	4,965	4,610	5,763
Towns	3,397	4,246	1,698	2,547	2,319	2,898
White	4,654	5,818	2,327	3,491	3,530	4,413
1995						
Consolidated	$34,649	N/A	17,324	N/A	22,496	N/A
UCB	14,408	18,010	7,204	10,806	9,630	12,038
Carolina	8,920	11,150	4,460	6,690	5,988	7,485
Peoples	5,545	6,931	2,772	4,159	4,208	5,260
Towns	2,552	3,190	1,276	1,914	1,760	2,201
White	3,664	4,580	1,832	2,748	2,868	3,585

(12) REGULATORY MATTERS, CONTINUED

Actual capital amounts and ratios for each of the Bank Subsidiaries and on a consolidated basis at December 31, 1996 and 1995 are as follows (in thousands):

	Actual Total Risk Based		Actual Tier 1 Risk Based		Actual Tier 1 Leverage	
1996	Amount	Ratio	Amount	Ratio	Amount	Ratio
Consolidated	$ 56,522	9.81%	45,815	7.95%	45,815	5.75%
UCB	25,036	10.14%	22,518	9.12%	22,518	7.26%
Carolina	17,052	11.62%	15,259	10.40%	15,259	6.88%
Peoples	8,857	10.70%	7,853	9.49%	7,853	6.81%
Towns	4,263	10.04%	3,808	8.97%	3,808	6.57%
White	8,125	13.97%	7,383	12.96%	7,383	8.37%
1995						
Consolidated	$ 44,133	10.19%	37,705	8.71%	37,705	6.70%
UCB	20,696	11.49%	18,580	10.32%	18,580	7.72%
Carolina	12,559	11.26%	11,165	10.01%	11,165	7.46%
Peoples	7,851	11.33%	6,994	10.09%	6,994	6.65%
Towns	3,574	11.20%	3,230	10.13%	3,230	7.34%
White	8,935	19.50%	8,356	18.24%	8,356	11.65%

As of December 31, 1996 all of the Bank Subsidiaries are well capitalized. As described at note 14, United is in the process of raising additional capital for which part of the proceeds will be used to inject capital into certain Bank Subsidiaries to finance growth.

(13) COMMITMENTS

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

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

(13) COMMITMENTS, CONTINUED

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

		1996	1995
		(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:			
Commitments to extend credit	$	60,064	47,173
Standby letters of credit	$	1,721	1,760
Interest rate contracts:			
Swap agreements	$	35,000	-
Floors purchased	$	50,000	-

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

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

Derivative financial instruments include forwards, futures, swaps, options, and other instruments with similar characteristics. In general terms, derivative instruments are contracts or agreements whose value can be derived from interest rates, currency exchange rates and financial indices. The Bank Subsidiaries use interest rate contracts in balance sheet management activities, the objective of which is to minimize the risk inherent in the asset and liability interest rate structure. The Bank Subsidiaries do not use derivative financial instruments for trading purposes. Interest rate contracts include an agreement with a counterparty to exchange cash flow based on the movement of an underlying interest rate 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. Income or expense on interest rate contracts used by the Bank Subsidiaries to manage interest rate exposure is recorded on an accrual basis as an adjustment to the yield of the related interest earning asset or interest bearing liability over the period covered by the contracts.

The Bank Subsidiaries' exposure from these interest rate contracts results from the possibility that one party may default on its contractual obligation (credit risk) or from the movement of interest rates (market risk). Credit risk is limited to the positive market value of the derivative, which is significantly less than its notional value since the notional amount only represents the basis for determining the exchange of the cash flows. Credit risk is minimized by performing credit reviews of the counterparties to the contract or by conducting activities through organized exchanges. There were no derivative financial instruments held at December 31, 1995.

(14) STOCKHOLDERS' EQUITY

Dividends paid by the Bank Subsidiaries are the primary source of funds available to United for payment of dividends to its shareholders and other needs. Applicable federal and state statutes and regulations impose restrictions on the amount of dividends that may be declared by the Bank Subsidiaries. At December 31, 1996, approximately $7.5 million of the Bank Subsidiaries' net assets were available for payment of dividends without prior approval from the regulatory authorities. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of each Bank Subsidiary's total capital in relation to its assets, deposits and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank Subsidiaries.

