

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 1998

OR

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

For the Transition Period from _____ to _____

Commission file number 0-21656

UNITED COMMUNITY BANKS, INC.
(Exact name of registrant as specified in its charter)

Georgia

58-180-7304

(State of incorporation)

(I.R.S. Employer Identification No.)

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

30512

(Address of principal executive
offices)

(Zip Code)

(706) 745-2151

(Telephone number)

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

YES /XX/ NO / /

Common stock, par value \$1 per share: 7,393,605 shares
outstanding as of May 13, 1998

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

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UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

| | March 31, 1998 | December 31, 1997 |
|--|-----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | (In Thousands) |
| Cash and due from banks | \$ 54,652 | 60,414 |
| Federal funds sold | 15,050 | 8,420 |
| Cash and cash equivalents | ----- 69,702 | ----- 68,834 |
| Securities held to maturity (estimated fair value of \$72,652 and \$70,846) | 71,491 | 69,559 |
| Securities available for sale | 150,928 | 143,894 |
| Mortgage loans held for sale | 6,714 | 3,962 |
| Loans | 847,826 | 823,324 |
| Less: Allowance for loan losses | (10,802) | (10,352) |
| Loans, net | ----- 837,024 | ----- 812,972 |
| Premises and equipment | 29,957 | 27,737 |
| Accrued interest receivable | 11,405 | 10,985 |
| Other assets | 14,434 | 15,424 |
| | ----- \$ 1,191,655 | ----- 1,153,367 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Demand | \$ 116,504 | 109,210 |
| Interest-bearing demand | 216,935 | 189,280 |
| Savings | 50,215 | 45,280 |
| Time | 651,164 | 633,309 |
| Total deposits | ----- 1,034,818 | ----- 977,079 |
| Accrued expenses and other liabilities | 6,448 | 7,274 |
| Borrowed Funds | 60,173 | 81,179 |
| Long-term debt | 12,401 | 12,722 |
| Total liabilities | ----- 1,113,840 | ----- 1,078,254 |
| Stockholders' equity: | | |
| Common stock, \$1 par value; 10,000,000 shares authorized; 7,385,105 and 7,385,105 shares issued and outstanding | 7,385 | 7,385 |
| Capital surplus | 24,698 | 24,699 |
| Retained earnings | 44,851 | 42,198 |
| Accumulated Other Comprehensive Income | 881 | 831 |
| Total stockholders' equity | ----- 77,815 | ----- 75,113 |
| | ----- \$ 1,191,655 | ----- 1,153,367 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Statements of Earnings
and Comprehensive Income
(Unaudited)

| | For the Three Months Ended March 31, | |
|---|---|--------------|
| | 1998 | 1997 |
| | ----- | ----- |
| | (In Thousands except Per Share Details) | |
| INTEREST INCOME: | | |
| Interest and fees on loans | \$ 21,462 | \$ 16,905 |
| Interest on federal funds sold | 337 | 356 |
| Interest on investment securities: | | |
| U.S. Treasury and U.S. Government | 2,497 | 2,015 |
| State, county and municipal | 718 | 535 |
| | ----- | ----- |
| Total interest income | 25,014 | 19,811 |
| | ----- | ----- |
| INTEREST EXPENSE: | | |
| Interest on deposits: | | |
| Demand | 2,096 | 1,584 |
| Savings | 329 | 285 |
| Time | 9,624 | 7,498 |
| | ----- | ----- |
| | 12,049 | 9,367 |
| | ----- | ----- |
| Borrowed Funds | 1,079 | 793 |
| | ----- | ----- |
| Total interest expense | 13,128 | 10,160 |
| | ----- | ----- |
| Net interest income | 11,886 | 9,651 |
| Provision for loan losses | 498 | 596 |
| | ----- | ----- |
| Net interest income after provision for | 11,388 | 9,055 |
| | ----- | ----- |
| NONINTEREST INCOME: | | |
| Service charges and fees | 1,183 | 1,006 |
| Securities gains, net | 103 | (7) |
| Mortgage loan and related fees | 436 | 276 |
| Other noninterest income | 132 | 263 |
| | ----- | ----- |
| Total noninterest income | 1,854 | 1,538 |
| | ----- | ----- |
| NONINTEREST EXPENSE: | | |
| Salaries and employee benefits | 5,260 | 3,920 |
| Occupancy | 1,418 | 1,069 |
| Other noninterest expense | 2,534 | 2,195 |
| | ----- | ----- |
| Total noninterest expense | 9,212 | 7,184 |
| | ----- | ----- |
| Earnings before income taxes | 4,030 | 3,409 |
| Income taxes | 1,371 | 1,117 |
| | ----- | ----- |
| NET EARNINGS | \$ 2,659 | 2,292 |
| | ===== | ===== |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized holding gains (losses) on investment securities available for sale arising during the period, net of tax of \$54 and \$(222) | 114 | (471) |
| Less reclassification adjustment for gains (losses) included in net earnings, net of tax of \$39 and \$3 | (64) | 4 |
| | ----- | ----- |
| Other comprehensive income (loss) | 50 | (467) |
| | ----- | ----- |
| COMPREHENSIVE INCOME | \$ 2,659 | 2,292 |
| | ===== | ===== |
| Per share: | | |
| Net earnings | \$ 0.36 | 0.32 |
| Net earnings - Assuming dilution | \$ 0.36 | 0.32 |
| Average shares outstanding | 7,385,105 | 7,085,105 |
| Diluted average shares outstanding | 7,596,081 | 7,257,551 |