During 1996, the Company's Board of Directors authorized an offering of its common stock at a price of $22 per share. The offering is expected to take place in March, 1997. The Company anticipates proceeds from the offering, net of certain issuance costs, of approximately $5.4 million. Proceeds from the offering will be used to inject capital into the Bank Subsidiaries and for other general corporate purposes.

During 1995, United's Board of Directors declared a five-for-one stock split effected in the form of a stock dividend. Share and per share data for all periods presented have been retroactively restated to reflect the additional shares outstanding resulting from the stock split.

In 1995, United's Board of Directors amended the Articles of Incorporation to authorize 10,000,000 shares of preferred stock, $1 par value. At December 31, 1996 and 1995, there were no preferred shares issued or outstanding.

In 1995, the Board of Directors adopted the Key Employee Stock Option Plan. Under this plan, options can be granted for up to 150,000 shares of United's common stock. During 1996 and 1995, options for 42,000 and 50,000 shares were granted which are exercisable at $18 and $10 per share, respectively, the fair market value at the date of grant. At December 31, 1996, 58,000 shares were available for grant under this plan. No options were exercised in 1996 or 1995.

SFAS No. 123, "Accounting for Stock-Based Compensation," became effective for the Company January 1, 1996. This statement encourages, but does not require, entities to compute the fair value of options at the date of grant and to recognize such costs as compensation expense immediately if there is no vesting period or ratably over the vesting period of the options. The Company has chosen not to adopt the cost recognition principles of this statement and, therefore, no compensation expense has been recognized in 1996 or 1995 related to the stock option plan. Had compensation cost been determined based upon the fair value of the options at the grant dates consistent with the method of the new statement, the Company's proforma net earnings and net earnings per share would have been reduced to $8,157,000 and $1.30, respectively, at December 31, 1996, as compared to $8,201,000 and $1.31 as reported in the statement of earnings. Proforma net earnings and net earnings per share at December 31, 1995 would have been reduced to $5,957,000 and $1.02, respectively, as compared to $6,051,000 and $1.04, respectively, reported in the statement of earnings.

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 1996 and 1995, respectively: dividend yield of 1%, risk free interest rates of 6% and 5%, and an expected life of 10 years.

(14) STOCKHOLDERS' EQUITY, CONTINUED

A summary of activity in the Company's stock option plan as of December 31, 1996 and 1995, and changes during the years then ended, are presented below:

	Option Shares	Weighted Average Option Price Per Share
Options outstanding at December 31, 1994	-	-
Options granted in 1995	50,000	$10.00
Options outstanding at December 31, 1995	50,000	$10.00
Options granted in 1996	42,000	$18.00
Options outstanding at December 31, 1996	92,000	$13.65

Options on 58,400 and 50,000 shares were exercisable at December 31, 1996 and 1995, respectively. The weighted average grant-date fair value of options granted in 1996 and 1995 was $8.30 and $3.05, respectively. Such options have a weighted average remaining contractual life of approximately 9 years.

(15) SUPPLEMENTAL FINANCIAL DATA

Components of other operating expenses in excess of 1% of total interest and other noninterest income for the years ended December 31, 1996, 1995 and 1994 are as follows:

	1996	1995	1994
	(dollars in thousands)		
Stationery and supplies	$ 1,057	439	410
Advertising	670	627	379

(16) UNITED COMMUNITY BANKS, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

Balance Sheets

December 31, 1996 and 1995

	1996	1995
	(dollars in thousands)	
Assets		
Cash	$ 1,502	200
Investment in subsidiaries	60,352	51,761
Other assets	4,558	4,735
	$ 66,412	56,696
Liabilities and Stockholders' Equity		
Other liabilities	$ 58	360
Long-term debt	10,453	11,309
Convertible subordinated debentures	3,500	1,000
Stockholders' equity	52,401	44,027
	$ 66,412	56,696