See accompanying notes to consolidated financial statements.

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

| | For the Three Months Ended | |
|---|----------------------------|-------------------|
| | 1998 | March 31, 1997 |
| | ----- | ----- |
| | (In Thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 2,659 | \$ 2,292 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 601 | 525 |
| Provision for loan losses | 498 | 597 |
| Gain on sale of investment securities | (103) | 5 |
| Change in assets and liabilities: | | |
| Interest receivable | (420) | (873) |
| Interest payable | (83) | 329 |
| Other assets | 1,379 | 1,165 |
| Accrued expenses and other liabilities | (750) | (1,092) |
| Change in mortgage loans held for sale | (2,752) | 1,203 |
| | ----- | ----- |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 1,029 | 4,151 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from maturities and calls of securities held to maturity | 4,478 | 5,610 |
| Purchases of securities held to maturity | (7,366) | (1,676) |
| Proceeds from sales of securities available for sale | 5,728 | 3,767 |
| Proceeds from maturities and calls of securities available for sale | 8,020 | 4,928 |
| Purchases of securities available for sale | (19,702) | (33,160) |
| Net increase in loans | (25,187) | (54,383) |
| Proceeds from sale of other real estate | 109 | 7 |
| Purchase of bank premises and equipment | (2,650) | (965) |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (36,570) | (75,872) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in demand and savings deposits | 39,883 | 13,999 |
| Net increase in time deposits | 17,854 | 49,169 |
| Proceeds from long-term debt | - | 750 |
| Repayments of long-term debt | 321 | 4,500 |
| Proceeds from Other Borrowings | (18,550) | (283) |
| Repayments of Other Borrowings | (3,099) | (400) |
| Cash paid for dividends | - | (161) |
| | ----- | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 36,409 | 67,574 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 868 | (4,147) |
| Cash and cash equivalents at beginning of period | 68,834 | 52,670 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 69,702 | \$ 48,523 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 13,044 | \$ 10,480 |
| Income Taxes | \$ 1,200 | \$ 977 |
| Schedule of noncash investing and financing activities: | | |
| Change in dividends payable | \$ - | \$ (161) |
| Transfer of loans to other real estate owned | \$ 885 | \$ 274 |
| Change in unrealized gain / (loss) on securities available for sale | \$ 83 | \$ (731) |

Notes to Consolidated Financial Statements

The accompanying consolidated financial statements have not been audited. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods.

The accounting principles followed by United Community Banks, Inc. ("United") and its bank subsidiaries and the methods of applying these principles conform with generally accepted accounting principles and with general practices within the banking industry. Certain principles, which significantly affect the determination of financial position, results of operation and cash flows are summarized below and in United's annual report on Form 10-K for the year ended December 31, 1997.

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of United and its wholly-owned subsidiaries, Union County Bank (UCB), Carolina Community Bank (Carolina), Peoples Bank (Peoples), Towns County Bank (Towns), White County Bank (White), and First Clayton Bank and Trust (Clayton). United also owns United Family Finance Co. (UFF), a consumer finance company and United Community Agencies, Inc. (UCA), an insurance subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items in prior period's financial statements have been reclassified to conform to the current financial statement presentation.

The consolidated financial information furnished herein reflects all adjustments that are, in the opinion of management, necessary to present a fair statement of the results of operations and financial position for the periods covered herein and are normal and recurring in nature. For further information, refer to the consolidated financial statements and footnotes included in United's annual report on Form 10-K for the year ended December 31, 1997.

(2) BUSINESS COMBINATIONS

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

(3) EARNINGS PER SHARE

Net earnings per common share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of shares outstanding during each period, adjusted for the dilutive effect of stock options and convertible debentures.

(4) RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 established standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income is defined as "the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners." Comprehensive income for United currently includes net income and unrealized gains and losses on securities available for sale. United's comprehensive income for the period is reflected in the accompanying statements of earnings.

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

Financial Condition

OVERVIEW

Total assets at March 31, 1998 were \$1.2 billion representing a \$38 million or a 3 percent increase from December 31, 1997 and a \$238 million or a 25 percent increase from March 31, 1997.

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

ASSETS AND FUNDING

At March 31, 1998, earning assets totaled \$1.1 billion, an increase of \$43 million from December 31, 1997. The mix of earning assets remained relatively the same during the first three months of 1998. Loans comprised 78 percent of total earning assets, compared to 79 percent at December 31, 1997. In addition, the percentage of earning assets represented by total investment securities was 20 percent at March 31, 1998, and December 31, 1997.

Interest bearing deposits at March 31, 1998 increased \$50 million from December 31, 1997, while non-interest bearing deposits increased \$7 million since December 31, 1997. At March 31, 1998, deposits accounted for 95 percent of United's funding, compared to 93 percent at December 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled \$1.1 million for the three months ended March 31, 1998. For the first three months of 1998, net cash used by investing activities of \$36.6 million consisted of proceeds from maturities of investment securities of \$12.5 million, proceeds from the sale of investment securities of \$5.7 million, offset by cash outflows of \$27 million in investment securities purchases, a \$25 million increase in loans outstanding, and purchases of bank premises and equipment of \$2.7 million. Net cash provided by financing activities consisted largely of the \$40 million increase in deposit accounts, and an increase of \$18 million in time deposits.

Total stockholders' equity at March 31, 1998, was 6.53 percent of total assets, unchanged from December 31, 1997. At March 31, 1998, the Company and its bank's subsidiaries were in compliance with various regulatory capital requirements administered by the Federal banking agencies.

Results of Operations

OVERVIEW

Net earnings for the three months ended March 31, 1998 increased to \$2.7 million or 16 percent over net earnings for the first three months of 1997. Diluted net earnings per common share for the first quarter also increased 13 percent from the same period in 1997 to \$0.36 from \$0.32. Net interest income increased 23 percent for the three months ended March 31, 1998 over the same period of 1997 to \$11.9 million. For the first three months of 1998, the provision for loan losses decreased 16 percent to \$498 thousand as compared to \$596 thousand for the three month period ended March 31, 1997. Noninterest income and expense rose 27 percent and 30 percent respectively for the first three months of 1998.

NET INTEREST INCOME

Net interest income for the three months ended March 31, 1998 increased \$2.2 million over the first three months of 1997. This increase was the result of a \$5.2 million, or 26 percent, increase in interest income and a \$2.9 million, or 29 percent increase in interest expense. The increase in interest income was primarily due to an increase in average earning assets of \$4.9 million, or 26 percent, with a 2 basis point increase in the average yield on earning assets from 8.99 percent to 9.01 percent. The largest portion of the increase in average earning assets occurred in the average balance of loans, which increased 27 percent, or \$4 million, and in total investment securities which increased \$649 thousand. These increases were funded primarily by increases in time deposits.

Interest expense for the three months ended March 31, 1998, increased by \$2.9 million, or 29 percent. The increase in interest expense was due primarily to a 29 percent increase in total interest bearing liabilities coupled with an increase of 10 basis points in the rate paid on liabilities. The majority of the increase in interest bearing liabilities was due to a \$2 million, or 28 percent, increase in time deposits. Similarly, the increase in the rate paid on interest bearing liabilities is the result of time deposits supplying a greater percentage in the overall funding mix.

NET INTEREST MARGIN

The difference between the overall interest income on earning assets and the interest expense paid on all funding sources, including noninterest bearing deposits, expressed as a percentage of earning assets is referred to as the net interest margin. For the first three months of 1998 the net interest margin was 4.58 percent compared to 4.70 percent for the same period in 1997. This 12 basis point decrease was the primary result of a slight increase in the overall earning asset yield of 2 basis points offset by an increase in the average rate paid for interest bearing liabilities of 10 basis points and a decrease in the effect of fees collected on loans of 4 basis points. The increase in the rate paid on interest bearing liabilities is attributed to time deposits representing a higher percentage of the interest bearing liability funding mix for the first three months of 1998 over the same period in 1997.