(16) UNITED COMMUNITY BANKS, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION, CONTINUED

Statements of Earnings

For the Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
	(dollars in thousands)		
Income:			
Dividends from subsidiaries	$ 4,875	1,510	1,770
Other	82	163	174
Total income	4,957	1,673	1,944
Expenses:			
Interest on long-term debt and subordinated debentures	882	910	729
Other	1,248	410	209
Total expense	2,130	1,320	938
Earnings before income tax benefit and equity in undistributed earnings of subsidiaries	2,827	353	1,006
Income tax benefit	732	346	228
Earnings before equity in undistributed earnings of subsidiaries	3,559	699	1,234
Equity in undistributed earnings of subsidiaries	4,642	5,352	3,966
Net earnings	$ 8,201	6,051	5,200

(16) UNITED COMMUNITY BANKS, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION, CONTINUED

Statements of Cash Flows

For the Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
	(dollars in thousands)		
Cash flows from operating activities:			
Net earnings	$ 8,201	6,051	5,200
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(4,642)	(5,352)	(3,966)
Amortization and accretion	203	185	184
Change in:			
Other assets	(26)	(203)	97
Accrued interest payable	(39)	39	81
Other liabilities	(263)	(18)	(270)
Net cash provided by operating activities	3,434	702	1,326
Cash flows from investing activities:			
Purchase of exchangeable payable in kind debenture	-	-	(2,846)
Cash paid in lieu of fractional shares	-	(10)	-
Capital contribution to subsidiaries	(4,275)	(4,500)	(200)
Net cash used in investing activities	(4,275)	(4,510)	(3,046)
Cash flows from financing activities:			
Proceeds from convertible subordinated debenture sale	3,500	-	-
Proceeds from long-term debt	-	2,539	2,800
Repayments of long-term debt	(856)	(630)	(800)
Proceeds from sale of common stock	-	2,434	-
Dividends paid	(501)	(418)	(223)
Net cash provided by financing activities	2,143	3,925	1,777
Net change in cash	1,302	117	57
Cash at beginning of year	200	83	26
Cash at end of year	$ 1,502	200	83

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Cash and Cash Equivalents

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

Securities Held to Maturity and Securities Available for Sale

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

Loans and Mortgage Loans Held for Sale

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

Deposits

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

FHLB Advances

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

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.

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.

Interest Rate Swaps and Interest Rate Floors

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

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.

(17) FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

The carrying amount and estimated fair value of United's financial instruments at December 31, 1996 and 1995 are as follows:

		December 31, 1996		December 31, 1995	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(dollars in thousands)			
Assets:					
Cash and cash equivalents	$	50,592	50,592	31,988	31,988
Securities held to maturity		72,022	72,335	78,821	79,650
Securities available for sale		74,864	74,864	65,046	65,046
Mortgage loans held for sale		6,727	6,727	12,048	12,048
Loans, net		584,671	586,887	437,547	437,053
Liabilities:					
Deposits		720,726	725,128	590,656	596,307
FHLB advances		35,074	34,863	9,001	8,771
Long-term debt		10,453	10,453	11,309	11,309
Convertible subordinated debenture		3,500	3,500	1,000	946
Unrecognized financial instruments					
Commitments to extend credit		60,064	60,064	47,173	47,173
Standby letters of credit		1,721	1,721	1,760	1,760
Swap agreements		17	97	-	-
Floors purchased		33	21	-	-

COMMON STOCK
OF UNITED COMMUNITY BANKS, INC.

THIS PROXY IS SOLICITED BY THE BOARD OF
DIRECTORS FOR THE 1997 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 17, 1997, and any adjournment thereof.

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

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

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

- --

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

2. [_] FOR the proposal to amend the Key Individual Stock Option Plan to increase the number of shares authorized under the Plan (the "Amendment").

[_] AGAINST the Amendment

[_] ABSTAIN with respect to the Amendment

3. 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 FOR THE AMENDMENT DESCRIBED IN THE ACCOMPANYING PROXY STATEMENT 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:____

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

Please sign the 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: -----------------------------------