NONINTEREST INCOME AND EXPENSE

Noninterest income for the first three months of 1998 increased \$398 thousand, or 27 percent over the same period in 1997. Service charges on deposits increased over \$185 thousand, or 19 percent. The increase in service charges resulted from acquisition as well as branch openings and expansions in the Georgia and western North Carolina markets. Trust income increased \$47 thousand due to an increase in provided trust services. Mortgage banking fees increased \$161 thousand, or 58 percent, due to a favorable interest rate environment and an increased number of closings. These increases in noninterest income are offset slightly by a decrease in other income, which decreased \$104 thousand.

Noninterest expenses increased \$2 million, or 30 percent, during the first three months of 1998 over the same period in 1997. Salaries and employee benefits increased \$1.3 million, or 34 percent, for the first quarter. The increase in salaries and benefits was the result of the addition of personnel in connection with the Ellijay office of The Bank of North Georgia acquisition as well as branch openings in the western North Carolina market. Net occupancy expense increased 32 percent due primarily to the increase in new facilities. Other noninterest expense, including stationary and supplies and advertising, increased \$420 thousand during the first three months of 1998. The increase in other noninterest expense is attributed to the new branches and normal business growth as discussed previously.

INCOME TAXES

Income tax expense increased during the first three months of 1998 compared to the same period in 1997 by \$254 thousand or 23 percent. The effective tax rates for the three months ended March 31, 1998 and 1997 were 34 percent and 33 percent, respectively. The increase is primarily due to a lower mix of both federal and state tax-exempt interest income relative to pre-tax earnings.

PROVISION AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

The provision for loan losses for the three months ended March 31, 1998 decreased \$98 thousand to \$498 thousand from the \$596 thousand reported for the same period in 1997. This change was due to a reduction in the volume of loan growth of 54 percent from the same period in 1997. Management considers the size and character of the loan portfolio, changes in nonperforming and past due loans, historical loan loss experience, the existing risk of individual loans, concentrations of loans to specific borrowers and existing and prospective economic conditions when determining the adequacy of the allowance for loan losses. The allowance for loan losses at March 31, 1998 was \$10.8 million compared to \$10.3 million at December 31, 1997. The ratio of the allowance for loan losses to loans outstanding at March 31, 1998 was 1.27 percent compared to 1.26 percent at December 31, 1997. It is management's belief that the allowance for loan losses is adequate to absorb probable loss in the portfolio.

NONPERFORMING ASSETS AND PAST DUE LOANS

Nonperforming assets, comprised of nonaccrual loans, other real estate owned and loans for which payments are more than 90 days past due, totaled \$2.7million at March 31, 1998 compared to \$1.0 million at March 31,1997. Nonperforming assets as a percentage of total loans and other real estate owned was .32 percent at March 31, 1998 and .11 percent at March 31,1997.

United regularly monitors selected accruing loans for which general economic conditions or changes within a particular industry could cause the borrowers financial difficulties. This continuous monitoring of the loan portfolio and the related identification of loans with a high degree of credit risk are essential parts of United's credit management. Management continues to emphasize maintaining a low level of nonperforming assets and returning current nonperfroming assets to an earning status.

At March 31, 1998, 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.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

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

Item 5. Other Information - On January 30, 1998, United acquired certain assets and deposit liabilities of the Ellijay office of The Bank of North Georgia, which had total loans of \$3 million, and total deposits of \$23 million

Item 6. Exhibits and Reports on Form 8-K

Exhibits - Exhibit 27 - Financial Data Schedule (for SEC use only)

Reports on Form 8-K - None.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

SIGNATURES

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

UNITED COMMUNITY BANKS, INC.

By: /s/ Jimmy C. Tallent
Jimmy C. Tallent, President
(Principal Executive Officer)

Date: May 14, 1998

By: /s/ Christopher J. Bledsoe
Christopher J. Bledsoe
Chief Financial Officer
(Principal Financial Officer)

Date: May 14, 1998

3-MOS
DEC-31-1998
JAN-01-1998
MAR-31-1998
54,652
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150,928
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